



Port of Seattle Commission
AUDIT COMMITTEE

March 28, 2024 – 10:00 a.m.

To be held in person at the Port of Seattle Headquarters
Building – Commission Chambers, Pier 69, 2711 Alaskan Way, Seattle, Washington.

You may view the full meeting live at meetings.portseattle.org.

To listen live from a remote location, call in at: +1 (425) 660-9954 or (833) 209-2690 and Conference ID 259 530 776#

Committee members:

Commissioner Toshiko Hasegawa, Chair (Absent)
Commissioner Ryan Calkins, Acting Chair
Commissioner Hamdi Mohamed (Acting Member)
Committee Public Member Sarah Holmstrom

Also attending:

Glenn Fernandes, Internal Audit Director
Aaron Pritchard, Chief of Staff, Commission Services
Michelle Hart, Commission Clerk
Aubree Payne, Deputy Commission Clerk

ORDER OF BUSINESS

1. Call to Order
2. Approval of Minutes – December 14, 2023 ([Attachment](#))

External Audits ([Presentation](#))

3. Office of the Washington State Auditor – Accountability Audit Results for 2022
Joseph Simmons, Program Manager; Kieu Nguyen, Assistant State Auditor; and Maddie Frost-Shaffer, Assistant Audit Manager
 - o Accountability Audit Report ([Report](#))

Updates and Approval (*Glenn Fernandes, Director, Internal Audit*) ([Presentation – Items #4-9](#))

4. Director’s Annual Communication – Independence, Internal Audit Charter, Quality Assurance, and Follow-Up ([Memo](#)) ([Internal Audit Charter](#) and [Audit Committee Charter](#))
5. Open Issue Status
6. 2024 Audit Plan Update

Performance Audits (*Glenn Fernandes, Director, Internal Audit; Spencer Bright, Manager, Internal Audit - Capital Audit*)

7. Concourse A Building Expansion for Lounges – Delta TRA¹ ([Report](#))

Information Technology Audits (*Glenn Fernandes, Director, Internal Audit*)

8. Payment Card Industry (PCI) – Qualified Security Assessor (QSA) Assessment Results ([Report](#))

Limited Contract Compliance Audits (*Glenn Fernandes, Director, Internal Audit*)

9. Pallino SeaTac, LLC ([Report](#))

Concluding Business

10. Committee Comments
11. Adjournment _____

¹ This audit was started in the fourth quarter of 2023 and was completed in the first quarter of 2024.



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

**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING
December 14, 2023**

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, December 14, 2023. The meeting was held in the Commission Chambers located at the Port of Seattle Headquarters Building, 2711 Alaskan Way, Seattle, WA, and virtually via Microsoft Teams. Committee members present included Commissioners Cho and Mohamed and Public Member Sarah Holmstrom (non-voting).

1. Call to Order:

The committee special meeting was called to order at 10:00 a.m. by Commissioner Mohamed. The agenda was approved without objection.

**Internal Audit Department presentation is found [here](#) and contains information for Agenda Items 5 through 10 and 12.*

2. Approval of Audit Committee Meeting Minutes of September 7, 2023

The minutes of the Audit Committee special meeting of September 7, 2023, were approved without objection.

EXTERNAL AUDITS

3. Moss Adams – 2023 Financial Statements Audit Engagement Service ([Presentation](#))

Presenters:

Olga Darlington, Partner
Anna Waldren, Senior Manager
Connor McCauley, Senior Manager

The Office of the Washington State Auditor presented regarding the opening of the 2023 financial statements audit.

The opening audit addressed:

- scope of services;
- auditor and management responsibilities;

- audit procedures;
- accessing financial statements from management to make sure they are free of misstatements;
- areas of audit emphasis;
- audit timeline; and
- recent and upcoming accounting developments.

Members of the Committee thanked the Moss Adams team for their presentation.

4. R.L. Townsend & Associates – Construction Audit Services Annual Report (Presentation)

Presenters:

Debbie Townsend, President and Executive Construction Cost Control Consultant
Patricia Farrell-Shear, Project Executive
Rachel Smith, Senior Professional Associate

RL Townsend & Associates presented regarding the construction audit services annual report.

The presentation addressed:

- EC/CM monthly pre-construction and construction invoices and confirmation that billings are in accordance with the contract;
- review of pre-construction pay applications;
- review of construction pay applications;
- issues identified including billings for individuals not identified in the subcontract; individuals billed at labor rates that exceed the subcontract rates; and minimal backup documentation on change orders.

Identified issues were presented to the Port and to Turner Construction.

Members of the Committee and audit staff discussed the turnaround time to solve these issues and receiving a follow-up report on the status of this audit at the March 2024 Audit Committee meeting.

Members of the Committee thanked the RL Townsend staff for their audit and presentation.

UPDATES AND APPROVALS

5. Outreach Project Update

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- assisting small businesses to build controls to avoid phishing scams and ACH fraud;
- resources available on the internal audit website;
- in-house training conducted at the Port;
- next steps to include control training for newly hired Port managers and staff, and separately, the 2024 concession audit plan will touch several small businesses and the Port will be integrating controls training into opening meetings with smaller concessionaires.

Members of the Committee thanked the audit staff for their continued work to make this information and resources available.

6. 2023 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the status of the approved 2023 Audit Plan, including Limited Contract Compliance; Performance Audits; and Information Technology Audits.

The presentation addressed:

- audits pushed back, including the Post IAF airline realignment and equity policy directive audits;
- identified risks for management action;
- looking at audits with an equity lens;
- increases in GC/CM projects at the port in the next seven years;
- suggested capital recoveries; and
- controllable cost recommendations.

Members of the Committee thanked Mr. Fernandes for the update.

7. Approval of Proposed 2024 Internal Audit Plan

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- 2024 performance audit plan approach;
- mandated audits;
- 27 projects currently scheduled for review;
- risk considerations;
- required GC/CM independent audits;
- lease and concession audit plan approach;
- proposed 2024 lease and concession audits scheduled;
- 2024 information technology audit plan approach and audit plan;
- 2024 limited contract compliance, performance, and information technology audits planned; and
- contingency audits proposed.

Commissioner Mohamed requested that the delegation of authority process audit come back to the Commission and be reported out to the Audit Committee.

The motion, to recommend approval of the 2024 audit plan, carried by the following vote:

In favor: Cho and Mohamed (2)

Opposed: (0)

8. Open Issue Status

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the status of Open Issues, reporting as of November 29, 2023.

The presentation addressed five issues outstanding for over one year from the target date of completion; and three information technology issues that do not currently have target dates assigned.

Discussion ensued regarding:

- difficulty in understanding the graphs and what the target date means;
- teams give the Audit staff action plans and target dates for resolving issues;
- length of time that open issues remain open; and
- follow-up process for items that remain open.

PERFORMANCE AUDITS

9. Airport Parking Garage (See [Report](#))

Presenters:

Glenn Fernandes, Director, Internal Audit
Dan Chase, Manager, Internal Audit

The presentation addressed:

- the airport parking garage scope and description;
- public parking toll booth operations;
- employee parking;
- parking systems;
- five issues identified in the audit regarding revenue lost as a result of improper billing and misuse of parking cards, audit recommendations, and management's response.

Discussion ensued regarding if the Port has considered going cashless and determining that not all customers are in the position to utilize a cashless solution.

Members of the Committee thanked the Internal Audit Department staff for their work on the audit, and management for their responses.

10. Police Department Seizures and Evidence Room (See [Report](#))

Presenters:

Glenn Fernandes, Director, Internal Audit
Dan Chase, Manager, Internal Audit

The presentation addressed:

- composition and organization of the Port of Seattle Police Department;
- the process for seizures and forfeitures of contraband that aligns with state regulations;
- seized property and cash stored in the evidence room;
- quarterly seizure reports prepared and provided to the Washington State Department of Revenue;
- disposal process for items in this category in the evidence room; and
- Internal Audit's recommendation that management should adopt a formal policy regarding the timely disposal of items on an annual basis; and
- management's concurrence with the audit recommendations.

Members of the Committee thanked the Internal Audit Department staff for their work on the audit, and management for their responses.

INFORMATION TECHNOLOGY AUDITS

11. Network Infrastructure Management (Aviation Maintenance)

Presenters:

Glenn Fernandes, Director, Internal Audit
Ritika Marwaha, Manager, Internal Audit – IT

(Item 11 is security sensitive and were discussed in non-public session.)

LIMITED CONTRACT COMPLIANCE AUDITS

12. Seattle Air Ventures (See [Report](#))

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- the joint venture operated under the Hudson Group;
- audit of two contracts representing 15 stores;
- timeline of the audit;
- 2021 and 2022 revenue reviewed;
- differences between point-of-sale revenue and the general ledger;
- Internal Audit's recommendation for the dining retail group, in partnership with Internal Audit, to continue discussions and seek documentation from Seattle Air Ventures to validate that accounting records agree to verbal assertions; and
- management's response in agreement with the audit findings, noting they will engage with Seattle Air Ventures to determine what is causing the variance, and supporting variances with documentation.

Members of the Committee thanked the Internal Audit Department staff for their work on this audit.

13. Committee Comments

Internal Audit Director Glenn Fernandes thanked the committee for a great year and for their work.

14. Adjournment

There being no further business, the special meeting recessed at 11:50 a.m. and re-convened in a non-public session to address security-sensitive information technology audit information for Agenda Item 11 for approximately 30 mins. The meeting adjourned immediately at the conclusion of the discussion and no further action was taken.

Prepared:

Attest:

Michelle M. Hart, MMC, Commission Clerk

Toshiko Hasegawa, Audit Committee Chair

Minutes approved: March 28, 2024.



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: Port of Seattle

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2022 through December 31, 2022 – see draft report.

Audit Highlights

- We appreciate the Port's commitment to the safeguarding of public funds and developing control systems that ensure compliance with laws and regulations.
- The Port responded promptly to our requests and provided all documents necessary to complete the audit in a timely manner.
- We would like to thank Lisa Lam, Andrew Cartica, and Glenn Fernandes for participating in weekly status update meetings. It allowed for increased communication and kept the audit running smoothly.
- Self-Insurance – We would like to thank Sandra Spellmeyer, Greg Key, and Sanders Mayo for walking us through various self-insurance areas and programs.
- Sofia Mayo during our review of Procurement.
- Diane Campbell and Tonya Shum while reviewing electronic wire transfers.
- Eloise Olivar while following up on electronic funds transfers (EFTs).
- Small and Attractive Assets – We appreciate Carmen Strand and Tanaya Covey's detailed explanation of the Port's controls to safeguard small and attractive assets. Our on-site audit in November felt smooth and accommodating thanks to them.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or noncompliance with laws or regulations that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Work of Other Auditors

A financial statement audit and federal single audit was performed by Moss Adams LLP of the Port. Professional audit standards require us to evaluate relevant work done by other auditors and communicate certain matters to the governing body.

- We performed procedures to ensure we could rely on the work of the external auditors and reference their audit in our audit report. These procedures included consideration of attendance at key meetings, evaluation of the firm's last peer review report, review of the other auditor's work, review of the other auditor's results and communications with the other auditor.
- We did not become aware of any instance in which the work of the other auditors gave rise to concern about the quality of their work.
- There were no limitations that restricted our analysis of the other audit(s).
- We did not become aware of any instance in which a material misstatement of the financial statements has or may have resulted from fraud or suspected fraud.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via email in a .pdf file. We also offer a subscription service that notifies you by email when audit reports are released or posted to our website. You can sign up for this convenient service at <https://portal.sao.wa.gov/SAOPortal>.

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$128,000 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in Fall of 2024 and will cover the following general areas:

- Accountability for public resources
- Review of CPA workpapers

The estimated cost for the next audit based on current rates is \$139,000 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics,

training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally, this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation at the Office of the Washington State Auditor offers services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean process improvement, peer-to-peer networking, and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

Kelly Collins, CPA, CFE, Director of Local Audit, (564) 999-0807, Kelly.Collins@sao.wa.gov

Wendy Choy, Assistant Director of Local Audit, (425) 502-7067, Wendy.Choy@sao.wa.gov

Joe Simmons, CPA, Program Manager, (206) 613-7628, Joseph.Simmons@sao.wa.gov

Madeleine “Maddie” Frost-Shaffer, Assistant Audit Manager, (206) 613-7627, Madeleine.Frost-Shaffer@sao.wa.gov

Kieu Nguyen, Audit Lead, (206) 613-7640, kieu.nguyen@sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Preliminary Draft - Please do not duplicate, distribute, or disclose.

Accountability Audit Report

Port of Seattle

For the period January 1, 2022 through December 31, 2022

Published (Inserted by OS)

Report No. 1034153



Scan to see another great way
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**Office of the Washington State Auditor
Pat McCarthy**

Issue Date – (Inserted by OS)

Board of Commissioners
Port of Seattle
Seattle, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Port operations. This information is valuable to management, the governing body and public stakeholders when assessing the government’s stewardship of public resources.

Attached is our independent audit report on the Port’s compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Port operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Port of Seattle from January 1, 2022 through December 31, 2022.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Port's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2022, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – electronic funds transfers, electronic wire transfers
- Tracking and monitoring of theft sensitive assets, such as computers, tools, and equipment
- Procurement – competitive exceptions
- Self-insurance with health and welfare, unemployment, workers compensation and paid family and medical leave
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Port of Seattle January 1, 2022 through December 31, 2022

This schedule presents the status of findings reported in prior audit periods.

| | | |
|---|------------------------------------|--------------------------------------|
| Audit Period: January 1, 2021 through December 31, 2021 | Report Ref. No.: 1032352 | Finding Ref. No.: 2021-001 |
| Finding Caption: The Port lacked adequate internal controls over electronic payments, which resulted in losses of public funds | | |
| Background: The Port reported two phishing incidents to our Office. These incidents resulted in eight payments of public funds, totaling \$572,683, to fraudulent bank accounts. We reviewed the Port’s policy and operating processes over electronic funds transfer (EFT). We found that although the Port had procedures in place to protect EFT payments from loss, staff did not consistently or adequately follow them. Further, the training the Port provided to employees was ineffective, as staff missed key red flags common to phishing schemes, such as misspellings in the email body and email address, as well as the bank declining EFTs due to closed accounts. | | |
| Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid | | |
| Corrective Action Taken: <i>The Port of Seattle Commission Audit Committee was fully briefed in public session in early 2022 by the Port's Internal Audit department on the cyber-crime experience, after conclusion of their audit. Also, in late 2022, the full Port Commission was briefed on the cyber-crime experience in public session as part of Internal Audit's report on audits completed in 2022. This cyber-crime experience in 2021 resulted in a total loss of \$50k related to the crime insurance deductible, after recovering over 91% through direct recovery of \$357k and \$166k in crime insurance coverage. As recognized by the professional audit industry, internal controls can only</i> | | |

provide reasonable, not absolute, assurance against fraud exposure and loss. Therefore, along with having internal controls in place, the Port has a crime insurance policy which limits the risk of public funds loss exposure. Policy, procedural and systems controls have existed and were in place at the time of the cyber-crime experience. They were shared in detail with the State Auditor's Office. These controls have proven to be effective over the many years prior with no occurrence of a cyber-crime loss. There have also not been any control failures or loss to date since the cyber-crime experience in 2021. Despite the robustness of controls in place, the human element can become a factor in any well-designed internal control environment. This is what occurred in the 2021 cyber-crime experience, where ACH vetting protocols clearly established in Port policy and procedures were not specifically followed and became a point of failure. This risk exposure was immediately mitigated by instituting redundancy in controls and improving oversight. Also, staff of the Port departments involved in the 2021 cyber-crime imposter fraud experience attended mandatory cyber-fraud fictitious email training provided by the Port's Information Security department shortly afterward in 2022. This training became an annual mandatory refresher for all Port employees in 2023.

