



Port of Seattle

State Auditor Report Responses

And Action Plan

May 30, 2008

The table below addresses 51 recommendations submitted to the Port of Seattle following the Washington State Auditor's Office report focusing on Port construction practices. The first two recommendations, shown in blue (OA1, OA2), are overarching for the Port in general, and others, numbered 1 – 49, are specific to construction and contracting practices. The latest activities, listed under Action Steps, will be shaded orange, and then green as they are completed. Use the search feature to navigate through the document.



Overarching Recommendations



Latest Activity



Action Completed

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/REMARKS
--------------------	---------------	--------------	----------------	----------------------	----------------

RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/REMARKS
<p>OA1. The Port should establish a senior-level Chief Procurement Officer (CPO) position. This official should report directly to the [Port] CEO and be responsible for managing and overseeing all procurement-related activity. This official should have authority to hire trained and independent procurement officials who will be charged with reviewing and approving all procurement-related transactions. Current delegations of authority related to procurement – contract awards, approval of contract changes and amendments, and related activities involving expenditure of public funds related to construction and construction management – should be rescinded and re-assigned to the CPO and her or his staff.</p>	<p>The Port agrees this recommendation has merit. A team is in place, and work is already underway to identify and evaluate procurement models in other organizations that engage in major construction projects. With the help of an outside facilitator experienced in capital project delivery, the team is reviewing and analyzing several options for mission, role, personnel, reporting location, and structure of a Chief Procurement Office (or similar functional unit) over the next several weeks. The Port's CEO has asked the team to provide him with an outline of options and a preferred recommendation within 90 days. A necessary period of implementation planning will follow, but the CEO anticipates that the new unit or department can be operational by June 1, 2008. The working team includes representatives from the Port's executive, legal, project management, engineering, and purchasing staffs.</p>	<p>Port Chief Executive Officer (CEO) directed Port staff to review options and best practices for procurement systems, and recommend organizational and process change to CEO by March 15, 2008.</p>	<p>Deputy CEO Procurement Recommendation Team</p>	3/15/08	<p>The Port has published the CPO organizational chart and implemented interim measures for the procurement of construction contracts, consulting services, and the purchase of goods and services.</p> <p>Interim CPO named.</p>
		<p>OA1.a Outside facilitator with extensive procurement expertise hired in November 2007.</p>		11/2007	
		<p>OA1.b Internal Procurement Recommendation Team assembled in December 2007. Team includes representatives from major procurement centers within the Port.</p>		12/2007	
		<p>OA1.c Procurement Recommendation Team meets weekly.</p> <p>Implement functional centralized procurement office.</p>		3/13/08 6/1/08	
		<p>OA1.d Prepare job description, advertise, and select Chief Procurement Officer.</p>		3/15/08	
<p>OA1.e Complete necessary organizational logistics.</p>	6/1/08	<p>Interviews are complete and the selection process is underway.</p>			

