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APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING JUNE 28, 2019

The Port of Seattle Commission Audit Committee met in a special meeting Friday, June 28, 2019, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Steinbrueck, Commissioner Calkins, and Christina Gehrke. Also present were Glenn Fernandes, Internal Audit Director; Olga Darlington, Audit Partner, Moss Adams; Tyler Reparuk, Senior Manager, Moss Adams; Spencer Bright, Internal Audit Manager: Capital; Kenneth Brzozowski, Engagement Director, Talson Solutions LLC; David Soike, Chief Operating Officer; Rudy Caluza, Director, Accounting and Financial Reporting; Skip Himes, Director, Marine Maintenance; Stephanie Jones Stebbins, Managing Director, Maritime Division; Aaron Pritchard, Commission Issues and Policy Manager; and Amy Dressler, Deputy Commission Clerk.

Call to Order:

The committee special meeting was called to order at 11:05 a.m. by Commissioner Steinbrueck.

Approval of Audit Committee Meeting Minutes of March 1, 2019:

The minutes of the Audit Committee special meeting of March 1, 2019, were approved without objection.

External Audit – Port of Seattle External Financial Audit

The Committee received a presentation from Ms. Darlington and Mr. Reparuk that contained the following information:

- Moss Adams issued a report noting no findings of noncompliance on the Enterprise Fund or Warehousemen’s Pension Trust Fund.
- A clean finding was also issued regarding passenger facility charge receipts and expenditures and associated internal controls.
- Reports were issued on the Schedule of Net Revenues for Revenue Bond Debt Service, Agreed Upon Procedures for Washington State Department of Ecology, and Agreed Upon Procedures for the Environmental Protection Agency.
- Audit areas of emphasis included the internal control environment, management estimates, the Northwest Seaport Alliance (NWSA) joint venture, capital assets, the airport’s signatory lease and operating agreement (airline lease, or SLOA IV), bond activity, revenue recognition, information technology, and federal programs.

- Required communications regarding responsibilities of auditors and management, the audit scope, significant accounting policies, and proposed adjustments were delivered.

Concern was expressed regarding the financial relationship between the Port and NWSA because NWSA financials are audited by a different firm. Ms. Darlington affirmed that Moss Adams performs procedures to ensure that internal controls are adequate at the NWSA.

Depreciation schedules for interim projects were discussed. Depreciation schedules for projects that bridge the gap between larger items is based on expected use. If the expected use changes, the depreciation schedule is adjusted.

Updates: Awards and Recognition:

Mr. Fernandes reported on Internal Audit department promotions and team accomplishments.

Commissioner Steinbrueck presented Ms. Gehrke with an award recognizing her eight years of volunteer service to the Port of Seattle Audit Committee.

Update and Approvals: Revised 2019 Audit Plan

The committee received a presentation from Mr. Fernandes that included the following information:

- The 2019 plan is on track for timely completion.
- It was proposed that the parking system replacement audit be deferred to 2020, and two new audits (Architectural, Engineering, and Related Support Services and Inventory and Control of Hardware Assets) be added.

Without objection, the revision of the 2019 work plan to defer T2 Airport Garage and Parking System Replacement to 2020, add Architectural, Engineering & Related Support Services, and add Inventory and Control of Hardware assets, was approved.

Operational Audit – Marine Maintenance Shop:

The committee received a presentation from Mr. Fernandes that included the following information:

- This shop manages maintenance work at all waterfront properties, fleet, and equipment and performs small works (under \$300,000) projects out of a facility located on Horton Street.
- A high-level finding was reported regarding issuance of keys and badges. Recommendations included the following:
 - Creation of a comprehensive list of access points
 - Segregation of duties for authorization, custody, and distribution of keys
 - Timely deactivation of badges for terminated employees
 - Proper documentation of authorization on badge applications
 - Establishment of policies and procedures
 - Enhancement of off boarding processes and improved organization for key management.
- A high-level finding was reported regarding the need to strengthen internal controls to monitor and account for fleet and fuel usage.
 - Fuel Master controls need to be used

- A process should be put in place to ensure fleet vehicles are being used only for business purposes
- A process to monitor fuel usage for unusual patterns should be established
- Fuel logs were not always complete, or were missing
- The surveillance camera on the fuel pump at the Horton Street facility needs enhanced controls so that the camera focus remains on the fuel pumps

Mr. Himes and Ms. Jones Stebbins delivered a management response. Daily assessments are being performed on fuel use between 5 p.m. and 5 a.m. to make sure fueling at odd hours is monitored. A more effective camera surveillance procedure will be established. Due to the manner in which they are used, fleet trucks have a lot of idle time; alternatives for that are being explored.