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's 2022 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

A firm of certified public accountants evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Port's major federal program. That firm's 2022 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Preliminary Draft - Please do not duplicate, distribute, or disclose.

INFORMATION ABOUT THE PORT

The Port is a municipal corporation of the State of Washington (the State), organized on September 5, 1911, under the State statute RCW 53.04.010 et seq. In 1942, the local governments in King County, Washington (the County) selected the Port to build and operate Seattle-Tacoma International Airport.

Port policies are established by a five-member Commission elected at-large by the voters of the County for four-year terms. The Commission appoints the Executive Director (ED), who oversees daily operations of the organization. Through resolutions and directives, the Commission sets policy for the Port. These policies are then implemented by the ED and his executive staff.

The Port is composed of three operating divisions, namely, Aviation, Maritime, and Economic Development. The Aviation Division manages the Airport. The Maritime Division manages industrial property connected with maritime businesses, recreational marinas, Fisherman’s Terminal, cruise, grain, and maritime operations. The Economic Development Division focuses on managing the Port’s industrial and commercial properties including conference and event centers, encouraging tourism, developing minority and/or women-owned business opportunities, and providing for workforce development in the aviation, maritime, and construction industries.

For 2022, the Port had total operating revenues of \$797.9 million, which represents a 30.8 percent increase from 2021. Total operating expenses increased from \$362.6 million in 2021 to \$474.8 million in 2022. The Port’s net operating income before depreciation increased \$75.9 million from 2021 to 2022.

| Contact information related to this report | |
|--|--|
| Address: | Port of Seattle P.O. Box 1209 Seattle, WA 98111 |
| Contact: | Lisa Lam, Director of Accounting and Financial Reporting |
| Telephone: | (206) 787-4334 |
| Website: | www.portseattle.org |

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Port of Seattle at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR’S OFFICE

The State Auditor’s Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor’s Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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- [Request public records](#)
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- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov



January 24, 2024

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of Port of Seattle for the period from January 1, 2022, through December 31, 2022. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations, or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance, and fraud.

2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts, and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts, and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. Except as reported to you in accordance with RCW 43.09.185, we have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.

S.P. Metruck

S.P. Metruck (Jan 22, 2024 10:52 PST)

Stephen P. Metruck
Executive Officer

Dan Thomas

Dan Thomas
Chief Finance Officer

Lisa Lam

Lisa Lam
Interim Director,
Accounting & Financial Reporting

Exit Conference

Port of Seattle

Joe Simmons
Program Manager

Maddie Frost-Shaffer
Audit Supervisor

Kieu Nguyen
Audit Lead

March 28, 2024

Disclaimer: This presentation is intended to be viewed in conjunction with the complete packet of exit materials provided. A copy of those materials may be requested by contacting the presenters listed or by emailing PublicRecords@sba.wa.gov.



Office of the
Washington
State Auditor
Pat McCarthy

SAO Executive Management



Pat McCarthy
State Auditor



Kelly Collins, CPA, Director of Local Audit
(564) 999-0807 | Kelly.Collins@sao.wa.gov



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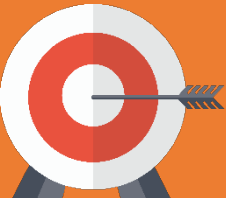
Results that Matter



Increased trust in government



Independent, transparent examinations



Improved efficiency and effectiveness of government



Pat McCarthy
State Auditor

Accountability Audit Results

January 1, 2022 through December 31, 2022



Results in Brief

This report describes the overall results and conclusions for the areas we examined.

In those selected areas, Port operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

Accountability Audit Results



Using a risk-based audit approach, for the Port, we examined the following areas during the period:

- Accounts payable - electronic funds transfers, electronic wire transfers
- Tracking and monitoring of theft sensitive assets, such as computers, tools, and equipment
- Procurement – competitive exceptions
- Self-insurance with health and welfare, unemployment, workers compensation and paid family and medical leave
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

Work of Other Auditors

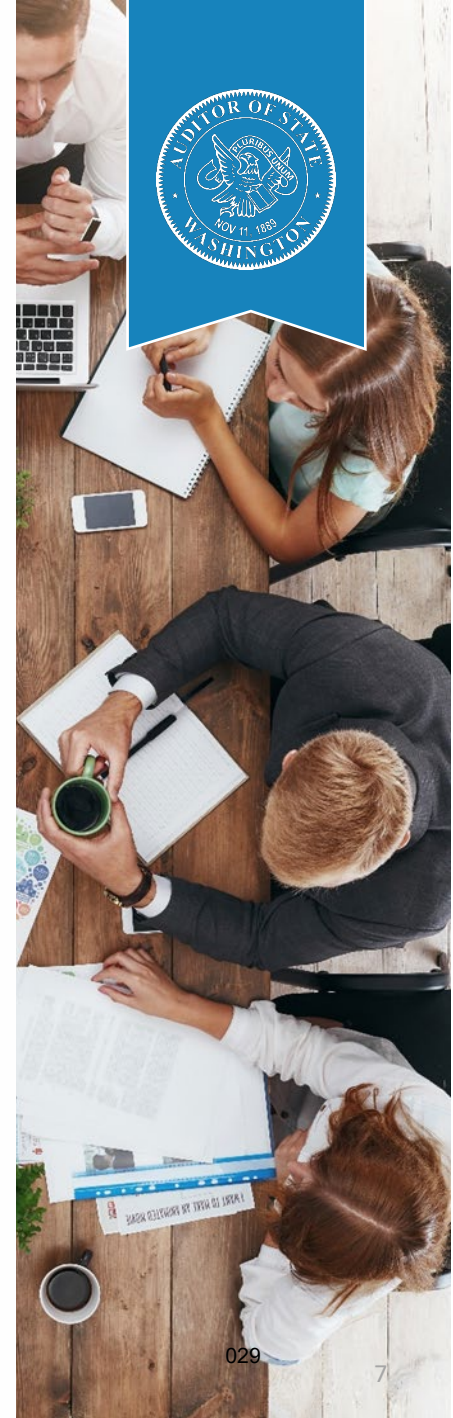
- A financial statement and federal grant audit was performed by Moss Adams of the Port.
- We did not find anything about their work that caused concern about its quality.
- No limitations restricted our analysis of the other audits.
- Did not notice any instance in which a material misstatement of the financial statements has or may have resulted from fraud or suspected fraud.



Closing Remarks

- Audit costs are in alignment with our original estimate
- Next audit: Fall 2024
 - Accountability for public resources
 - Review of CPA work papers

An estimated cost for the next audit has been provided in our exit packet





Report Publication

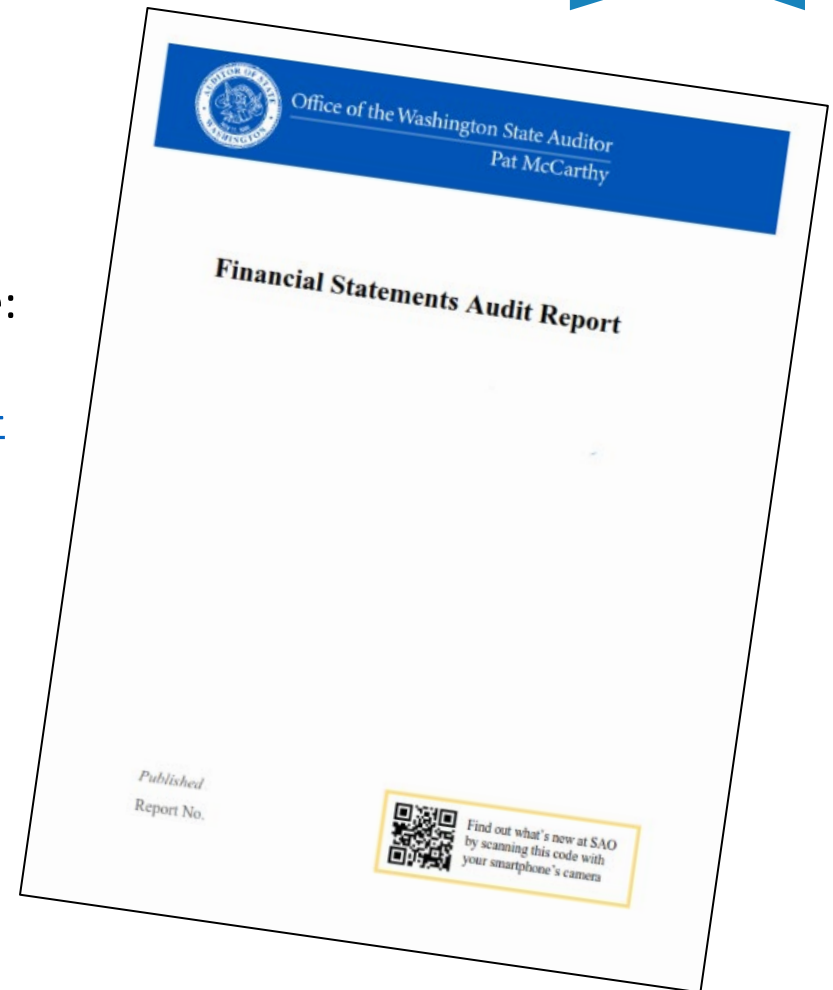
- ✓ Audit reports are published on our website.
- ✓ Sign up to be notified by email when audit reports are posted to our website:

<https://sao.wa.gov/about-sao/sign-up-for-news-alerts/>

Audit Survey

When your report is released, you will receive an audit survey from us.

We value your opinions on our audit services and hope you provide feedback.



Thank You!



- We would like to thank Andrew Cartica, Lisa Lam, and Glenn Fernandes for participating in weekly status update meetings. It allowed for increased communication and kept the audit running smoothly.
- Sandra Spellmeyer, Greg Key, and Sanders Mayo for walking us through various self-insurance areas and programs.
- Sofia Mayo during our review of Procurement.
- Diane Campbell and Tonya Shum while reviewing electronic wire transfer.
- Eloise Olivar while following up on electronic fund transfers (EFT's).
- Carmen Strand and Tanaya Covey's detailed explanation of the Port's controls to safeguard small & attractive assets. Our on-site audit in November felt smooth and accommodating thanks to them.

Questions?



Contact Joe Simmons, Program Manager,

Joseph.Simmons@sao.wa.gov

(206) 613-7628

March 28, 2024

Audit Committee
Port of Seattle

Re: Required Annual Communication

Annual communication is required by the Institute of Internal Auditors' Internal Standards for the Professional Practice of Internal Auditing (IIA Standards):

Internal Audit Charter

Internal Audit Department's activities are formally defined in the Charter. A periodic review process is in place to assure that the Charter is still relevant and reflects our department's activities. The Charter was last updated and presented to the Port Commission for review and approval on September 24, 2020.

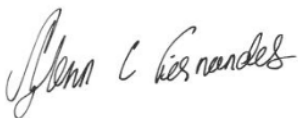
Confirmation of Organizational Independence

At the Port, the Internal Audit Department continues to be organizationally independent by reporting functionally to the Audit Committee and administratively to the Executive Director.

Quality Assurance and Improvement Program

The Internal Audit Department has an adequate quality assurance and improvement program in place, which covers all aspects of our internal audit activities. This has been evidenced by the Department passing its external peer reviews, most recently conducted by the Association of Local Government Auditors (ALGA) in August of 2022. In addition, the results of our own internal assessment process, which was most recently completed in the first quarter of 2024, also confirmed that the Department is compliant with auditing standards.

Sincerely,



Glenn Fernandes, CPA
Director, Internal Audit



RESOLUTION 3770 EXHIBIT E
Port of Seattle Audit Committee Charter
Adopted December 11, 2012, and last amended by redline February 25, 2020

Section I: Purpose and Authority.

- A. The Audit Committee is a standing committee created by the Seattle Port Commission. Its general purpose is to represent the commission and have review and oversight authority on matters relating to the Port of Seattle auditing process and procedures. It will assist the Port of Seattle Commission in fulfilling its oversight responsibilities for:
 - (1) The integrity of the port's financial statements;
 - (2) The effectiveness of the port's internal control system over financial reporting, compliance, and operations;
 - (3) The periodic performance audits to be conducted on Port of Seattle operations, programs, activities, and business processes;
 - (4) The independent auditor's qualifications and independence; and
 - (5) The performance of the port's internal audit function and external auditors.
- B. In carrying out these responsibilities, the Audit Committee shall determine that all internal audits are conducted under the United States Government Accountability Office's Government Auditing Standard and the Institute of Internal Auditing standards.
- C. The Audit Committee is empowered to seek any information it requires from Port of Seattle employees on audit matters, all of whom are directed to cooperate with the committee's requests. The committee shall keep the Executive Director apprised of all such requests.
- D. If the committee determines that in order to meet its responsibilities it requires the independent services of an outside advisor or consultant having expertise in financial reporting, auditing, and internal controls, it may propose the retention of such advisor or consultant to the commission for approval.

Section II: Duties.

The Audit Committee will:

- A. Inform the commission of the independent auditors selected, based on an open competitive process, to audit the financial statements and the federal grant and passenger facilities charge programs of the Port of Seattle and other audit services.¹

¹ Section II(A) was amended June 28, 2016, for clarity.

