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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING SEPTEMBER 13, 2019**

The Port of Seattle Commission Audit Committee met in a special meeting Friday, September 13, 2019, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Felleman, Commissioner Steinbrueck, and Christina Gehrke. Also present were Glenn Fernandes, Director, Internal Audit; Dan Chase, Internal Audit Manager; Bruce Klouzal, Senior Information Technology auditor; Spencer Bright, Internal Audit Manager; Janice Zahn, Assistant Engineering Director; Sean Anderson, Capital Program Leader; Katie Gerard, Senior Director, Human Resources; Tammy Woodard, Director, Human Resources Total Rewards; and Lauren Smith, Commission Staff Assistant.

Call to Order:

The committee special meeting was called to order at 11:12 a.m. by Commissioner Felleman.

Approval of Audit Committee Meeting Minutes of June 28, 2019:

The minutes of the Audit Committee special meeting of June 28, 2019, were approved without objection.

[Updates and Approvals – Approval to recommend the proposed 2020 Internal Audit budget to the Port Commission:](#)

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

- Staffing costs will not increase in the 2020 proposed budget. Consultant costs are expected to be kept low. This is due to a focus on internal audit staff development leading to a reduction in use of outside consultants, especially regarding technology and capital audits.
- Internal Audit can now focus on specific subject matter experts as consultants, which helps to reduce consultant procurement cost.
- If additional unbudgeted consultants are needed in 2020, Internal Audit will alert the committee to the need as part of the process of requesting approval for unbudgeted expenditures.
- Two auditor roles have been vacant for five months. The port's long hiring process means well qualified candidates often receive and accept other offers. Internal Audit and Human Resources are working together to fill these roles expeditiously. The port's pay and benefits appear to be adequate to attract qualified candidates.

Without objection, the motion to recommend the 2020 Internal Audit Department budget to the Port of Seattle Commission was approved.

Updates and Approvals – Status of 2019 Audit Plan:

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

- There are four audits left for the year, these will be reported in early December.
- The audit team is planning to give a year-end report to the full commission at its December 10 meeting.
- All concession audit findings from the year have been reconciled, billed, and collected.
- All operational audit issues have been closed out.
- Information and Communications Technology still has some outstanding issues from audit findings with resolution in progress.

Operational Audit – Concourse D Hardstand Holdroom:

The committee received a presentation from Mr. Bright, Ms. Zahn, and Mr. Anderson that included the following information:

- The project went out to bid at 15 percent design as a design/build contract.
- This was a lump sum contract with some change orders.
- Engineering is monitoring the project to maintain industry standards and documenting the communication between the port and contractors in detail.
- The general contractor hired a designer to complete the design. As it was nearing completion, it was determined the initial building design was not code-compliant.
- The cost of the ensuing design change proposed by the contractor was \$400,000. The amount ultimately agreed upon was approximately \$143,000.
- Management sent the consultant official notice of this additional cost in December 2017, but reimbursement was not pursued in a timely manner. It was recommended that management work with legal counsel to pursue collection options before the statute of limitations expires in May 2020.

In response to an inquiry from Commissioner Calkins about sending this fee to Accounting and Financial Reporting for collection, Mr. Fernandes informed the committee that the matter had not yet reached that stage.

Commissioner Steinbrueck asked about the consultant's qualifications and whether they were adequate for this job, given the severity of the error and the fact that the consultant's error cost more than the amount of their fee. Mr. Anderson responded that this contractor had done other work without issue and was already under a contract.

Mr. Bright added that use of a lump-sum payment decreases transparency. This type of contract does not have an audit clause, meaning the audit team cannot examine lump-sum projects.

Information Technology Audit – HIPAA Privacy and Breach Compliance:

The committee received a presentation from Mr. Fernandes, Mr. Klouzal, and Ms. Woodard that included the following information:

- Data subject to HIPAA (Health Insurance Portability and Accountability Act) privacy rules are held primarily within Human Resources.

- HIPAA rules allow the port to designate itself as a hybrid organization as its primary purpose is not health care. This designation would reduce the scope of HIPAA privacy breach to only the departments who have access to this protected information. The port has not yet designated itself as a hybrid organization, but doing so will help to resolve many of the issues found in this audit.
- Human Resources has already remedied all issues found related to business associate agreements, where the contracts are already in place.
- A hybrid organization must identify who is to receive HIPAA privacy and breach compliance training, ensure that the training is completed in a timely manner, and recurs as needed. Employees who require this training are identified by Human Resources, and it is assigned through the learning management system.
- Human Resources is working closely with Information and Communication Technology to ensure that HIPAA information is protected.

Commissioner Calkins inquired about the port's status as a self-insured organization and whether it is the most cost effective and efficient way to provide healthcare to employees. Ms. Woodard responded with a brief history of the port's change to self-insured status in 2010 and assured the committee that extensive research and analysis was done relating to this decision. Being a self-insured organization allows more control over rising cost to employers and employees while still maintaining the best coverage.

Adjournment:

There being no further business, the special meeting was adjourned at 12:26 p.m.

Prepared:

Attest:

Lauren Smith, Commission Staff Assistant

Peter Steinbrueck, Audit Committee Chair

Minutes approved: December 9, 2019.