



P.O. Box 1209
Seattle, Washington 98111
www.portseattle.org
206.787.3000

APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING DECEMBER 9, 2019

The Port of Seattle Commission Audit Committee met in a special meeting Monday, December 9, 2019, in commission chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Steinbrueck, Commissioner Calkins, and Christina Gehrke. Also present were Dave Soike, Chief Operating Officer; Glenn Fernandes, Director, Internal Audit; Dan Chase, Internal Audit Manager; Olga Darlington, Audit Partner, Moss Adams; Tyler Reparuk, Senior Manager, Moss Adams; Sandy Nguyen, Assistant State Auditor, State Auditor's Office; Joseph Simmons, Program Manager, State Auditor's Office; Spencer Bright, Manager, Capital Audit; Bruce Klouzal, Manager, Information Technology Audit; Nora Huey, Director, Central Procurement Office; Sophia Mayo, Senior Manager, Central Procurement Office Consulting Group; Jonathan Foster, Manager, Central Procurement Office Planning and Analytics; Stephanie Jones Stebbins, Managing Director, Maritime Division; Mark Longridge, Capital Project Manager; Aaron Pritchard, Commission Policy Manager; and Paul J. White, Commission Clerk.

Call to Order

The committee special meeting was called to order at 10:05 a.m. by Commissioner Steinbrueck.

Approval of Audit Committee Meeting Minutes of September 13, 2019

The minutes of the September 13, 2019, Audit Committee meeting were approved without objection.

External Audit – Moss Adams – 2019 Engagement Service Plan

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

- The audit scope includes financial statements for the port's enterprise fund and the Warehousemen's Pension Trust Fund, internal control and compliance with Government Auditing Standards, compliance related to federal award programs, the schedule of Passenger Facility Charges, revenue bond debt service, agreed upon procedures relating to environmental mitigation at Terminal 91, and agreed upon procedures relating to environmental mitigation at Terminal 117.
- The audit schedule and methodology were summarized.
- The audit period covers January 1, 2020, through December 31, 2020.
- Changes to Governmental Accounting Standards Board (GASB) pronouncements affecting 2019 reporting were summarized. The statements noted included GASBs 83, 84, 87, 88, 89, and 91.
- The relationship between audits of the Port of Seattle and Northwest Seaport Alliance was described. Although conducted by a different company, Seaport Alliance audits are reviewed by Moss Adams.

Without objection, the committee advanced to consideration of –

Updates and Approvals – 2019 Audit Plan Update

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

- The department's work plan in 2019 was completed with some work plan changes approved in prior committee meetings. It was requested that items deferred from the original work plan not be characterized as "removed."
- Auditors completed 19 reports in 2019, including four operational audits, four capital project audits, six information technology audits, and five limited contract compliance audits.
- Thirteen high-risk and 29 medium-risk issues were identified representing opportunities to strengthen internal controls, improve efficiency, and reduce capital costs.
- Auditors verify closed audits and track management's response. If the audit recommendations appear not to be satisfied, auditors would report that to the committee. A summary of the validation of management response actions was requested for 2020. The difference between an "issued" audit and a "closed" audit was explained.
- Examples of recoveries identified by auditors were provided. Collection of amounts identified or the decision not to collect would fall to management.
- The process for identifying level of risk and planning lease and concession audits was described. The highest-revenue contracts are reviewed on a four-year cycle, medium on a six-year cycle, and lowest on an as-needed basis. Staggering the overlapping cycles was discussed.
- Considerations for determining risk associated with capital projects were described. These include project size, change orders, contract type and delivery method, project schedule and budget, scope changes, and time since previous audits.
- It was suggested that the audit restrictions applicable to the International Arrivals Facility could have been more transparent in the work plan report.
- The process for selecting information technology audits was summarized and is consistent with cyber security standards and standards of the Center for Internet Security.
- Biometric technology and data is an area of IT audit on the horizon for 2020.
- An historical overview of the number of audits completed between 2017 and 2020 was proposed.

Updates and Approvals – Proposed 2020 Internal Audit Plan Approval

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

- The 2020 proposed work plan includes seven limited contract compliance audits, four operational audits, four capital project operational audits, and six information technology audits (see amendment below).
- The 2020 proposed work plan also includes as possible contingency audits one limited contract compliance audit, two operational audits, two capital project operational audits, and one information technology audit.

It was suggested that a broader picture of the universe of potential audits for 2020 be provided to the committee for transparency.

AMENDMENT

Without objection, the proposed work plan was amended to move the operational audit of the General Delegation of Authority compliance to the list of contingency audits and make professional services a regular operational audit, and to include biometrics as an additional information technology audit in 2020.

The 2020 Internal Audit Department workplan, as amended, was approved without objection.