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
	<p>particular, the team is charged with providing specific recommendations for process improvements and enhanced checks and balances for project-wide contracting authority, as well as increased public visibility and Commission participation for larger construction projects. The CEO then will share these recommendations with the Commission.</p>				
<p>1. We recommend that {The Port} immediately implement and strengthen control procedures to assure that Engineers' change order estimates are (a) prepared without knowledge of the contractors' proposed amounts, and (b) change order estimates and cost analyses are fully and completely documented. Where cost or price analysis is used to evaluate change order proposals, [the Port] should require full and complete documentation of these reviews, including fully documented supervisory reviews and approvals.</p>	<p>The Port will review its change order control procedures and will implement changes where warranted to ensure alignment with industry best practices. The Port has already begun, and will continue, to make improvements as part of the 37-point action plan from the TKW performance audit, and it will incorporate the Performance Auditor's additional recommendations into that action plan as appropriate. The Port agrees that independent estimates, cost analysis and secondary reviews of contractor change order proposals are vital to transparency and accountability and will ensure that these estimates and reviews are well-documented in the files.</p>	<p>The Port has implemented and strengthened control procedures for change orders as follows:</p> <p><u>Immediate Action:</u></p> <p>1. a All change orders are double checked by a Construction Manager (CM) and a Contract Administrator (CA) before they are executed by the Port.</p> <p>1. b Provide training to ensure compliance for each Resident Engineer (RE), CM and CA on current requirements for change order estimates and document training specifics.</p> <p><u>Additional Action:</u></p> <p>1. c Evaluate documentation of analyses of estimates and make recommendations for standardization and consistency.</p> <p>1. d Establish a policy outlining when a change order request requires a</p>	<p>Project Management, Engineering & Construction (PMEC)</p>	<p>1/24/08</p> <p>3/5/08</p> <p>6/5/08</p>	<p>Part of this work is currently ongoing under TKW Item 7. Complete.</p> <p>Complete</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
		<p>separate estimate in lieu of a direct evaluation of the existing contractor's change order proposal.</p> <p>1.e Coordinate policy and procedures with the Chief Procurement Office.</p> <p>1.f Update CM and CA manuals to reflect new processes and procedures.</p> <p>1.g Provide training to CMs, CAs, Port Construction Services (PCS) and Project Management Group (PMG) on new cost estimate procedures.</p>			<p>Training course and content in development. Construction and Contract Management training scheduled for May 30th and June 2nd.</p>
<p>2. We recommend that [the Port] undertake a review of all major recent and ongoing projects to identify cases where engineers' estimates and contractors' proposed amounts are consistently the same and, in such cases, undertake a further evaluation of the underlying causes; followed by remedial actions as appropriate.</p>	<p>The Port has begun a review of change orders and trend logs to identify similarities between Port estimated costs and contractor proposed amounts. The Port will take remedial action as appropriate and also apply the process improvements described above in Recommendation 1.</p>	<p>The Port will review current project trend logs, identify inconsistencies and note corrective actions or evaluate recommendations.</p> <p><u>Immediate Action:</u> 2.a Identify all cases where engineers' estimates and contractors' proposed amounts are consistently the same and determine underlying causes.</p> <p><u>Additional Action:</u> 2.b Review matches identified and recommend remedial action.</p>	<p>Construction Manager</p> <p>Internal Audit Manager</p> <p>Internal Audit</p>	<p>8/31/08</p> <p>3/5/08</p> <p>TBD</p> <p>TBD</p>	<p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>4. We recommend that [the Port] develop Standard Operating Procedures (SOPs) that align with industry practices. Current [Port] SOPs do not provide adequate information regarding change order negotiations.</p>	<p>As noted in the Port's response to Recommendation 3, the Port has begun revisions to its procedures manual to better conform to industry best practices.</p>	<p>Procurement Office (CPO), which will provide quality control, oversight and continuous improvement.</p> <p>The Port will develop standard operating procedures that align with best industry practices and will take the following steps:</p> <p><u>Immediate Action:</u></p> <p>4.a A negotiation summary will be reviewed by a CM and a CA before the Port executes any change order.</p> <p>4.b Provide training in conjunction with change order training described in 3.a.</p> <p><u>Additional Action:</u></p> <p>4.c Determine best industry practice for change order negotiations.</p> <p>4.d Identify differences, if any, between best industry practices and those applicable to Port operations.</p> <p>4.e Develop and/or revise current Port standards.</p> <p>4.f Provide training to appropriate staff.</p>	<p>PMEC</p>	<p>1/24/08</p> <p>3/5/08</p> <p>6/5/08</p> <p>6/5/08</p>	<p>scheduled for May 30th and June 2nd.</p> <p>Complete.</p> <p>Complete</p> <p>Training course and content in development. Construction and Contract Management training scheduled for</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/REMARKS
<p>5. [Port] management should take immediate steps to assure that [the Port] rigorously enforces all contractual schedule requirements. Then, when requests for time extensions are made, they can and should be properly evaluated. [The Port] should also provide more oversight of the Change Order process to ensure that estimates are properly created and used.</p>	<p>The Port will review its practices of contract schedule enforcement and the evaluation of time extension requests to identify where further improvements can be made. The Port will pay specific attention to the practices of other state and local agencies with respect to scheduling and enforcement when conducting this review.</p>	<p>The Port's response to change order estimates is addressed under Recommendation 1.</p> <p>Port management will immediately ensure that the Port enforces, consistent with best practices, all contractual requirements for preparation and submission of schedules by taking the following steps:</p> <p><u>Immediate Action:</u></p> <p>5.a Provide training on current contract schedule requirements for CM and CA staff.</p> <p>5.b Review all active projects for compliance with contractual schedule requirements.</p> <p>5.c If any contracts are not in compliance with contractual schedule requirements, the Port will implement enforcement consistent with the project specifications.</p> <p><u>Additional Action:</u></p> <p>5.d Review industry best management practices for specifying and implementing schedule enforcement.</p> <p>5.e Implement any improvements identified in item 5.d.</p> <p>5.f Provide training to CM, CA, PCS and PMG on revised procedures.</p>	<p>PMEC</p>	<p>3/15/08</p> <p>4/4/08</p> <p>4/4/08</p> <p>6/5/08</p> <p>7/31/08</p> <p>8/1/08</p>	<p>May 30th and June 2nd.</p> <p>Complete</p> <p>Complete.</p> <p>Complete.</p> <p>Training course and content in</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/REMARKS
					development. Construction and Contract Management training scheduled for May 30 th and June 2 nd .
<p>6. We recommend that [the Port] immediately cease its informal method of resolving change order differences, and that [the Port] improve its change order documentation requirements to include that details of change order negotiations must be based on discussions of scope/means and methods/pricing differences.</p>	<p>The Port concurs that change order negotiations should be based on all relevant factors, including formal schedule, scope, means, methods, pricing, and operational considerations. Improvements to standard procedures that are underway will emphasize change order documentation training, including a focus on the above factors.</p>	<p>The Port immediately ceased any informal method of resolving change order differences.</p> <p><u>Immediate Action:</u> 6.a Port staff was notified that this practice is no longer permitted. 6.b A negotiations summary must be reviewed by a CM and a CA before a change order can be executed by the Port.</p> <p><u>Additional Action:</u> 6.c All change order negotiations will be fully documented. 6.d Change order documentation will be improved as outlined in Recommendations 1, 3, 4 and 5. 6.e Port management will provide interim guidance until revised processes and procedures are put in place.</p>	<p>PMEC</p>	<p>1/24/08 1/24/08 6/5/08 6/5/08</p>	<p>Complete. Complete.</p>
<p>7. We recommend that [the Port]</p>	<p>The Port will undertake additional</p>	<p>Using a statistical sampling methodology, Internal Audit will review Port construction</p>	<p>Internal Audit Manager</p>	<p>8/31/08</p>	