Operational Audit – Diversity in Contracting:

The committee received a presentation from Mr. Fernandes that included the following information:

- The Diversity in Contracting policy directive called for an audit of the program in 2019 to ensure adherence to the policy.
- The program was also evaluated for alignment with RCW 49.60.400 and I-1000.
- One item was noted: the five-year goal set to increase the amount spent on women- and minority-owned business enterprise (WMBE) firms to 15 percent, triple the current usage, was not consistent with the start date of the policy directive. If the intent is to use 2016 utilization as a baseline, the policy directive and Century Agenda should be updated accordingly.
- It was also found that 2018 WMBE utilization was overstated by 14 firms in the Diversity in Contracting Annual Plan.

Mr. Pritchard responded that the 2016 metrics are being used as a baseline because the work on the policy and accompanying communication with stakeholders began in 2016. Committee members opined that either the documents be adjusted to clearly state the use of 2016 numbers as a baseline, or the goal be adjusted. Over-counting of firms was due to duplicate records; standard reports have been developed to remove these in the future.

Operational Audit – Airport Checked Baggage Optimization Project, Phase I:

The committee received a presentation from Mr. Brzozowski and Mr. Fernandes that included the following information:

- The purpose of this audit was to evaluate contract compliance and assess the efficacy of project management.
- There was one medium finding: PCL Construction Services did not properly oversee subcontractors, resulting in schedule delays.
- At the conclusion of the audit, a close-out meeting was held with the project management team, who were receptive to auditor suggestions. It has been recommended that port staff continue oversight of the project to maintain the current budget and mitigate further schedule delay.

Operational Audit – Airport Noise Insulation Program:

The committee received a presentation from Mr. Bright and Mr. Fernandes that included the following information:

- This program was examined at the request of the commission.
- The audit focused on work performed by Burton Construction Inc. in 2013-2016 and examined the costs associated with insulation work done on 20 out of 48 houses.
- It was found that the work delivered did not match the work that was invoiced.
- It was also found that Highline School District, a Federal Aviation Administration grant recipient, was not always in compliance with grant requirements.
- Management will enhance current processes to enhance review of contracted work and grant recipient awareness of requirements.

Limited Contract Compliance Audit – Mad Anthony’s Inc.:

The committee received a presentation from Mr. Fernandes that included the following information:

- Mad Anthony’s operates at Fishermen’s Terminal under the name Chinooks.
- It was found that approximately \$194,000 was underreported because a portion of the four-percent surcharge added to customer bills between January 2017 and March 2018 was not included in gross revenue.
- This lease was written in 1987; an update is in order to properly reflect the current legal and business environment.
- Management will pursue collection of the \$15,557 owed due to underreported revenue.

Limited Contract Compliance Audit – Anton Airfood of Seattle Inc.:

The committee received a presentation from Mr. Fernandes that included the following information:

- This lease for this entity, operating as Anthony’s Restaurant and Fish Bar at Seattle-Tacoma International Airport, expired March 31, 2019; the purpose of this audit was to determine that nothing further is owed following the termination of the lease.
- A high finding was issued: Anton Airfood did not provide complete data to auditors.
- A medium finding was issued: approximately \$42,022.90 in gross revenue was not reported, resulting in an additional \$5,420.46 owed to the port.

Adjournment:

There was no further business, and the special meeting was adjourned at 1:17 p.m.

Prepared:

Attest:

Amy Dressler, Deputy Commission Clerk

Peter Steinbrueck, Audit Committee Chair

Minutes approved: September 13, 2019.