The committee returned to consideration of –

External Audit – Office of the Washington State Auditor – Audit Opening

The committee received a presentation from Ms. Nguyen and Mr. Simmons that contained the following relevant information:

- The State Auditor's Office will perform an audit covering the period January 1, 2018, through December 31, 2018.
- The scope of the audit will include follow-up of recommendations issued in prior year audit, review of self-insurance programs, audit of electronic fund transfers, review of procurement of professional services (architects and engineer) contracts, payroll audit, including overtime payments, and an audit of the port's Industrial Development Corporation for the period 2016-2018.
- The scope of the State Auditor's audit of architect and engineering services is not a duplication of the current internal audit on architect and engineer consultant rates.

Operational Audit – Architectural and Engineering Consultant Rates – Report No. 2019-11

The management team provided a new copy of their management response, which is reflected in the revised report attached above. A letter from Van Collins, President and CEO of the American Council of Engineering Companies, was provided at the meeting and is attached as minutes [Exhibit A](#).

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

- The audit period was January 1, 2017, through September 30, 2019.
- The objective of the audit was to evaluate the effectiveness of internal controls during establishment of architectural and engineering consultant rates.
- The first of four findings focused on determination of whether consultant costs and associated markup are fair and reasonable. Based on available baselines, markups for 407 architectural and engineering (A&E) consultants revealed 46 percent of the consultants had markups greater than 20 percent; five percent of the consultants had markups greater than 50 percent.
- With A&E costs representing 10-20 percent of port capital cost, the risk of extra port cost is high.
- The baseline used was the overhead rate used by the Washington Department of Transportation. In the absence of that baseline or an audited rate, a Safe Harbor Indirect Cost Rate of 110 percent of direct labor was used.

Factors underscored by management included that for these services, the port uses a qualification-based selection, not a price consideration. Billing rates and evaluated job classifications are used to determine if the rates are fair and reasonable. There is no price comparison between proposers.

The proposal by Internal Audit is that the port establish a standard by which to determine that rates are fair and reasonable.

Ms. Huey reported that a continuous process improvement effort was begun in the spring to examine the port's rate negotiation process. She emphasized management's commitment to working in partnership with the American Council of Engineering Companies (ACEC) and to reviewing practices of other airports to develop refinements to contract structure and project delivery improvements. There was discussion about the validity of the billing rate analysis developed by Internal Audit. The audit team asked how they would be expected to conduct post-audit follow-up in the absence of an alternative standard to determine whether rates are fair and reasonable.

Committee members commented on their concerns that the management response was not submitted timely for advance consideration prior to the meeting. Together with the strongly worded letter from the ACEC as an industry representative challenging the auditors' methodology, the committee voiced concerns surrounding management's transparency and indicated a need for an expeditious resolution. Comments by committee members included acknowledgment that no action in bad faith by any parties is suggested in the audit report. It was noted that management is not prevented from taking steps to improve standards or processes in the absence of a final report. It was proposed that the committee meet again in the first quarter of 2020 to complete its hearing of the full audit report, which includes three additional findings.

Without objection, further consideration of Report 2019-11 was laid on the table and the committee advanced to consideration of –

Operational Audit – Shilshole Bay Marina Customer Facilities Project – Report No. 2019-18

A management response was filed with Internal Audit after publication of meeting materials and is included on the revised committee presentation. The committee received a presentation from Mr. Fernandes that included the following relevant information:

- The period of the audit was November 2017 through December 2019.
- The audit was performed to assess the quality of the port's monitoring of the Shilshole Bay Marina customer facilities project to assure it met project management standards in an efficient and effective manner.
- The background of the project was summarized, including schedule delays resulting from bids being 25 percent over engineer's estimate.
- There was one medium-ranked finding relating to the need to include names of individuals providing services on invoices. The issue is one of correlating the contract to the billing process and having a way to verify that parties are qualified to do the work for which the port is being billed.

Information Technology Audit – Inventory and Control of Hardware Assets – Report No. 2019-17

Prior to the meeting, committee members received an information and technology audit report on inventory and control of hardware assets, which included sensitive or confidential content exempt from disclosure pursuant to RCW 42.56.420 or other statute.

Limited Contract Compliance Audit – EAN Holdings LLC – Report No. 2019-10

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

- EAN does business as Enterprise, Alamo, and National Rental Cars.
- The audit period was June 1, 2016, through May 31, 2019.
- The audit was performed to determine whether EAN complied with significant provisions of its lease agreement with the port at the Consolidated Rental Car Facility, including whether reported gross revenues and percentage fees were complete and accurate.
- There was one finding regarding a late payment owed by EAN and management is pursuing collection.

Adjournment

There was no further business, and the special meeting adjourned at 12:18 p.m.

Prepared:

Attest:

Paul J. White, Commission Clerk

Ryan Calkins, Audit Committee Chair

Minutes approved: February 11, 2020.