- B. Oversee the Director of Internal Audit's plans and activities and review with the director the staffing and organizational structure of the internal audit function, including coordination of audit effort with the external auditors. Audit Committee responsibilities will include:
- (1) Formally approve the Director of Internal Audit's annual audit plan. The annual plan will include which operations, departments, vendors, agreements, and leases are to be audited by the Director of Internal Audit and audit staff during the course of the year.
 - (2) Review the Internal Audit Department staffing needs.
 - (3) Review and recommend to the full commission the Internal Audit Department annual budget.
 - (4) Make recommendations to the commission on the appointment, replacement, or dismissal of the Internal Audit Director or any external auditors.
 - (5) Review the findings and recommendations of internal audits conducted at the Port of Seattle, in regards to financial compliance, internal controls, performance, and efficiency.
 - (6) Elicit any recommendations of the improvement of such internal controls or particular areas where new or more detailed controls or procedures are desirable. Schedule and hear reviews of these improvements presented by Port of Seattle staff as deemed necessary.
- C. Review with the port's external auditors:
- (1) The independent auditors' annual audit of the port's financial statements, as well as related notes and management's discussion and analysis.
 - (2) The management letter and the schedule of unadjusted differences.
 - (3) The independent auditors' annual audit of the passenger facility charges.
 - (4) The independent auditors' single audit of the federal grant awards administered by the port.
 - (5) The independent auditors' judgments about the quality of the port's accounting principles as applied in its financial reporting.
 - (6) Any performance or accountability audits performed on the Port of Seattle. This will include a review of final audit findings and recommendations including management's response and analysis.
- D. Review other external audits conducted on Port of Seattle operations, programs, activities, and business processes. In carrying out these responsibilities, the Audit Committee shall:
- (1) Encourage discussion between management, the commission, and other stakeholders in order to identify future potential areas of performance audit focus.

- (2) Provide recommendations to the commission regarding specific audit areas for consideration, including suggested audit objectives, scope, and evaluation criteria.
 - (3) Inform the commission of the external auditing firms selected, based on an open competitive process, to review external audits conducted on Port of Seattle operations, programs, activities, and business processes.²
 - (4) Report the results of such audits to the commission when completed.
- E. Discuss with management the port's policies with respect to risk assessment and risk management.

Section III: Internal Responsibilities.

- A. The Audit Committee will:
- (1) Assess as necessary the goals and objectives of the Audit Committee and monitor progress in achieving those goals and objectives.
 - (2) Provide an annual report to the commission that describes how the Audit Committee has discharged its duties and met its responsibilities.

Section IV: Composition.

- A. The Audit Committee will consist of at least two members of the Port of Seattle Commission and one public member approved by the commission. Commission members of the Audit Committee, as well as the committee chair, will be selected by the commission president at the beginning of each calendar year.
- B. The public member will be recommended by the Audit Committee for appointment and confirmation by the commission. The public member may be removed during his or her term by the commission president.

Each committee member will be independent of port management and any external audit firm currently employed by the port or subcontracted by any auditor employed by the port. The public member must have the following qualifications:

- (1) Experience with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS).
- (2) Experience in the preparation or auditing of the financial statements of public entities.
- (3) Experience in the application of GAAP in regards to estimates, accruals, and reserves.
- (4) Experience in the assessment and evaluation of internal controls, including risk assessment.

² Section II(D)(3) was amended July 11, 2017, to conform to the June 26, 2016, amendment of Section 2(A)

- (5) An understanding of or experience with a public sector audit committee.
- (6) An understanding of or experience with performance audits.
- (7) Can make a commitment to serve a three-year term.

The public member will serve as an advisor to the Audit Committee and is not considered a voting member of the committee for the purposes of quorum determination or voting on any official business of the committee.

Section V: Meetings.

- A. The committee will meet at least four times a year, with authority to convene additional meetings as circumstances require.
- B. All committee meetings shall be open to the public, except for portions of meetings that can be considered executive session for the Port of Seattle Commission under RCW 42.30.110.³
- C. A quorum of the committee is required to conduct official committee business. A quorum is defined as a majority of voting members.
- D. The committee will invite members of management, auditors, or others to attend meetings and provide pertinent information, as necessary.
- E. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared and approved by the Audit Committee.

³ Section V(B) was amended February 25, 2020, to provide a context in which the committee could consider reports on audits that include sensitive or confidential content pertaining to information technology audits.



Port of Seattle Internal Audit Department Charter

I. INTRODUCTION

The Port of Seattle maintains an active internal audit function that has a dual reporting responsibility. This Charter defines the Internal Audit Department's authority and accountability; mission and scope; responsibility; independence and objectivity; and commitment to quality.

II. AUTHORITY AND ACCOUNTABILITY

The Internal Audit Department derives its authority from the Port of Seattle Commission. The Audit Committee represents the Commission and provides review and oversight authority on matters relating to the Port's internal control environment. Two Port Commissioners serve as members of the Audit Committee. In discharging their duty, the Internal Audit Director and his or her staff are accountable to the Audit Committee and to the Executive Director.

Internal Audit conducts audits and reviews of Port departments, programs, functions, systems, contracts, and activities based on the department's approved audit plan or specific requests that have been approved by the Audit Committee.

The Director and his or her staff are authorized to:

- Have full, free and unrestricted access to all Port functions, activities, personnel, records, property, and other relevant materials necessary to accomplish their work.
- Access information from contracted third parties and handle the information in accordance with contractual terms.
- Handle documents provided to Internal Audit in the same prudent manner as by those employees who are normally accountable for them.
- Have full access to the Audit Committee and to the Port Commission, as needed.
- Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the Port where they perform audits, as well as other specialized services from within or outside the Port.
- Report issues related to the processes for controlling the activities of the Port and its tenants, customers and vendors, including potential improvements to those processes, and provide information concerning such issues through resolution.

III. MISSION AND SCOPE OF WORK

The Internal Audit Department’s mission is to conduct independent, objective, risk-based audits, of the Port’s operations, activities, and vendors. Audits add value by helping advance the Port’s mission, and result in:

| | |
|------------------------|---|
| Financial Stewardship | Safeguarding of public resources through detection and deterrence of fraud, waste, and abuse. |
| Accountability | Complying with laws and regulations; meeting strategic and operational performance goals. |
| Transparency | Clear and accurate information provided to our stakeholders and to the public. |
| Governance | Stronger oversight and enhanced decision making. |
| Operational Excellence | Enhanced efficiency and effectiveness of management practices. |

A key part of the Internal Audit Department’s scope of work is to determine whether the Port’s network of controls, as designed and represented by management, are adequate and functioning effectively.

Opportunities for improving management control, streamlining processes, and improving public perception may be identified during audits. These will be communicated to the appropriate level of management.

Internal Audit also conducts advisory services (consulting) where the internal audit staff’s expertise is leveraged to provide recommendations on improving processes and practices.

IV. RESPONSIBILITY

A. The Director and His or Her Staff Have Responsibility To:

- Develop a flexible annual audit plan using an appropriate risk-based methodology; include any risks or control concerns identified by management and submit that plan to the Audit Committee for review and approval.
- Implement the annual audit plan, as approved by the Audit Committee, including any special tasks or projects requested by management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter.
- Establish a quality assurance program, by which the Director monitors the operation of internal audit activities. Additionally, obtain an external peer review at least once every three years.
- Provide advisory services (consulting) beyond core audit services, to assist management in meeting its objectives (e.g., facilitation, process design, training), provided the services do not impair the auditor's independence.
- Evaluate and assess significant functions and new or changing services, processes,

operations, and control processes coincident with their development, implementation and/or expansion.

- Issue quarterly reports to the Audit Committee and management summarizing results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide information periodically on the status and results of the annual audit plan, and the sufficiency of department resources.
- Assist in the investigation of suspected fraudulent activities within the organization and notify management of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
- Follow up on audits to assure agreed-upon corrective actions have been taken.
- Exercise due professional care in the conduct of the audits.
- In March of every year, the Director will provide to the Audit Committee, the mandatory annual communication required by the Institute of Internal Auditors' (IIA) standards; specifically, on organizational independence, the department charter review, and the results of the last departmental quality assurance program.

B. Port Management is Responsible To:

- Maintain an effective system of internal controls, document policies and procedures, and assure information is accurate and reliable.
- Comply with laws and regulations including Port policies and procedures.
- Cooperate fully with auditors during the discharge of their duties, including making available, personnel and material, or information requested.
- Provide a timely response to audit findings and recommendations.
- Assure the timely implementation of agreed-upon corrective action(s) to audit recommendations.

V. INDEPENDENCE AND OBJECTIVITY

Independence is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.¹

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit

¹ International Standards for the Professional Practice of Internal Auditing (Standards).

matters to others.¹

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, internal auditors will be independent of the activities they audit. Because objectivity is essential to the audit function, Internal Audit staff will not develop and install procedures, prepare records, or engage in any other activity which the auditor would normally audit, and which could reasonably be construed to compromise the auditor's independence. The auditor's objectivity is not adversely affected, however, by determining or recommending standards of control to be adopted in the development of systems and procedures under review. The audit staff is responsible for maintaining their independence and integrity in all services they provide. This directive will not preclude Internal Audit's proactive involvement with management in planning processes, committees or special projects.

All internal audit activities shall remain free from interference relative to matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity. The Director shall report any impairment to independence, or unjustified restriction or limitation to audit selection, scope, procedures, frequency, timing or report content promptly to the Audit Committee and to the Executive Director.

To provide for the independence of the Internal Audit Department, its staff reports to the Internal Audit Director. The Director reports administratively to the Executive Director and functionally to the Audit Committee. This structure permits the rendering of impartial and unbiased judgment, essential to the proper conduct of audits.

The Audit Committee will regularly review the Internal Audit Department's staffing requirements, including its annual budget and make recommendations for approval to the full Commission.

As necessary, the Audit Committee will review the need to appoint, replace or dismiss the Internal Audit Director and make recommendations for action to the full Commission.

VI. COMMITMENT TO QUALITY -- STANDARDS OF AUDIT PRACTICE

Internal Audit staff commits to providing outstanding audit service through timely, unbiased, value-added audit and advisory (consulting) services.

Internal Audit will work as a team with Port management to assist with process improvements aimed at achievement of the strategic goals and objectives.

Internal Audit will work to enhance the services they provide by continuously improving their audit and advisory processes.

The Internal Audit Staff Will Adhere to the Following Professional Standards and Codes:

- The International Standards for the Professional Practice of Internal Auditing (the Standards) of the Institute of Internal Auditors (Red Book).
- Government Auditing Standards promulgated by the Comptroller General of the United States (Yellow Book).
- ISACA Audit and Assurance Standards (IT Audit).

- The Port of Seattle Employee's Code of Conduct.
- The Institute of Internal Auditors Code of Ethics.
- The Port of Seattle Internal Audit Handbook, including its protocols, policies, and procedures.

The Internal Audit Department Charter may be modified by a written document executed by all of the participating parties. This Charter will be effective upon execution and will continue indefinitely until it is modified.

IN WITNESS WHEREOF, the parties hereto have caused this Internal Audit Charter to be executed by their proper officers thereunto duly authorized, and their official seals to be affixed as of _____, 2020.

 Commissioner Peter Steinbrueck
 Port Commission President

Date: _____

 Commissioner Ryan Calkins
 Audit Committee Chair

Date: _____

 Commissioner Stephanie Bowman
 Audit Committee Secretary

Date: _____

 Steve Metruck
 Executive Director

Date: _____

 Glenn Fernandes
 Internal Audit Director

Date: _____

Port of Seattle Audit Committee

Internal Audit Update

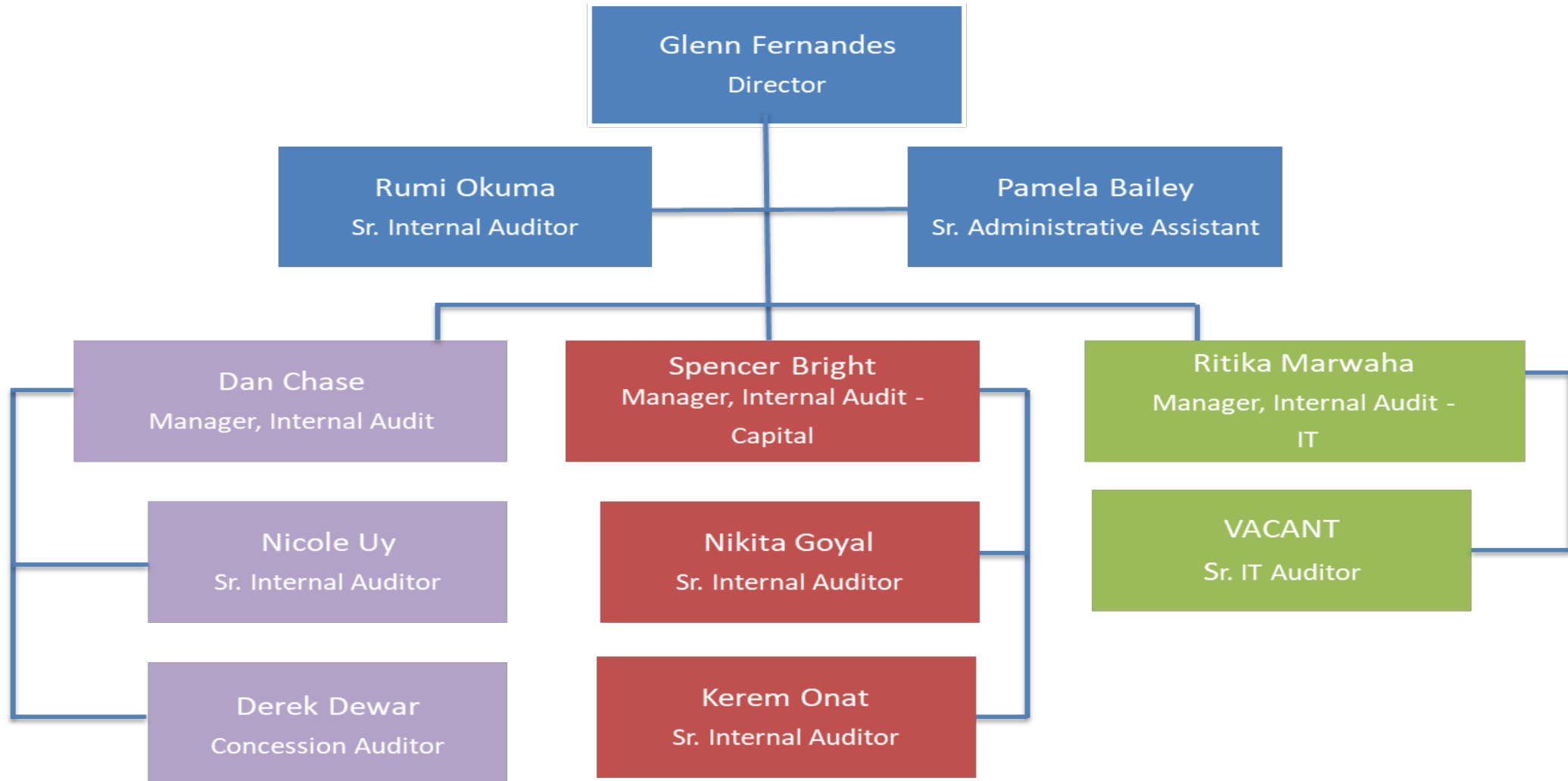
Glenn Fernandes - Director, Internal Audit