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>undertake a review of the change orders negotiated and approved under all contracts to determine if there were other incorrect mark-ups on change orders.</p>	<p>review of change orders using procedures consistent with accepted auditing standards to determine whether other incorrect mark-ups on change orders exist.</p>	<p>contracts and determine whether the Port has paid for other incorrect mark-ups. In addition to the statistical sample mentioned above, Internal Audit will use a risk-based audit approach to test other contracts that might be vulnerable to payment of incorrect mark-ups.</p> <p><u>Immediate Action:</u> 7.a Obtain State Auditor’s Office (SAO) confirmation of the sampling and risk-based audit methodology that will be used.</p> <p>7.b Review those contracts identified by the sampling and risk-based audit methodology.</p> <p><u>Additional Action</u> 7.c Determine if further review is necessary, based on outcome of the immediate action.</p> <p>7.d Implement cost recovery where appropriate.</p>	<p>CM and CA</p>	<p>TBD</p>	<p>Complete.</p> <p>Corrective action was taken by CM and CA with the recovery of \$8,895.54 as of 8/30/07.</p>
<p>8. We recommend that [the Port] improve management information systems to provide more accurate and up-to-date information regarding project and contract expenditures. [The Port] should develop a better</p>	<p>The Port will review its management information systems to ensure that information available to project managers is accurate and up-to-date, and will make improvements as</p>	<p>Information & Communications Technology (ICT) will work with PCS to investigate options for providing additional visibility and more accurate and up-to-date information regarding project and contract expenditures. The Port will assign a business analyst to</p>	<p>PCS General Manager, ICT Senior Manager, Business Services</p>		<p>Part of this work is currently ongoing under TKW Item 1a, 1b & 10a.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/REMARKS
<p>means for tracking actual project expenditures against initial estimates to prevent unforeseen cost overruns.</p>	<p>necessary. The Port will conduct a systematic review of the small works program to improve timely tracking of actual project costs on contracts. There will be an emphasis on providing safeguards to preclude work authorizations from exceeding the contract amount.</p>	<p>develop business requirements, analyze current system capabilities, evaluate options and prepare cost estimates for small works system improvements.</p> <p><u>Immediate Action:</u> 8.a On open order contracts, PCS does not authorize work that would increase the amount spent to above 90% of the contract value.</p> <p><u>Additional Action:</u> 8.b Continually evaluate options to limit contract spending beyond that 90% threshold. Options might include further reducing the maximum contract value and/or limiting cumulative value of all work authorizations.</p> <p>8.c Provide training for staff on revised procedures for tracking small works expenditures against budgets.</p> <p>8.d Work with ICT to review the controls currently contained in the Project Management Information System (PMIS) software and develop additional controls to prevent cost overruns and improve project reporting.</p> <p>8.e Provide final recommendations to the CPO.</p>		<p>Started 10/07</p> <p>3/31/08</p> <p>3/31/08</p> <p>7/31/08</p> <p>7/31/08</p>	<p>Complete.</p> <p>Complete.</p> <p>Complete.</p>
<p>9. We recommend that [the Port] develop and include in all contracts</p>	<p>The Port will strengthen the language limiting the contract to</p>	<p>The Port will strengthen the existing “cost limitation” clause in small works open order</p>	<p>PCS General Manager</p>		

