

SUMMARY MINUTES
RISK MANAGEMENT COMMITTEE
MEETING OF APRIL 15, 2015

Ms. Wells chaired the April 15 Risk Management Committee Meeting, calling it to order at 11:56 a.m. A quorum was present during the Meeting: Mr. Session, Co-Chair, Mr. Adams, Mr. Griffin, Ms. Merrick, Mr. Mims and Mr. Conner, *ex officio*. Mr. Chapman, Mr. Curto, Mr. Gates, Ms. Hanley, Ms. Lang and Mr. McDermott were also present.

Audit of the Airport Concessions Manager Contract for the Calendar Year Ended December 31, 2013. Julia Hodge, Acting Vice President for Audit, stated that the Airport Concessions Manager markets, leases, and manages the Authority's food service and retail concessions at both Airports. The current contract, which began on January 1, 2013, had paid \$29.1 million in revenue to the Authority on sales of \$201.7 million during 2013.

Ms. Hodge reported that the objective of the review had been to determine whether the Concessions Manager had collected and remitted revenues due to the Authority during 2013 in accordance with its contract terms and complied with key contract provisions, including tenant marketing funds, Airport Concessions Disadvantaged Business Enterprise participation, insurance coverage, performance guarantee, staffing and inspection of stores.

Ms. Hodge explained that the Office of Audit staff and contractors had reviewed the Concessions Manager's contract and examined, on a test basis, evidence supporting gross sales reported and rents collected, as well as evidence supporting compliance with key contract provisions, in order to assess compliance. The Office of Audit staff had interviewed the Concessions Manager's personnel and Authority staff from the Office of Customer and Concessions Development.

Ms. Hodge reported that the Concessions Manager had paid the Authority the fees due under the contract. However, the contractor had not fully complied with some contract terms and did not have adequate controls over tenant marketing funds and gift cards. Ms. Hodge noted that the confidential audit report had been included in materials provided to the Directors. She stated that the report contained six findings and 12 recommendations that had been made to improve contractor compliance and management oversight going forward.

Additionally, Ms. Hodge noted that Authority management had developed sufficient action plans to address all 12 recommendations.

Mr. Curto stated that he had reviewed the confidential memorandum and findings. As Ms. Hodge had previously noted, the report contained six different findings and 12 recommendations, as well as an action plan, which had been addressed by management. Mr. Curto inquired whether the Authority had historically conducted audits in the same manner as this one, and whether they had resulted in similar thorough findings. Ms. Hodge responded that she was unable to speak too much to the history of what had happened prior [to her temporarily assuming the responsibility]. As part of the current audit, Ms. Hodge stated that Authority staff had worked on the draft report for approximately eight to twelve months. Once staff had presented the draft report to her, Ms. Hodge noted that she had worked very closely with the Authority's Concessions staff to discuss the findings and developed an appropriate management action plan to address the root causes of the issues that the Office of Audit had noted. Mr. Curto inquired whether management was amenable to the recommendations and if there had been a good collaboration in terms of addressing them, to which Ms. Hodge responded affirmatively.

Mr. Adams asked about the type of recourse that the Authority would have under the terms of the contract if the remedial items were not met in subsequent audit years. Based on the understanding of the conversations that the Concessions team had held with the contractor, Ms. Hodge stated that the contractor is open to implementing the recommendations that staff had made so the Authority does not expect any pushback in addressing any of the findings in the report.

PricewaterhouseCoopers (PwC) Financial Statement Audit. Kelly Thornton of PwC was joined by one of her fellow partners, Sandra Aresti. Ms. Thornton stated that Ms. Aresti will replace her as the relationship leader for PwC immediately after the day's Meeting. She thanked the Authority for the opportunity to serve the organization for so many years. Norman Graves of Bert Smith & Company, who has also worked with PwC for many years, joined Ms. Thornton.

Ms. Thornton reported that they would present the results of the audit. She stated that she would cover the highlights for the CAFR and that Mr. Graves would address Compliance Reports. Ms. Thornton recalled that PwC had presented its plan in December 2014. It had been able to

execute the audit against that plan without any required revisions. Ms. Thornton thanked management for its cooperation. She reported that PwC had issued an unmodified opinion (or a clean opinion) on April 7, which is approximately a week earlier than the completion of the 2013 audit. Ms. Thornton stated that PwC had continued to make good progress, both in terms of the audit coordination, as well as working with management, on the completion and timely release of the financial information.

Ms. Thornton also reported that PwC had resolved its report to management. She noted that historically, PwC had met with the Committee in June (or after the annual April Committee Meeting), to review recommendations relative to internal controls. Ms. Thornton stated that PwCs' observations and recommendations, noting no material weaknesses or significant deficiencies in internal control, had been included in the materials for the day's Meeting. Overall, Ms. Thornton reported that management had continued to make good progress in addressing the recommendations that PwC had made in the past.

Mr. Graves reported that Bert Smith & Company had completed the financial compliance audits of the Passenger Facility Charge and the A-133 audit. He stated that the reports would likely be released between the end of the month and the beginning of May. Mr. Graves stated that one filing is due to the federal government on April 30, which had not yet been completed. He ensured that it would be covered and reported on because that filing was among one of the issues that the Office of the Inspector General had cited last year during the quality control review [of Bert Smith & Company].

Ms. Wells thanked Ms. Thornton and Mr. Graves for their impressive efforts for the completion of the audit ahead of schedule. Mr. McDermott extended thanks to Ms. Thornton and noted the terrific service that she had provided during his tenure.

Ms. Wells announced that the day's public meetings had concluded and that no decisions would be made in executive session. She noted that the Committee would need to go into executive session to discuss the PwC financial statement audit, pursuant to Article IX, Section 3(g) of the Airports Authority's Bylaws, which permits the Board and its Committees to move into executive session for matters that the professional standards applicable to financial statement auditors, when conducting a financial statement audit, require to be disclosed in executive session,

and for matters that involve proprietary or confidential information of vendors or of the Airports Authority. The Committee began its executive session at 12:08 p.m. At 1:12 p.m., the Committee concluded its executive session, and the meeting was thereupon adjourned.