March 28, 2024

P69 Commission Chambers

10:00 AM – 12:00 PM

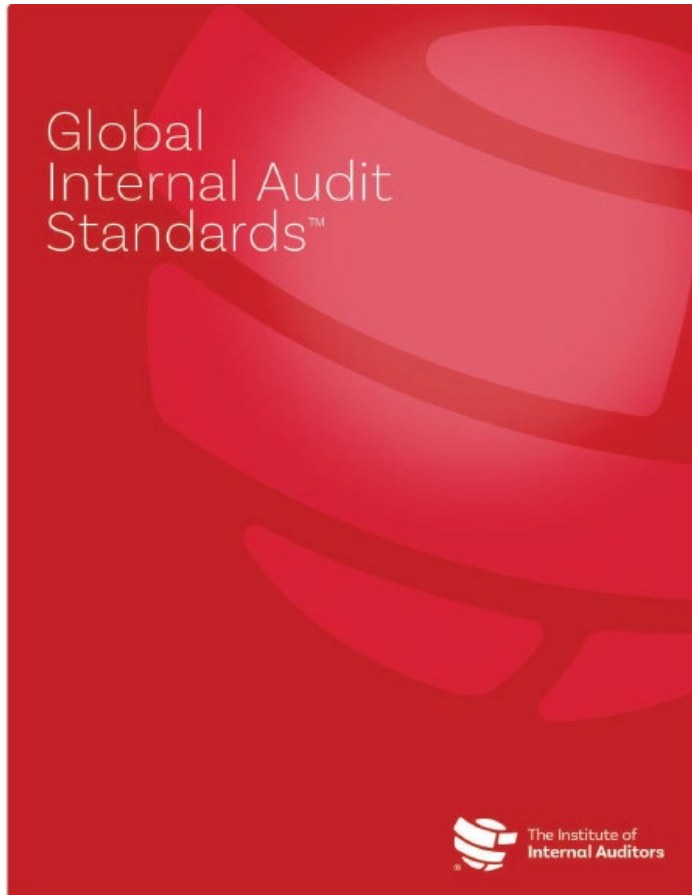
Internal Audit Organization Structure



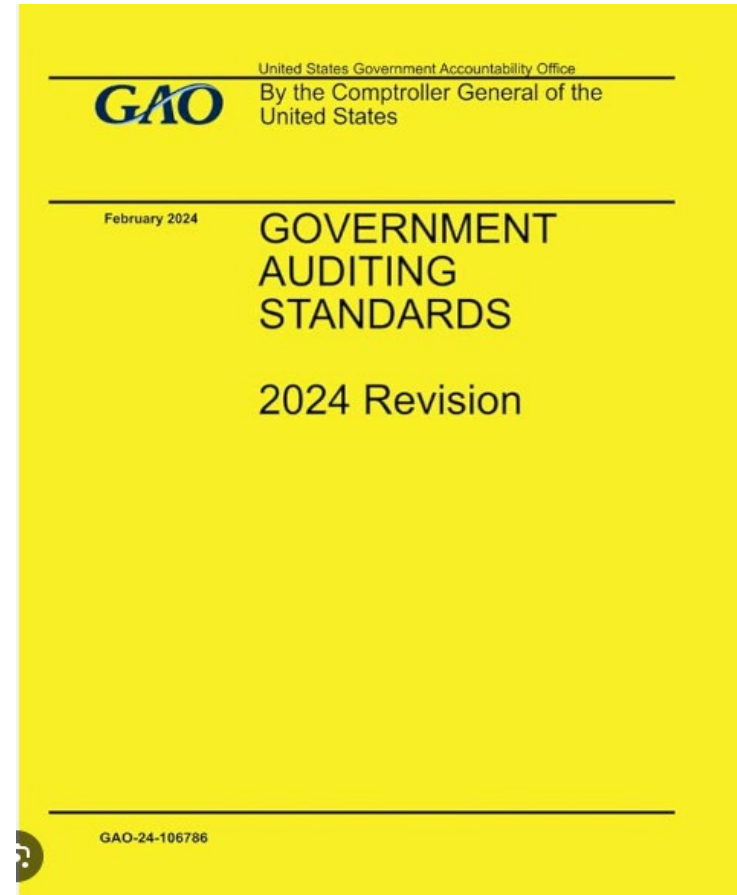
11/27/2023

Auditing Standards

New updates to Standards were released in the first quarter of this year. We'll update our Operational Policies and Procedures Handbook and train staff by effective dates, accordingly.



Newly structured, Global Internal Audit Standards, of which features include the application of standards to the Public Sector, were released on January 9, 2024, and will become effective January 9, 2025.



This 2024 Revision, released on February 1, 2024, includes a requirement for an audit organization to: 1) design and implement its system of quality management by December 15, 2025; and 2) complete an evaluation of the quality management system by December 15, 2026.

The New Structure



5 Domains

- **15 Principles**
- **52 Standards**
 - Requirements
 - Considerations for Implementation
 - Examples of Evidence of Conformance

Additional features:

- Fundamentals
- Applying the Global Internal Audit Standards in the Public Sector
- Glossary



[Source: The Institute of Internal Auditors]

Domain III: Governing the Internal Audit Function



Domain III standards include “essential conditions” for an effective internal audit function.

6. Authorized by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

6.1 Internal Audit Mandate

6.2 Internal Audit Charter

6.3 Board and Senior Management Support

7. Positioned Independently

The board establishes and protects the internal audit function’s independence and qualifications.

7.1 Organizational Independence

7.2 Chief Audit Executive Qualifications

8. Overseen by the Board

The board oversees the internal audit function to ensure the function’s effectiveness.

8.1 Board Interaction

8.2 Resources

8.3 Quality

8.4 External Quality Assessment

Internal Audit Director's Annual Communication

Annual communication is required by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards) on:

- Internal Audit Charter
- Organizational Independence
- Quality Assurance and Improvement Program
- Open Issue Follow-up and Monitoring Process

Internal Audit Charter

- The Charter was most recently updated in September 2020.
- The Charter defines Internal Audit Department's:
 - Authority and Accountability
 - Mission and Scope
 - Responsibility
 - Independence and Objectivity
 - Commitment to Quality

Independence Requirement

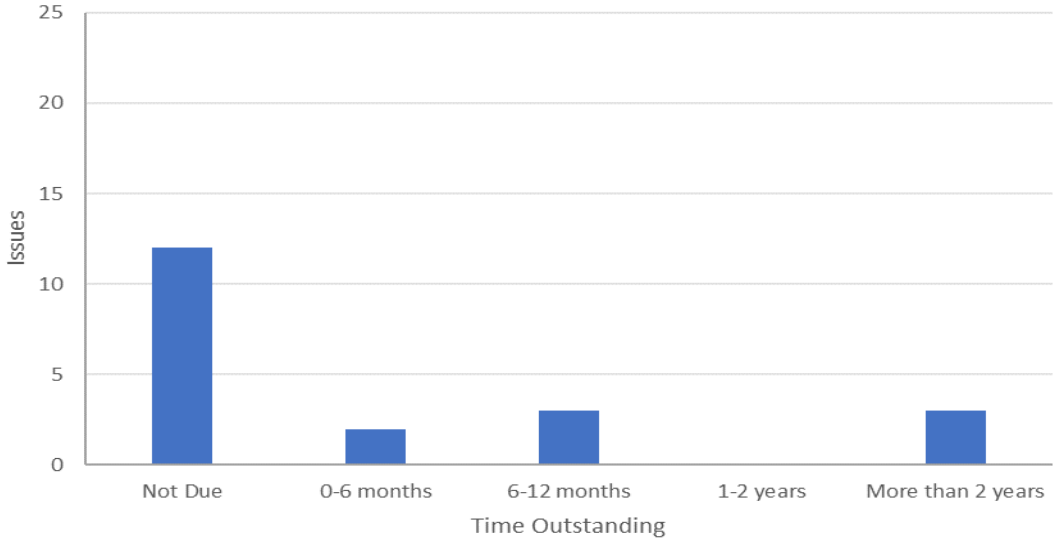
- IIA Standards require annual confirmation of organizational independence of the internal audit function.
- Internal Audit Department continues to maintain organizational independence by reporting functionally to the Audit Committee and administratively to the Executive Director.

Quality Assurance Requirement

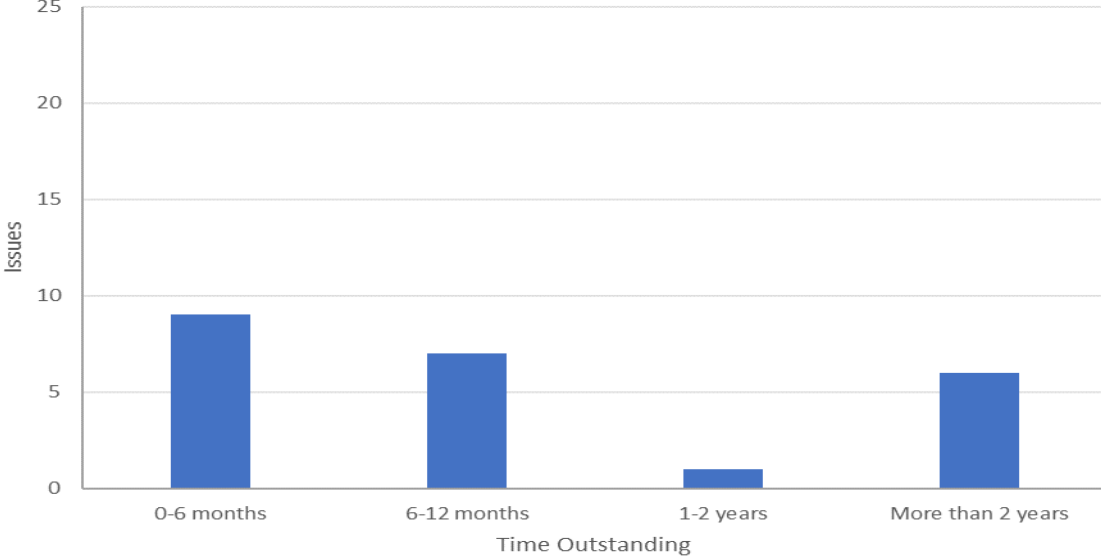
- Generally Accepted Government Auditing Standards (GAGAS)/Government Accountability Office (GAO) require an external peer review every three years.
- IIA Standards require both an internal and external quality assurance and improvement program. External assessments need to occur at least every five years.
- An external peer review was most recently conducted by the Association of Local Government Auditors (ALGA) in August of 2022.
- Internal Audit's periodic, quality self-assessment was most recently performed in the first quarter of this year.
 - Reviewed IA's written policies and procedures (IA Handbook); internal monitoring procedures; a sample of audit engagements and workpapers; and interviewed management and staff on the IA Handbook.
 - Assessment concluded that IA's internal quality control system was suitably designed and operating effectively to provide a reasonable assurance of compliance with GAGAS and IIA Standards. It offered some enhancement opportunities.

Open Issue Status – Aging Report as of March 13, 2024

20 Issues Outstanding (from Target Date)^{1,2}



23 Issues Outstanding (from Report Date)



- 1. Three issues outstanding for over one year from the Target Date are:
 - **Information Technology Audits (3) (Security Sensitive - Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session.):** Closed Network System Security (1), and Secure Configuration for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers (2).
- 2. Three Information Technology issues do not have Target Dates and are not included in this chart. These issues are in the process of being addressed, however, they are more than two years past the Report Date: Aviation Maintenance and Facilities & Infrastructure Data Centers (3).

See **Appendix A** for a detailed listing of outstanding issues, including: Report Finding, Issue Owners, and Current Status, as of March 13, 2024.

Approved 2024 Audit Plan

Limited Contract Compliance

- Stellar Bambuza SEA LLC
- Seattle Food Partners LLC
- 1915 KCHouse Concepts – SEATAC LLC
- Pallino SeaTac LLC

Performance

Performance

- Fire Department - PFAS Use, Storage, and Phase-out
- Time Approval Controls
- Delegation of Authority
- Equity Policy Directive
- Utility Management – Port-wide

Capital

- Concourse A Building Expansion for Lounges/Delta TRA¹
- T-117 Sites 23-25 Restoration Project GC/CM Closeout
- TSE- Phase 2 Bollards and ADA Ramps
- Parking Garage Elevator Modernization

Information Technology

- Application Software Security
- Network Infrastructure Management (ICT)
- TSA Cybersecurity²

1. This audit was started in the Fourth Quarter of 2023 and was completed in the First Quarter of 2024.
2. TSA is in the process of mandating audits. These will be required in 2024.

Internal Audit Capital GC/CM Continuous Audits

- RCW 39.10.385 requires an independent audit, paid for by the public body, to confirm the proper accrual of costs.
- We procure the independent auditor, provide oversight of work performed, and assist in fieldwork as needed.
- The independent auditor will provide the Audit Committee with annual updates and final reports upon completion of each project.

Capital GC/CM Continuous Audits

- Main Terminal Low Voltage System Upgrade
- Post IAF Airline Realignment
- C Concourse Expansion Project
- Eastside Fire Station
- Baggage Optimization Phase 3
- Concourse Low Voltage Upgrade
- South Concourse Evolution

Construction Contract Review

- Historically, missing or unclear contract language has resulted in audit findings.
- Remediation is generally deferred to future contracts.

At the direction of the Audit Committee:

- Going forward Internal Audit (IA) will review all *Alternative Works* construction contracts.
- In partnership with Port Management, IA will attend contract review meetings.
- IA will make recommendations, but will not own the process, thereby, maintaining independence.
- IA will seek outside expertise as needed.
- Proactive approach – but does not imply that we will not perform our regular construction audits on these projects.