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>a “cost limitation” clause that advises contractors that they should not accept work authorizations or perform any work that would result in exceeding the maximum amount of the contract.</p>	<p>the stated amount and ensure that this revised standard is consistently included in all contracts.</p>	<p>contracts so that, consistently with the statutory requirements and Port policies, the contractors are advised that they shall not accept work authorizations or perform any work that would result in exceeding the maximum amount of the contract.</p> <p><u>Immediate Action:</u> 9.a The Port will continue to include the current “cost limitation” clause (that advises contractors that they shall not perform any work over the authorized not-to-exceed amount) in all open order contracts.</p> <p>9.b In keeping with current Port procedure, PCS will not write any new Work Authorizations that would increase amount spent beyond 90% of the maximum amount of the contract.</p> <p><u>Additional Action:</u> 9.c The Port will review the small works specifications, developing language to be included in all contracts to further strengthen these clauses.</p>		<p>10/30/08</p> <p>7/31/08</p> <p>7/31/08</p>	<p>Complete.</p> <p>Complete.</p> <p>Revisions to contract language is complete and is being reviewed.</p>
<p>10. We recommend that controls be implemented to prevent specific companies from being added to randomly-generated [Port Construction Services] bid lists by project management personnel.</p>	<p>The Port disagrees with this recommendation. Except to advance important societal objectives like those reflected in the Port’s small business contracting initiative, the Port does not believe that it is in its best interest to preclude</p>	<p>The Port believes it is neither in its best interest nor a requirement of state law to prevent contractors who want to bid from doing so.</p> <p><u>Immediate Action:</u> 10.a Consistent with statutory requirements and Port policies, the Port will continue</p>	<p>PCS General Manager</p>	<p>Started 10/07</p> <p>10/07</p>	<p>See #21, #22, & #23</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
	interested bidders from competing for Port contracts.	<p>to solicit bids from <u>all</u> contractors listed under the applicable craft code for each contract in the Small Works Roster, and to publicly display all contracts on its Web site. We believe these steps preclude any need to add specific companies.</p> <p>New contractors will continue to be encouraged to register for the Small Works Roster, and the Port will continue to review and validate the existing contractor information on the Small Works Roster for accuracy on a regular basis, promoting broad competition on small works contracts.</p> <p><u>Additional Action:</u> 10.b Required procedures will be coordinated and applied Port-wide for all users of the Small Works Roster.</p>		7/31/08	
11. We recommend that [the Port] evaluate all of its [Port Construction Services] contracts during the past three years to determine other instances where the practice of lapping contractor invoices occurred and take appropriate corrective actions.	The Port will undertake an internal audit of Port Construction Services contracts to determine whether additional lapping of contractor invoices occurred. The Port will take corrective action as warranted.	Internal Audit will review all contracts for PCS for the past three years and establish the total population of contractors that had multiple contracts. From the total population, Internal Audit will establish a statistical sampling methodology and test whether the practice of moving work from one contract to another may have occurred with other PCS contracts. In addition to the statistical sample mentioned above, Internal Audit will use a risk-based audit approach and test other contracts that could be vulnerable to that practice.	Internal Audit Manager	8/31/08	