2024 AUDIT PLAN STATUS

| Audit Title | Type | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|-----------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Fire Department - PFAS Use, Storage, and Phase-out | Performance | | | | | | | | | | | | |
| Time Approval Controls | Performance | | | | | | | | | | | | |
| Delegation of Authority | Performance | | | | | | | | | | | | |
| Equity Policy Directive Compliance | Performance | | | | | | | | | | | | |
| Utility Management - Port-wide | Performance | | | | | | | | | | | | |
| Concourse A Building Expansion for Lounges/DELTA TRA ¹ | Performance - Capital | | | | | | | | | | | | |
| T-117 Sites 23-25 Restoration Project GC/CM Closeout | Performance - Capital | | | | | | | | | | | | |
| TSE-Phase 2 Bollards and ADA Ramps | Performance - Capital | | | | | | | | | | | | |
| Parking Garage Elevator Modernization | Performance - Capital | | | | | | | | | | | | |
| Application Software Security (ICT) | IT | | | | | | | | | | | | |
| Network Infrastructure Management (ICT) | IT | | | | | | | | | | | | |
| TSA Cybersecurity ² | IT | | | | | | | | | | | | |
| Stellar Bambuza SEA LLC | Contract Compliance | | | | | | | | | | | | |
| Seattle Food Partners LLC | Contract Compliance | | | | | | | | | | | | |
| 1915 KCHouse Concepts - SEATAC LLC | Contract Compliance | | | | | | | | | | | | |
| Pallino SeaTac LLC | Contract Compliance | | | | | | | | | | | | |
| KEY | Complete | | | | | | | | | | | | |
| | In Process | | | | | | | | | | | | |
| | Not Started | | | | | | | | | | | | |

1. This audit was started in the Fourth Quarter of 2023 and was completed in the First Quarter of 2024.

2. TSA is in the process of mandating audits. These will be required in 2024.

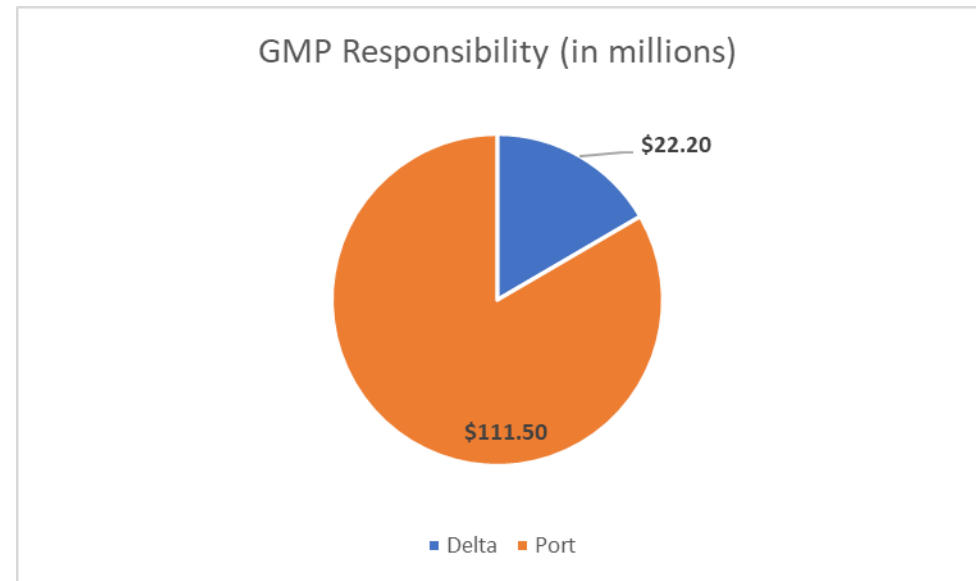
Audits Completed in First Quarter - 2024

- 1) Concourse A Building Expansion for Lounges – Delta TRA (Item #7)
- 2) Payment Card Industry (PCI) – Qualified Security Assessor (QSA) Assessment Results (Item #8)
- 3) Pallino SeaTac, LLC (Item #9)

Concourse A Expansion for Lounges- Delta TRA

- The Concourse A Expansion for Lounges Project is being conducted under a Tenant Reimbursement Agreement (TRA) between the Port and Delta Air Lines.
- Hensel Phelps was selected as the general contractor.
- The Project includes the design and construction of a 52,000 square foot building addition in Concourse A, including 36,000 square feet of new leasable space.
- Design of the base building was approved by the Port Commission in April 2021 with construction anticipated to be completed in the fall of 2024.

The TRA is being administered as a Guaranteed Maximum Price (GMP) contract in the amount of \$133.7 million.



An implicit agreement between Hensel Phelps and the Port's Risk Management Department settled on \$10 Million in Commercial General Liability Insurance (GLI) at an estimated cost of \$559,500. Hensel Phelps subsequently materially overbilled the Port for \$100 Million in GLI, at a cost of \$1,120,784.

- TRA stipulates minimum Commercial General Liability Insurance limit: \$15 million.
- Hensel requested a decrease “per occurrence limit” to \$10 million, and the Port agreed.
- Hensel billed approximately \$1.1 million in insurance invoices, which included \$100 million “per occurrence” coverage. (invoice totaling \$1.1 million, instead of estimated \$560K.)
- Using Risk Management's estimate, would also have decreased the final GMP by \$1.1 million.
- Port has deferred reimbursement until approval from the Port's Risk Management team.

Scope limitation:

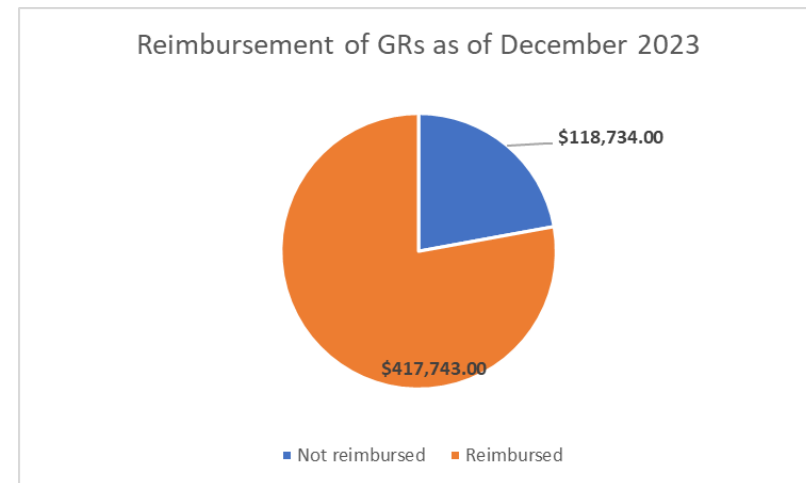
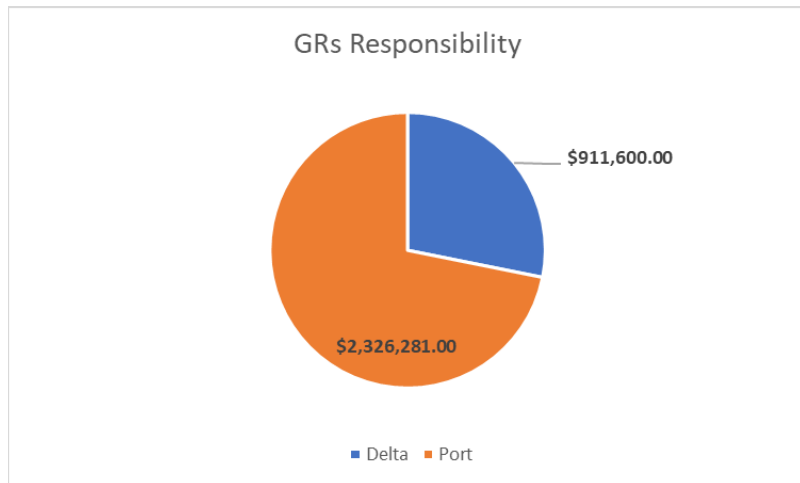
With the assistance of the Port's Project Management Group, we made multiple requests to obtain subcontractor bid documents and subcontracts for the Contractor Controlled Insurance Program. Hensel refused to provide the documents although we explained the audit reasons for the requested documents. Accordingly, our audit scope was limited, and we were unable to conclude whether subcontractor contracts included additional insurance that was being passed on to the Port, or that any insurance credits were properly passed on to the Port.

Recommendations

1. Contract insurance language should be updated to outline both minimum and maximum insurance requirements that will be reimbursed, thereby preventing the Port from incurring costs for additional insurance coverage.
2. TRA language should be updated to specifically describe the documents that are subject to audit and consequences if those documents are not provided when requested.
3. Risk Management should make the determination on what the final reimbursable insurance cost should be. Additionally, the total Guaranteed Maximum Price (GMP) should be adjusted accordingly.
4. When estimating a GMP, Port estimators should use amounts recommended by Risk Management instead of amounts proposed by contractors.

Hensel Phelps' Request for Reimbursement Submittal (RRS) for General Requirements did not include adequate supporting documentation.

- General Requirements: Direct Costs Associated with the project.
- TRA requires adequate documentation for reimbursement.
- Hensel submitted accounting system printouts, not invoices.
- Invoices are crucial for expense validation to assure expenses are project-specific and accurate.



Example of Hensel accounting system printouts used

HP - JC Detail

| | | Jobs: 5021170 - 5021170 | | | | All Phases | | All Cost Types | | Units: Actual | | | | | |
|--------------------------------------|-----------------------------|-------------------------|--------|-------|--------|-------------------------|-------------|--------------------------|----|-----------------|---------------------------------|----------------------------------|-------|--------------|------------------|
| | | Months: First - 05/23 | | | | Dates: First - 05/15/23 | | All JC Transaction Types | | All Departments | | | | | |
| | | | | | | Vend# | | Craft/Class | | | | | | | |
| Phase | Description | Cost Type | Abbrev | Mth | Trans# | Posted Date | Actual Date | Trans Type | Co | Equip#/Mat# | Description | Reference | Units | Hours | Cost |
| 5021170 Delta Sky Club - Concourse A | | | | | | | | | | | | | | | |
| 0131000. | Project Supervision & Adm | 2 | B | 05/23 | | 05/15/23 | 05/15/23 | PR | 1 | | Payroll Labor Distribution | | 0.000 | 0.000 | 82.210 |
| | | | | | | | | | | | | Total For Phase: 0131000. | | 0.00 | 82.21 |
| 0132250. | True North Surveying | 3 | S | 10/22 | 105083 | 11/07/22 | 11/01/22 | AP | 1 | 12942 | True North Land Surveying Inc | 8485 | 0.000 | 0.00 | 6,482.00 |
| 0132250. | True North Surveying | 3 | S | 11/22 | 91792 | 12/13/22 | 12/07/22 | AP | 1 | 12942 | True North Land Surveying Inc | 8515 | 0.000 | 0.00 | 2,376.25 |
| 0132250. | True North Surveying | 3 | S | 01/23 | 48138 | 01/19/23 | 01/06/23 | AP | 1 | 12942 | True North Land Surveying Inc | 8588 | 0.000 | 0.00 | 2,888.88 |
| 0132250. | True North Surveying | 3 | S | 02/23 | 37294 | 02/15/23 | 02/06/23 | AP | 1 | 12942 | True North Land Surveying Inc | 8588 | 0.000 | 0.00 | 530.25 |
| 0132250. | True North Surveying | 4 | M | 03/23 | 34082 | 03/13/23 | 03/02/23 | AP | 1 | 12942 | True North Land Surveying Inc | 8611 | 0.000 | 0.00 | 308.75 |
| 0132250. | True North Surveying | 3 | S | 04/23 | 61959 | 04/18/23 | 04/07/23 | AP | 1 | 12942 | True North Land Surveying Inc | 8658 | 0.000 | 0.00 | 213.75 |
| 0132250. | True North Surveying | 3 | S | 05/23 | 23693 | 05/15/23 | 05/03/23 | AP | 1 | 12942 | True North Land Surveying Inc | 8684 | 0.000 | 0.00 | 261.25 |
| | | | | | | | | | | | | Total For Phase: 0132250. | | 0.00 | 13,059.13 |
| 0143700. | Temp Partitions Concourse/f | 4 | M | 08/22 | 99461 | 09/12/22 | 09/01/22 | AP | 1 | 13469 | Amazon Capital Services | 1PHY-JRYW-MKJH | 0.000 | 0.00 | 244.35 |
| 0143700. | Temp Partitions Concourse/f | 4 | M | 01/23 | 48147 | 01/19/23 | 01/17/23 | AP | 1 | 4738 | White Cap L.P | 10017422389 | 0.000 | 0.00 | 276.42 |
| 0143700. | Temp Partitions Concourse/f | 4 | M | 02/23 | 37295 | 02/15/23 | 02/07/23 | AP | 1 | 6803 | Abatix Environmental Corp | 8367413 | 0.000 | 0.00 | 379.29 |
| 0143700. | Temp Partitions Concourse/f | 4 | M | 04/23 | 61960 | 04/19/23 | 04/12/23 | AP | 1 | 13469 | Amazon Capital Services | 19LN-DDLH-4KG9 | 0.000 | 0.00 | 251.51 |
| | | | | | | | | | | | | Total For Phase: 0143700. | | 0.00 | 1,151.57 |
| 0143900. | Horizontal Open | 4 | M | 03/23 | 86593 | 04/05/23 | 03/20/23 | AP | 1 | 1963 | Grainger | 9646199449 | 0.000 | 0.00 | 208.22 |
| | | | | | | | | | | | | Total For Phase: 0143900. | | 0.00 | 208.22 |
| 0143910. | Safety Railing Maintenance | 4 | M | 02/23 | 35050 | 02/14/23 | 02/06/23 | AP | 1 | 11347 | Lars F Swenson | EXP021023 | 0.000 | 0.00 | 176.30 |
| 0143910. | Safety Railing Maintenance | 4 | M | 03/23 | 55821 | 03/21/23 | 03/14/23 | AP | 1 | 1963 | Grainger | 9639878326 | 0.000 | 0.00 | 50.41 |
| 0143910. | Safety Railing Maintenance | 4 | M | 03/23 | 86596 | 04/05/23 | 03/16/23 | AP | 1 | 4478 | United Rentals | 215792323-002 | 0.000 | 0.00 | 267.24 |
| 0143910. | Safety Railing Maintenance | 4 | M | 03/23 | 86597 | 04/05/23 | 03/17/23 | AP | 1 | 31020 | Bigfoot Construction Supply LLC | 75055-1 | 0.000 | 0.00 | 99.09 |
| 0143910. | Safety Railing Maintenance | 4 | M | 03/23 | 86594 | 04/05/23 | 03/21/23 | AP | 1 | 31020 | Bigfoot Construction Supply LLC | 75055-2 | 0.000 | 0.00 | 66.06 |
| 0143910. | Safety Railing Maintenance | 4 | M | 03/23 | 86595 | 04/05/23 | 03/21/23 | AP | 1 | 31020 | Bigfoot Construction Supply LLC | 74858-2 | 0.000 | 0.00 | 55.49 |
| | | | | | | | | | | | | Total For Phase: 0143910. | | 0.00 | 714.59 |
| 0153000. | Repair and Temp enclose | 4 | M | 03/23 | 55822 | 03/21/23 | 03/14/23 | AP | 1 | 13469 | Amazon Capital Services | 16HR-KP4T-19RW | 0.000 | 18.48 | 42.66 |
| | | | | | | | | | | | | Total For Phase: 0153000. | | 18.48 | 42.66 |
| 0162500. | Fork Lift Equipment Rent | 5 | E | 11/22 | 75052 | 12/01/22 | 11/30/22 | EM | 1 | 324167 | Forklift JLG 2019 | | 0.000 | 0.00 | 3,000.00 |
| 0162500. | Fork Lift Equipment Rent | 5 | E | 12/22 | 74743 | 01/03/23 | 12/31/22 | EM | 1 | 324167 | Forklift JLG 2019 | | 0.000 | 0.00 | 3,000.00 |
| 0162500. | Fork Lift Equipment Rent | 5 | E | 01/23 | 91395 | 02/01/23 | 01/31/23 | EM | 1 | 324167 | Forklift JLG 2019 | | 0.000 | 0.00 | 3,000.00 |
| 0162500. | Fork Lift Equipment Rent | 5 | E | 02/23 | 83753 | 03/01/23 | 02/28/23 | EM | 1 | 324167 | Forklift JLG 2019 | | 0.000 | 0.00 | 3,000.00 |
| 0162500. | Fork Lift Equipment Rent | 4 | M | 03/23 | 86598 | 04/05/23 | 03/23/23 | AP | 1 | 31020 | Bigfoot Construction Supply LLC | 74858-3 | 0.000 | 0.00 | 616.84 |
| 0162500. | Fork Lift Equipment Rent | 5 | E | 03/23 | 86599 | 04/05/23 | 03/21/23 | AP | 1 | 4478 | United Rentals | 216727076-001 | 0.000 | 0.00 | 311.78 |
| 0162500. | Fork Lift Equipment Rent | 5 | E | 03/23 | 82708 | 04/03/23 | 03/31/23 | EM | 1 | 324167 | Forklift JLG 2019 | | 0.000 | 0.00 | 3,000.00 |
| 0162500. | Fork Lift Equipment Rent | 5 | E | 04/23 | 51962 | 04/18/23 | 04/11/23 | AP | 1 | 4478 | United Rentals | 216727076-002 | 0.000 | 0.00 | 139.19 |
| 0162500. | Fork Lift Equipment Rent | 5 | E | 04/23 | 83819 | 05/01/23 | 04/30/23 | EM | 1 | 324167 | Forklift JLG 2019 | | 0.000 | 0.00 | 3,000.00 |
| | | | | | | | | | | | | Total For Phase: 0162500. | | 0.00 | 19,067.81 |
| 0162510. | Forklift Operator | 1 | L | 12/22 | | 12/19/22 | 12/19/22 | PR | 1 | | Payroll Labor Distribution | | 0.000 | 20.000 | 1,086.500 |
| 0162510. | Forklift Operator | 2 | B | 12/22 | | 12/19/22 | 12/19/22 | PR | 1 | | Payroll Labor Distribution | | 0.000 | 0.000 | 613.900 |

Example of Hensel Accounting System Printouts Used

HP - JC Detail

Jobs: 5021170 - 5021170 All Phases All Cost Types Units: Actual
 Months: First - 07/23 Dates: First - 08/07/23 All JC Transaction Types All Departments

| Phase | Phase Description | Cost Type | Abbrev | Mth | Trans# | Posted Date | Actual Date | Trans Type | Vend# | Craft/Class | Co | Equip#/Mat Description | Reference | Units | Hours | Cost |
|--|-------------------------|-----------|--------|-------|--------|-------------|-------------|------------|-------|-------------|----|--|---------------------------|-------|-------|------------|
| 5021170 Delta Sky Club - Concourse A - Continued | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | Total For Phase: 9015000. | 0.00 | | 51.46 |
| 9022000. | General Condition | 6 | I | 08/22 | 103641 | 09/14/22 | 08/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 08/22 | 103642 | 09/14/22 | 08/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 127.77 |
| 9022000. | General Condition | 6 | I | 08/22 | 103643 | 09/14/22 | 08/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 3,932.59 |
| 9022000. | General Condition | 6 | I | 09/22 | 93518 | 10/12/22 | 09/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 2,200.76 |
| 9022000. | General Condition | 6 | I | 10/22 | 109578 | 11/09/22 | 10/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 2,230.77 |
| 9022000. | General Condition | 6 | I | 09/22 | 83459 | 10/06/22 | 10/06/22 | JC | 1 | | | Mistaken charge and code move to 90220 | | 0.000 | 0.00 | -4,060.33 |
| 9022000. | General Condition | 6 | I | 11/22 | 93739 | 12/14/22 | 11/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.03 |
| 9022000. | General Condition | 6 | I | 11/22 | 93740 | 12/14/22 | 11/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 11/22 | 93741 | 12/14/22 | 11/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | -0.03 |
| 9022000. | General Condition | 6 | I | 11/22 | 93742 | 12/14/22 | 11/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 11/22 | 93743 | 12/14/22 | 11/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 4,396.30 |
| 9022000. | General Condition | 6 | I | 12/22 | 88748 | 01/11/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 12/22 | 88749 | 01/11/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 291.00 |
| 9022000. | General Condition | 6 | I | 12/22 | 88750 | 01/11/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 3,089.38 |
| 9022000. | General Condition | 6 | I | 12/22 | 91674 | 01/16/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 12/22 | 91675 | 01/16/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 12/22 | 91876 | 01/16/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | -291.00 |
| 9022000. | General Condition | 6 | I | 12/22 | 93864 | 01/18/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | -3,089.38 |
| 9022000. | General Condition | 6 | I | 12/22 | 93865 | 01/18/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 12/22 | 93866 | 01/18/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 291.00 |
| 9022000. | General Condition | 6 | I | 12/22 | 93867 | 01/18/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 3,089.38 |
| 9022000. | General Condition | 6 | I | 12/22 | 93868 | 01/18/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | -0.52 |
| 9022000. | General Condition | 6 | I | 12/22 | 93869 | 01/18/23 | 12/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 01/23 | 104826 | 02/08/23 | 01/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | -0.02 |
| 9022000. | General Condition | 6 | I | 01/23 | 104827 | 02/08/23 | 01/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 01/23 | 104828 | 02/08/23 | 01/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 3,550.62 |
| 9022000. | General Condition | 6 | I | 02/23 | 94850 | 03/08/23 | 02/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 6.46 |
| 9022000. | General Condition | 6 | I | 02/23 | 94851 | 03/08/23 | 02/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 2,334.36 |
| 9022000. | General Condition | 6 | I | 03/23 | 98625 | 04/12/23 | 03/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 435.71 |
| 9022000. | General Condition | 6 | I | 03/23 | 98626 | 04/12/23 | 03/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 1,649.87 |
| 9022000. | General Condition | 6 | I | 04/23 | 111709 | 05/10/23 | 04/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 23.67 |
| 9022000. | General Condition | 6 | I | 04/23 | 111710 | 05/10/23 | 04/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 1,836.18 |
| 9022000. | General Condition | 6 | I | 05/23 | 103316 | 06/14/23 | 05/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | -60.54 |
| 9022000. | General Condition | 6 | I | 05/23 | 103317 | 06/14/23 | 05/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 05/23 | 103318 | 06/14/23 | 05/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 2,251.34 |
| 9022000. | General Condition | 6 | I | 06/23 | 98689 | 07/12/23 | 06/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 06/23 | 98690 | 07/12/23 | 06/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.03 |
| 9022000. | General Condition | 6 | I | 06/23 | 98691 | 07/12/23 | 06/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | -1.63 |
| 9022000. | General Condition | 6 | I | 06/23 | 98692 | 07/12/23 | 06/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 0.00 |
| 9022000. | General Condition | 6 | I | 06/23 | 98693 | 07/12/23 | 06/01/23 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 3,336.72 |
| | | | | | | | | | | | | | Total For Phase: 9022000. | 0.00 | | 27,780.46 |
| 9022002. | Gen Liability Insurance | 6 | I | 06/22 | 99580 | 07/13/22 | 06/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 751.99 |
| 9022002. | Gen Liability Insurance | 6 | I | 06/22 | 99581 | 07/13/22 | 06/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | -294.26 |
| 9022002. | Gen Liability Insurance | 6 | I | 06/22 | 99582 | 07/13/22 | 06/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 2,995.64 |
| 9022002. | Gen Liability Insurance | 6 | I | 07/22 | 108351 | 08/10/22 | 07/01/22 | JC | 1 | | | Gen. Liab. INSGLU | | 1.000 | 0.00 | 1,051.42 |
| 9022002. | Gen Liability Insurance | 4 | M | 08/22 | 82523 | 08/30/22 | 08/12/22 | AP | 1 | 1761 | | Flood & Peterson Insurance Agency | 408783 | 0.000 | 0.00 | 323,765.23 |
| 9022002. | Gen Liability Insurance | 6 | I | 09/22 | 83460 | 10/06/22 | 10/06/22 | JC | 1 | | | Mistaken charge and code move to 90220 | | 0.000 | 0.00 | 4,060.33 |

Charge PA #16

Charge PA #16

8565.1000 PA

Recommendations

1. RRS approvers should obtain proper documentation in order to reconcile General Requirements costs previously reimbursed and require supporting documentation for future reimbursement requests.
2. Standard Operating Procedures should be updated to reflect the need for actual invoices as adequate support for reimbursement requests.

The Port has an opportunity to revise its procedures on future TRA projects in order to decrease the potential of reimbursing unallowable or duplicate costs within General Conditions.

- General Conditions (GCs) cover Hensel's indirect costs, such as staff salaries, safety, computers, and site management costs.
- Range of components that may be included in GCs heightens the potential that those costs may be billed elsewhere in the contract, or otherwise unallowable if not properly vetted and monitored.
- Agreement between Hensel and Delta outlined allowable and non-allowable GCs, however, the Agreement allowed Hensel to submit proposed GC costs as a lump sum amount without requiring documentation.
- Risks of allowing lump sum GCs:
 - Short-term staff reduction affecting management
 - Reluctance to spend necessary GC funds
 - Shifting GC costs to subcontractors
 - Moving costs into GCs to avoid scrutiny
 - Early billing of GCs

Recommendations

1. Although we suggest GCs to be reimbursed on a cost basis, if the Port continues to allow TRAs to use lump sum GCs, Port management should, at a minimum, require a detailed expected scope of work in the GC costs prior to agreeing to a GMP.
2. Port management should reimburse no more than the approved GC line item agreed in the GMP (plus any GC increase that may occur from Change Orders). If the General Conditions line item is increased on the Schedule of Values, the Port should require justification prior to approving the change.

Management Response – Issue 1

- The following is a general portion of the response to all recommendations.
- The project team includes: AV Project Management Group, AV Project Controls, Port Risk Management, Port Engineering - Construction Management, AV Business & Properties, and AV Commercial Management. Other necessary departments may be added to this team as the process proceeds.
- A multi-year initiative to reevaluate and change the aspects of the TRA process is underway with Port stakeholders. Some of the measurable improvements are expected to be implemented in 2024 and others in 2025. The recommendations of this internal audit will be incorporated into this effort.
- Management Response to Item #1: The project team agrees with the recommendation in improving future TRA contract language and will work with other project delivery groups and Risk Management to establish clear guidelines as they relate to acceptable insurance requirements and thresholds.

DUE DATE: 12/18/2024

Management will discuss in detail. (Full response in Audit Report No. 2024-01)

Management Response – Issue 2

- The Project Team will work with Aviation Departments that generate TRAs to determine the required documentation for reimbursement for General Requirements. Standard Operating Procedures will be updated to require adequate backup documentation to support reimbursement requests.

DUE DATE: 09/04/2025

Management will discuss in detail. (Full response in Audit Report No. 2024-01)

Management Response – Issue 3

- The project team agrees with the recommendations. TRA contract language will be modified to require, at minimum, a detailed scope of work in General Conditions costs, prior to agreeing to Final GMP. Standard Operating Procedures will be updated to require justification of an increase in General Conditions prior to approving the change.

DUE DATE: 12/18/2024

Management will discuss in detail. (Full response in Audit Report No. 2024-01)

Payment Card Industry (PCI) – Qualified Security Assessor (QSA) Assessment Results

- The 2023 PCI assessment was completed on December 14, 2023, by Secured Net Solutions Inc., an external party, and a Qualified Security Assessor (QSA). The work was performed to assure the Port's compliance with the Payment Card Industry Data Security Standard (PCI DSS) version 3.2.1.
- Organizations that store, process, or transmit credit card data must comply with relevant PCI DSS requirements, and compliance must be attested on an annual basis.
- PCI requires merchants to complete an annual Self-Assessment Questionnaire (SAQ) to verify to their acquirer (merchant bank) that their security controls over credit card data handling meet the PCI requirements.

Payment Card Industry (PCI) – Qualified Security Assessor (QSA) Assessment Results

Item #8

- The Port accepts credit card payments for taxi driver usage fees, moorage services at its marina facilities, and parking at the Seattle-Tacoma International Airport.
- The Port received an overall “**Compliant**” rating, demonstrating full compliance with the PCI DSS.

Pallino SeaTac, LLC

- Internal Audit performed an attestation engagement to assess compliance with the Lease and Concession Agreement.
- We performed specific, agreed-upon procedures to review concession fees for completeness, accuracy, and timeliness.
- Period Reviewed: January 2023 – June 2023.
- **We identified no exceptions.**

Appendix

A – Aging of Outstanding Issues as of March 13, 2024

Appendix A – Aging of Outstanding Issues as of March 13, 2024

Performance, Capital, Information Technology, and Limited Contract Compliance Audits

| Audit Type | Audit Title | Rating | Target Date | Report Date | Days Outstanding (from Report Date) | Days Outstanding (from Target Date) | Issue Owner | Report Finding | Current Status from Management as of 3/13/2024 |
|-------------|--|--------|------------------|-------------|-------------------------------------|-------------------------------------|---|---|--|
| IT | AVM/Facility & Infrastructure Data Centers | High | No date supplied | 12/4/2018 | 1926 | N/A | Director, Aviation Facilities and Capital Program | Physical Access to Facilities All rooms in our sample were protected with varying levels of restricted access. Some were well protected, allowing few individuals access, while others allowed access to hundreds of people with no legitimate business need. | Project PM Response: Access control in communication rooms project just completed 90% Design review. We are scheduled for Commission Authorization for Construction in May 2024. Upcoming Target Milestones: Advertisement in June 2024; Issue NTP (Notice to Proceed) for Construction late September 2024, and Substantial Completion Q4 2025. |
| IT | AVM/Facility & Infrastructure Data Centers | High | No date supplied | 12/4/2018 | 1926 | N/A | Director, Aviation Facilities and Capital Program | Protection Against Environmental Factors Facilities should be protected against fire and water damage. In our sample of 31 rooms, 35% of the rooms did not have fire suppression capability and 55% did not have fire extinguishers. Four rooms had Halon fire extinguishers which are ozone-depleting and do not support the Port's value for being a responsible steward of the environment. | F&I Response: Project U00494 to add clean agent fire suppression in six rooms has been placed on hold since the evaluation of the clean agent product requires a feasibility study on the impact of the product on the user, equipment, environment, and space for installation. There is no timeframe for the feasibility study. The study's scope and work needs to be discussed. Once the fire extinguishers are replaced, the Fire Department will take over inspection and maintenance. |
| Performance | Port-wide Payroll Controls | High | 12/31/2023 | 6/14/2023 | 273 | 73 | Director, Aviation Maintenance | The Maximo System used by the Aviation Maintenance Department (AVM) had generated semi-annual, preventive maintenance work orders for certain retired assets, requiring maintenance staff to spend up to 3 hours for each unnecessary work order over 10 years. | AVM is deleting/or changing the work tasks associated with disposed of or replaced maintenance items in its Computerized Maintenance Management System (CMMS), to eliminate the misreporting or duplication of work required. This will be part of AVM's preventative maintenance optimization (PMO) project that will begin in AVM in 2024. |
| Performance | Airport Parking Garage | High | 12/31/2024 | 11/30/2023 | 104 | -293 | Director, Airport Operations | Complimentary Parking – We identified 603 instances of misuse of complimentary parking cards issued to organizations that have business at the Airport. The cards, and the associated Port policy, allowed their staff to park at the Airport Parking Garage for 24 hours or less. This amounted to approximately \$74,000 in unbilled parking revenue, during our 18-month test period. | The Transportation Access Program Manager is project managing each recommendation to ensure the right staff are working on the appropriate issue in a timely fashion and documenting progress for management. All four recommended items are being worked on towards individual, target completion dates. One item related to card reissue is no longer relevant as a result of the discontinued practice. |
| Performance | Airport Parking Garage | High | 12/31/2024 | 11/30/2023 | 104 | -293 | Director, Airport Operations | Complimentary Parking – The Port needed to enhance controls relating to retrieving and shutting off complimentary parking cards for employees who leave the Port. By looking at the 1,397 active employee parking cards, we identified 99 active cards that were assigned to employees who were no longer employed by the Port, 16 of which continued to use their cards after separation from the Port. | The Transportation Access Program Manager is project managing each recommendation to ensure the right staff are working on the appropriate issue in a timely fashion and documenting progress for management. All three recommended items are being worked on towards individual, target completion dates. One item related to Employee ID number in the parking system is complete as the data field's existence. |

Appendix A – Aging of Outstanding Issues as of March 13, 2024

Performance, Capital, Information Technology, and Limited Contract Compliance Audits

| Audit Type | Audit Title | Rating | Target Date | Report Date | Days Outstanding (from Report Date) | Days Outstanding (from Target Date) | Issue Owner | Report Finding | Current Status from Management as of 3/13/2024 |
|-------------|---|--------|------------------|-------------|-------------------------------------|-------------------------------------|--|--|---|
| Capital | Concourse A Building Expansion for Lounges - Delta TRA | High | 12/18/2024 | 3/13/2024 | 0 | -280 | Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Risk Management Director Aviation & Business Properties | An implicit agreement between Hensel Phelps and the Port's Risk Management Department settled on \$10 Million in Commercial General Liability Insurance (GLI) at an estimated cost of \$559,500. Hensel Phelps subsequently materially overbilled the Port for \$100 Million in GLI, at a cost of \$1,120,784. | Report was just issued. |
| IT | AVM/Facility & Infrastructure Data Centers | Medium | No date supplied | 12/4/2018 | 1926 | N/A | Director, Aviation Facilities and Capital Program | Physical Facilities Management In our sample of 31 rooms, we noted that 52% of the rooms had equipment on the racks that was not properly secured, and that 16% of equipment racks (while securely bolted to the floors) lacked seismic bracing. | F&I Response: F&I is working on an engineering contract with Engineering to provide an assessment for seismic, (2-hour) fire rating, and any additional fire suppression for their communication rooms. The goal is to get as many rooms evaluated as possible. The contract is for work this year. |
| IT | Closed Network Systems Security | Medium | 6/30/2020 | 9/5/2019 | 1651 | 1352 | Chief Information Security Officer | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| IT | Secure Configuration for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers | Medium | 12/31/2021 | 8/21/2020 | 1300 | 803 | Chief Information Security Officer | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| IT | Secure Configuration for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers | Medium | 12/31/2021 | 8/21/2020 | 1300 | 803 | Chief Information Security Officer Director, Aviation Maintenance | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| IT | Account Management - ICT | Medium | 6/1/2023 | 3/15/2022 | 729 | 286 | Chief Information Officer | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| IT | Security Awareness and Skills Training | Medium | 6/1/2023 | 3/23/2023 | 356 | 286 | Chief Information Security Officer | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| IT | Security Awareness and Skills Training | Medium | 6/1/2023 | 3/23/2023 | 356 | 286 | Chief Information Security Officer | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| Performance | Port-wide Payroll Controls | Medium | 1/31/2024 | 6/14/2023 | 273 | 42 | Chief Information Officer | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| IT | Email and Web Browser Protections (ICT and AVM) | Medium | 3/31/2024 | 8/29/2023 | 197 | -18 | Chief Information Officer | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| IT | Email and Web Browser Protections (ICT and AVM) | Medium | 3/31/2024 | 8/29/2023 | 197 | -18 | Chief Information Officer Director, Aviation Maintenance | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| IT | Email and Web Browser Protections (ICT and AVM) | Medium | 3/31/2024 | 8/29/2023 | 197 | -18 | Chief Information Officer Chief Information Security Officer | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |

Appendix A – Aging of Outstanding Issues as of March 13, 2024

Performance, Capital, Information Technology, and Limited Contract Compliance Audits

| Audit Type | Audit Title | Rating | Target Date | Report Date | Days Outstanding (from Report Date) | Days Outstanding (from Target Date) | Issue Owner | Report Finding | Current Status from Management as of 3/13/2024 |
|-----------------------------|--|--------|-------------|-------------|-------------------------------------|-------------------------------------|--|--|---|
| Limited Contract Compliance | Seattle Air Ventures | Medium | 6/30/2024 | 11/29/2023 | 105 | -109 | Director, Aviation Commercial Management | In 2021, a variance of \$142,500 in gross sales was reported between the externally audited financial statements and the amount previously reported to the Port. We also identified differences between point-of-sale revenue and the general ledger. | No update requested for this audit period. Follow up will be performed prior to June 30, 2024. |
| Performance | Airport Parking Garage | Medium | 6/1/2024 | 11/30/2023 | 104 | -80 | Director, Airport Operations | Complimentary Parking – Controls to deactivate complimentary parking cards at the end of lease agreements, were not functioning as intended. From a sample of ten, we identified one terminated lessee whose parking card was still active and continued to be used. | The Transportation Access Program Manager is project managing each recommendation to ensure the right staff are working on the appropriate issue in a timely fashion and documenting progress for management. All four recommended items are being worked on towards individual, target completion dates. |
| Performance | Airport Parking Garage | Medium | 11/30/2024 | 11/30/2023 | 104 | -262 | Director, Airport Operations | Complimentary Parking – Controls to deactivate complimentary parking cards at the end of a 12-month duration (unless reapplied and renewed), for contractors, consultants, and airline workers, were not functioning as intended. Online request forms were not used or, if used, some were incomplete or inaccurately reflected in the parking system. | The Transport Access Program Manager is project managing each recommendation to ensure the right staff are working on the appropriate issue in a timely fashion and documenting progress for management. All four recommended items are being worked on towards individual, target completion dates. |
| IT | Network Infrastructure Management (AVM) | Medium | 12/31/2026 | 12/8/2023 | 96 | -1023 | Director, Aviation Maintenance | Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session | |
| Capital | Concourse A Building Expansion for Lounges - Delta TRA | Medium | 9/24/2025 | 3/13/2024 | 0 | -560 | Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Aviation & Business Properties | Hensel Phelps' request for Reimbursement Submittal (RSS) for General Requirements did not include adequate supporting documentation. | Report was just issued. |
| Capital | Concourse A Building Expansion for Lounges - Delta TRA | Medium | 12/18/2024 | 3/13/2024 | 0 | -280 | Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Aviation & Business Properties | The Port has an opportunity to revise its procedures on future TRA projects in order to decrease the potential of reimbursing unallowable or duplicate costs within General Conditions. | Report was just issued. |

INTERNAL AUDIT REPORT

Operational - Capital Audit

Concourse A Building Expansion for Lounges - Delta TRA



Source: Internal Audit Photo

November 2021- January 2024

Issue Date: March 13, 2024

Report No. 2024-01

This report is a matter of public record, and its distribution is not limited. Additionally, in accordance with the Americans with Disabilities Act, this document is available in alternative formats on our website.

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Executive Summary

We completed an audit of the Concourse A Building Expansion for Lounges - Delta TRA Project for the period November 2021 through January 2024. The audit was performed to provide a systematic and independent examination of the quality of the Port's monitoring of the Project, determine if best practices are being followed, verify compliance with contractual requirements, and identify potential risks that may affect the Project's schedule and budget.

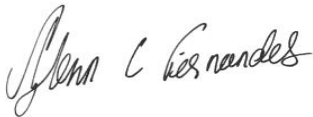
Delta Air Lines (Delta), in partnership with the Port of Seattle (Port), designed and is constructing an addition to the shell and core of the Concourse A building, located at the Seattle-Tacoma International Airport (SEA), which will house Delta's second Sky Club. The Project is being performed through a Tenant Reimbursement Agreement (TRA) between Delta and the Port. Delta is responsible for the Delta Lounge interior buildout costs while the Port is responsible for the remaining Project costs. Upon completion, there will be a new Delta Sky Club lounge and an updated *Club at SEA* lounge. The new building will add approximately 52,000 square feet and will include more than 36,000 square feet of new leasable space.

The TRA is being administered as a Guaranteed Maximum Price (GMP) contract in the amount of approximately \$133.7 million, of which \$111.5 million is the Port's responsibility. As this is a cost based GMP Agreement, the Contractor has the ability to move amounts between line items in the Schedule of Values, and it is warranted that a final GMP cost reconciliation audit be performed prior to final payment.

Overall, we determined that the multiple Port departments involved are actively monitoring the progression of the Project and following current Port procedures. We did identify opportunities for the Port to improve processes for this Project and future TRA projects. These opportunities are listed below and discussed in more detail beginning on page six of this report.

1. **(High)** An implicit agreement between Hensel Phelps and the Port's Risk Management Department settled on \$10 Million in Commercial General Liability Insurance (GLI) at an estimated cost of \$559,500. Hensel Phelps subsequently materially overbilled the Port for \$100 Million in GLI, at a cost of \$1,120,784.
2. **(Medium)** Hensel Phelps' Request for Reimbursement Submittal (RRS) for General Requirements did not include adequate supporting documentation.
3. **(Medium)** The Port has an opportunity to revise its procedures on future TRA projects in order to decrease the potential of reimbursing unallowable or duplicate costs within General Conditions.

We would like to extend our gratitude to the Port's Project Management Group, Engineering Construction Management team, Diversity in Contracting team, and the Risk Management team for their assistance and expertise during the engagement.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Rick Duncan, Director, Aviation Business & Properties
Eileen Francisco, Director, Aviation Project Management Group
Karen Goon, Deputy Executive Director
Jeff Hollingsworth, Director, Risk Management
Nora Huey, Director, Central Procurement Office
Jason Johnson, Senior Manager Airline Affairs & Aviation Properties
Janice Zahn, Director of Engineering

Background

Delta, in partnership with the Port, designed and is constructing an addition to the shell and core of the Concourse A building that will house Delta's second Sky Club. The Project is being performed through a TRA between Delta and the Port. Delta is responsible for the interior buildout costs of the Delta lounge, within the new building shell, while the Port is responsible for the remaining Project costs. Upon completion, there will be a new Delta Sky Club lounge and an updated *Club at SEA* lounge. The new building will add approximately 52,000 square feet and will include more than 36,000 square feet of new, leasable space. The total contracted amount off the Project is approximately \$133.7 million. The Port's responsibility was originally estimated at approximately \$90 million which subsequently increased to \$111.5 million.

The Scope of Work of this project includes:

1. Adding approximately 52,000 square feet that will provide shell space for two lounges and associated building systems.
2. Reconfiguring existing space to provide: additional leasable office area, an entry foyer, a replacement restroom, and vertical circulation.
3. Demolishing an existing airport building and constructing a new building to house the relocated Aviation Maintenance Department Passenger Loading Bridge.
4. Providing temporary restrooms for the Port's common use lounge in order to keep the lounge operational during construction.

In addition, the Project required enabling work so that Concourse A could remain operational during the underground utility work and construction. This included the relocation of a Maintenance Department Passenger Loading Bridge shop, vendor receiving, compactors, emergency dispersal area, a portion of the Airport Operational Area fence, employee bus turnaround, and maintenance vehicle parking.

The Project, specifically authorized by Delta, represents a strategic response to shifting passenger demand from the South Satellite to Concourse A following the opening of the International Arrivals Facility. With insufficient space to meet this demand, the Port agreed to permit Delta to design and construct the lounge addition in undeveloped space.

This project is identified as a Tier Two project under the Port's Sustainable Evaluation Framework. The project team examined sustainability concepts, including a triple-glazed electrochromic façade, all-electric appliances, low-flow water fixtures, signage for public transportation, an employee breakroom, and three new electric vehicle charging stations.

There were three budget adjustment requests during the Project based primarily on the progression of the Project's status (a more accurate cost estimate as the design reached 100%), lack of a final GMP, escalation in materials, and delays in construction.

Audit Scope and Methodology

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

In some instances, we used judgmental sampling methods to determine the samples selected for our testing. In those cases, the results of the work may not represent the population as a whole.

The period audited was November 2021 through January 2024 and included the following procedures:

Women and Minority Business Enterprise (WMBE) Utilization Goals

- Obtained an understanding of how Port management was monitoring Hensel Phelps's (Hensel) compliance with utilization goals.
- Obtained a list of subcontractors and their contract values.
- Identified subcontractors who met the WMBE qualifications.
- Calculated the total WMBE subcontractors compared to the total Eligible Tenant Improvement value.

Insurance Test

- Identified subcontractors participating in the Contractor Controlled Insurance Program (CCIP).
- Reviewed their contracts and bid packages to ascertain the inclusion of General Liability Insurance (GLI).
- Verified the removal of participating subcontractors' GLI from the CCIP amount in the GMP.
- Collaborated with the Port's Director of Risk Management to review final insurance documents, determined whether insurance coverage met the Port's requirements, and assessed the potential for cost reductions.

General Requirements/General Conditions

- Obtained an understanding on how the Port was monitoring HP's compliance with the agreement regarding General Conditions (GC) and General Requirements (GR).
- Obtained supporting documents for GC and GR charges.
- Reviewed evidence to assess the allowability of charges.
- Determined whether GCs were billed on a reasonable percentage of project completion basis.

Schedule of Observations and Recommendations

1) Rating: High

An implicit agreement between Hensel Phelps and the Port's Risk Management Department settled on \$10 Million in Commercial General Liability Insurance (GLI) at an estimated cost of \$559,500. Hensel Phelps subsequently materially overbilled the Port for \$100 Million in GLI, at a cost of \$1,120,784.

Per *Exhibit E- Minimum Insurance Requirements* in the Tenant Reimbursement Agreement (TRA), The Commercial General Liability insurance (GLI) "per occurrence" limit is required to be a minimum of \$15 million. Per discussion with Risk Management, the intent of the Port was to have contractors maintain \$15 million in GLI, not materially more and that it will reimburse insurance costs up-to the required coverage limits. However, the contract wording says, "not less than" rather than "will be", allowing General Contractors to meet this provision in form rather than as intended by Risk Management.

Prior to approval of the Final Guaranteed Maximum Price (GMP), Hensel inquired whether the Port was willing to decrease the Commercial GLI "per occurrence" limit from \$15 million to \$10 million. Justification for the request was that Hensel felt the Port's insurance limits were high and costly for subcontractors to obtain. Through email discussion, the Port's Risk Management team agreed to the request, thereby creating an implicit agreement that the estimated cost would be \$559,500 for the \$10 million in Commercial GLI.

During the Project, however, Hensel submitted insurance invoices totaling \$1,120,784, which included general liability insurance limits of \$100 million "per occurrence". The Port has deferred reimbursement of the submitted insurance costs until final approval from Risk Management.

We also noted, that for the final agreed to GMP, the Port's estimator used Hensel's proposed insurance costs of \$1,725,182. If Risk Management's estimate was used, the final GMP could have potentially been \$1,165,685 million less.

Contractor Controlled Insurance Program (CCIP)

Hensel utilized a CCIP on this Project. The purpose of a CCIP is to consolidate insurance coverage for all parties on a job site into one blanket policy controlled by Hensel. A CCIP eliminates the need for individual contractors, and subcontractors, to obtain coverage on their own and provides Hensel comfort that sufficient coverage is in place. Although there are benefits, there are also risks to the Port when a CCIP is used.

In order to address the risks associated with CCIPs, with the assistance of the Port's Project Management Group, we made multiple requests to obtain subcontractor bid documents and subcontracts. Although there are "Right to Audit" clauses in both the Agreement between Delta and Hensel, and the TRA, Hensel refused to provide the documents citing that they "did not see the need," although we explained the audit reasons for the requested documents. Accordingly, our audit scope was limited, and we are unable to conclude whether subcontractor contracts included additional insurance that was being passed on to the Port, any insurance credits were properly passed on to the Port, or that other risks, described in **Appendix B**, did not occur.

Recommendations:

- 1.1 Contract insurance language should be updated to outline both minimum and maximum insurance requirements that will be reimbursed, thereby preventing the Port from incurring costs for additional insurance coverage.
- 1.2 TRA language should be updated to specifically describe the documents that are subject to audit and consequences if those documents are not provided when requested.

1.3 Risk Management should make the determination on what the final reimbursable insurance cost should be. Additionally, the total GMP should be adjusted accordingly.

1.4 When estimating a GMP, Port estimators should use amounts recommended by Risk Management instead of amounts proposed by contractors.

Management Response/Action Plan:

The following is a general portion of the response to all recommendations.

The project team includes: AV Project Management Group, AV Project Controls, Port Risk Management, Port Engineering - Construction Management, AV Business & Properties, and AV Commercial Management. Other necessary departments may be added to this team as the process proceeds.

A multi-year initiative to reevaluate and change the aspects of the TRA process is underway with Port stakeholders. Some of the measurable improvements are expected to be implemented in 2024 and others in 2025. The recommendations of this internal audit will be incorporated into this effort.

Management Response to Item #1: The project team agrees with the recommendation in improving future TRA contract language and will work with other project delivery groups and Risk Management to establish clear guidelines as they relate to acceptable insurance requirements and thresholds.

DUE DATE: 12/18/2024

2) Rating: Medium

Hensel Phelps' Request for Reimbursement Submittal (RRS) for General Requirements did not include adequate supporting documentation.

General Requirements (GRs) are also called direct costs which include Hensel Phelps' staff costs performing various functions for the job, including performing security, setting up barricades... etc. It also includes related equipment purchases and rentals. Article 4.2 of the Agreement between Hensel and Delta specified costs that are reimbursable, while Article 4.4 listed items that were not reimbursable. The current contracted amount for GRs is \$3,237,881. Of that amount, the Port's portion is \$2,326,281 for work on the core and shell. As of December 2023, Hensel billed \$536,477 in GRs, of which \$417,743 has been reimbursed.

During our engagement, we noted that Hensel submitted Job Cost Detail Report printouts from its accounting system, instead of actual invoices to support GR costs. In accordance with standard practices and Exhibit D §3 of the TRA, which states, in part, "Reasonable documentation establishing that Tenant has incurred all costs for which reimbursement is sought," monthly RRSs should include copies of invoices or other supporting documentation for each GR expense. Without actual invoices, it is difficult for the reviewer to ensure requested expenses are appropriate, belong to the specific project, invoiced to the contractor, align with project expectations, and requested amounts and dates are accurate.

Recommendations:

- 2.1 RRS approvers should obtain proper documentation, in order to reconcile GR costs previously reimbursed and require supporting documentation for future reimbursement requests.
- 2.2 Standard Operating Procedures should be updated to reflect the need for actual invoices as adequate support for reimbursement requests.

Management Response/Action Plan:

The Project Team will work with Aviation Departments that generate TRAs to determine the required documentation for reimbursement for General Requirements. Standard Operating Procedures will be updated to require adequate backup documentation to support reimbursement requests.

DUE DATE: 09/24/2025

3) Rating: Medium

The Port has an opportunity to revise its procedures on future TRA projects in order to decrease the potential of reimbursing unallowable or duplicate costs within General Conditions.

General Conditions (GCs) describe how a contractor will fulfill the requirements of a project. GCs also cover a contractor's indirect costs, such as staff salaries, safety, computers, and site management costs. The range of components that may be included in GCs heightens the potential that those costs may be also billed elsewhere in the contract, or otherwise unallowable if not properly vetted and monitored. The Port's portion of GC reimbursable costs is approximately \$6.6 million.

Article 4 of the Agreement between Hensel and Delta outlined allowable and non-allowable GCs, however, the Agreement allowed Hensel to submit its proposed GC Costs as a lump sum amount, without requiring documentation supporting the components in its Final Guaranteed Maximum Price (GMP) proposal. During our meeting with the Port's Cost Estimator, we learned that professional judgment was used to determine the GC line item on the GMP instead of reviewing cost components. We note that there are benefits to using lump sum GCs, including reducing the documentation that needs to be reviewed monthly Reimbursement Submittal. However, there are limitations, such as:

- A contractor may try and save money in the short term by reducing staff at the expense of proper management.
- A contractor's direct costs may increase, and if the contingency is built in to the GMP as a separate line item (as the case on this project), the Port would pay all of the increase in direct costs and receive no savings in the lump sum general conditions.
- A contractor may be reluctant to spend more, although necessary, general condition money to get more supervision or engineering support if it looks as if the general conditions budget were in jeopardy.
- A contractor may attempt to shift general condition costs to direct construction costs by requiring subcontractors to pick up some of those costs in their contracts.
- A contractor may move "cost of work" line-item amounts into the GC line item, knowing that there would not be scrutiny of the costs.
- A contractor may attempt to bill all GCs early in the Project.

Given the risks previously mentioned, a better business practice would be for the Port to either reimburse actual GCs or require a contractor to include documentation supporting the components of GCs prior to negotiating a GMP.

Recommendations:

- 3.1 Although we suggest GCs to be reimbursed on a cost basis, if the Port continues to allow TRAs to use lump sum GCs, Port management should, at a minimum, require a detailed expected scope of work in the GC costs prior to agreeing to a GMP.
- 3.2 Port management should reimburse no more than the approved GC line item agreed in the GMP (plus any GC increase that may occur from Change Orders). If the General Conditions line item is increased on the Schedule of Values, the Port should require justification prior to approving the change.

Management Response/Action Plan:

The project team agrees with the recommendations. TRA contract language will be modified to require, at minimum, a detailed scope of work in General Conditions costs, prior to agreeing to Final GMP. Standard

Operating Procedures will be updated to require justification of an increase in General Conditions prior to approving the change.

DUE DATE: 12/18/2024

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

| Rating | Financial/ Operational Impact | Internal Controls | Compliance | Public | Commission/ Management |
|---------------|--|--|--|--|--------------------------------------|
| High | Significant | Missing or partial Controls | Non-compliance with Laws, Port Policies, Contracts | High probability for external audit issues and / or negative public perception | Requires immediate attention |
| Medium | Moderate | Partial controls or controls not functioning effectively | Partial compliance with Laws, Port Policies, Contracts | Moderate probability for external audit issues and / or negative public perception | Requires attention |
| Low | Minimal | Functioning as intended but could be enhanced | Mostly complies with Laws, Port Policies, Contracts | Low probability for external audit issues and/or negative public perception | Does not require immediate attention |

Appendix B: Contractor Controlled Insurance Program (CCIP) Risks

The following risks are associated with CCIP as described by HPM Audit & Contract Services.¹

A way to overcharge involves the General Contractor including the agreed to CCIP cost in subcontract values and includes it as a line item in the Schedule of Values. The General Contractor adds a percentage to the low bid subcontractor's price for the CCIP insurance that is actually being purchased by the General Contractor even though the General Contractor has no intention of paying this amount to the subcontractor. The Owner is then asked to pay the General Contractor upfront most, or all, of the CCIP amount. The Owner is not aware that the General Contractor has included a similar amount in the subcontracts as well. The General Contractor then requires the subs to bill all of this extra insurance in their first pay application. The General Contractor collects this insurance amount from the Owner in addition to the CCIP amount disclosed in the pay application, pays the sub only the subs actual cost, not the CCIP amount that the sub was asked to bill, and therefore collects twice, or close to twice, the CCIP estimated amount from the Owner very early in the project. If the Owner catches on at the end of the project, then the total CCIP cost is reconciled, but the General Contractor has had the Owners money for a year or more.

A second issue is requiring the subs to provide proof of additional insurance. On this last point we have seen recently where smaller subs who did not meet the GL requirements of a certain General Contractor were required to buy insurance at higher limits. This additional insurance was then added to the subs bid, thereby increasing the bid, and increasing the cost to the Owner.

Another risk associated with CCIP is determining whether insurance credits received from subcontractors are tabulated properly and that the total of these credits are the same as the contractors charge for the CCIP program. HPM provided the following example of an overcharge:

A subcontractor indicated that recently they had turned in a bid with insurance of approximately \$1,000,000. The insurance credit offered was \$50,000, making the net subcontract bid of \$950,000. When the subcontract was issued to this subcontractor, they were confused by the fact that the gross subcontract was \$1,050,000 and the CCIP credit was now \$100,000. While the net subcontract amount was still the same amount of \$950,000, the changed items did not make sense to the subcontractor. It appears as if the contractor is trying to justify a higher cost of insurance to bill the owner. Assuming all things being equal, the contractor can make more money on the CCIP program by increasing the apparent cost of the subcontractor insurance.

Without inspecting the original subcontractor bids and subcontractor contracts, this sort of deception is hard to detect.

¹ HPM Audit & Contract Services Newsletter, *Contractor Controlled Insurance Program Cost*, Volume 19, No.2, July 2006
HPM Audit & Contract Services Newsletter, *Some New CCIP Overcharges*, Volume 21, No.1, March 2008

INTERNAL AUDIT REPORT



Information Technology Audit
Payment Card Industry (PCI) QSA Assessment Results
Self-Assessment Questionnaire

Issue Date: March 13, 2024
Report No. 2024-03

This report is a matter of public record, and its distribution is not limited. Additionally, in accordance with the Americans with Disabilities Act, this document is available in alternative formats on our website.

Executive Summary

The Payment Card Industry (PCI), through banking and card-brand agreements, requires merchants like the Port of Seattle (Port), to complete an annual Self-Assessment Questionnaire (SAQ). The SAQ is in essence an audit performed to verify to the Port's acquirer (merchant bank), that the Port's security controls over credit card data processing, meet the PCI requirements. The PCI Standards Council cybersecurity requirements are reflected in the SAQ. They are periodically updated and are prescriptive in nature.

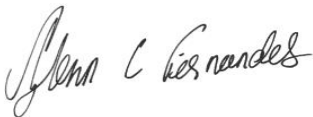
The 2023 PCI assessment was completed on December 14, 2023, by Secured Net Solutions Inc., an external party, and a Qualified Security Assessor (QSA). The work was performed to assure the Port's compliance with the Payment Card Industry Data Security Standard (PCI DSS) version 3.2.1. Organizations that store, process, or transmit credit card data must comply with the relevant PCI DSS requirements, and compliance must be attested on an annual basis.

The Port accepts credit card payments for taxi driver usage fees, moorage services at its marina facilities, and parking at the Seattle-Tacoma International Airport. The assessment focused on the Port's critical systems, including web and application servers, workstation kiosks, transmission of cardholder data out to the payment processors, and the Parking Revenue Control System, including Point of Sale swipe devices and network devices.

The Port received an overall **COMPLIANT** rating, demonstrating full compliance with the PCI DSS.

The following SAQs and AOC's (Attestation of Compliance) were completed by the Port's QSA:

- Self-Assessment Questionnaire (SAQ) A – Taxi Management System
- Self-Assessment Questionnaire (SAQ) - P2PE (Point to Point Encryption) – PRCS (Parking Revenue Control System)
- Self-Assessment Questionnaire (SAQ) - P2PE – MVMS (Marina Vessel Management System)
- Attestation of Compliance (AOC) for Self-Assessment Questionnaire (SAQ) A – Taxi Management System
- Attestation of Compliance (AOC) for Self-Assessment Questionnaire P2PE – PRCS
- Attestation of Compliance (AOC) for Self-Assessment Questionnaire P2PE – MVMS



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Dan Thomas, Chief Financial Officer
Matt Breed, Chief Information Officer
Ron Jimerson, Chief Information Security Officer

INTERNAL AUDIT

ATTESTATION ENGAGEMENT - AGREED UPON PROCEDURES

Pallino SeaTac, LLC

January 2023 – June 2023

Issue Date: March 18, 2024

Report No. 2024-02

This report is a matter of public record, and its distribution is not limited. Additionally, in accordance with the Americans with Disabilities Act, this document is available in alternative formats on our website.

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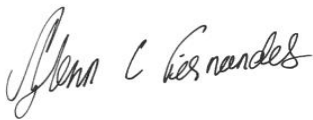
Internal Audit completed an attestation engagement to assess compliance with the Lease and Concession Agreement (Agreement) between Pallino SeaTac, LLC and the Port of Seattle (Port).

The period reviewed was January 1, 2023, through June 30, 2023.

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards. Internal Audit did not conduct an examination or a review of the subject matter, the objective of which would be the expression of an opinion or a conclusion. Had we performed additional procedures, other matters may have come to our attention that would have been reported. The procedures and results are captured below.

Procedures Performed

1. Validated that percentage fees were calculated correctly and in accordance with the lease revenue thresholds.
Result: We identified no exceptions.
2. Agreed the concessionaire's monthly general ledger sales data to what was provided to the Accounting & Financial Reporting Department.
Result: We identified no exceptions.
3. Agreed point of sale summary reports to the general ledger.
Result: We identified no exceptions.
4. Reviewed the Profit & Loss statements for variances.
Result: We identified no exceptions.
5. Reviewed a random sample of invoices to determine if they were paid on time and for the full amount charged.
Result: We identified no exceptions.



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Director, Internal Audit