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/REMARKS
		<p><u>Immediate Action:</u> 11.a Obtain SAO confirmation of sampling and risk-based audit methodology that will be used.</p> <p><u>Additional Action</u> 11.b Review those contracts identified based on sampling and risk-based audit methodology.</p> <p>11.c Determine if further review is necessary based on outcome of initial steps.</p> <p>11.d Take appropriate corrective action.</p>		<p>2/15/2008</p> <p>TBD</p>	<p>Complete.</p>
<p>12. We recommend that [the Port] conduct a more detailed investigation of this contract SWV-311608 to determine how and why the preferred electrical contractor was added to the bid list, contact the other bidders on the list to determine if they were aware of the procurement, and initiate follow up actions as appropriate.</p>	<p>The Port will review this contract and take action as appropriate.</p>	<p>An Internal Audit investigation of Contract No. SWV-311608 is currently underway to determine how the contractor was added to the bid list. The audit results will be reported to the Commission Audit Committee and CEO.</p>	<p>Internal Audit Manager</p>	<p>4/30/2008</p>	<p>Complete.</p>
<p>13. We recommend that [the Port] take immediate steps to review and enforce its policies and procedures for awarding and amending [professional services agreement] contracts and establish controls to ensure that competition</p>	<p>This recommendation is consistent with the action plan from the Port's internal audit. The Port will review and enforce its procedures for awarding professional services agreements and strengthen controls to ensure</p>	<p>Once current review is complete and the Central Procurement Office is operational, the Port will implement protocols to review all contracts and amendments and approve through this central office.</p> <p><u>Immediate Action:</u></p>	<p>PMEC Senior Manager, Procurement Services</p>		

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
requirements are not circumvented.	compliance with Port procurement policies.	<p>13.a The Port completed a partial audit review of Professional Service Agreements in 2007.</p> <p>13.b At the direction of Senior Management, Internal Audit completed an audit of an expanded number of capital Professional Services Agreements in 2007.</p> <p>13.c Internal Audit report was presented to Senior Management in 2007.</p> <p>13.d Interim action was taken to strengthen the controls related to execution of new PSA contracts and amendments. Until the CPO is operational in June 2008, only senior personnel are allowed to execute these agreements.</p> <p><u>Additional Action:</u></p> <p>13.e Develop a training curriculum for capital development staff, and complete training activities to enforce processes through education.</p> <p>13.f Develop quality control and compliance procedures with the newly created Central Procurement Office.</p>		<p>8/07</p> <p>8/31/07</p> <p>1/29/08</p> <p>2/4/08</p> <p>5/16/08</p> <p>7/31/08</p>	<p>Complete.</p> <p>Complete.</p> <p>Complete</p> <p>Complete</p> <p>Course content under development. Date changed from 5/16 to 6/30 to align with item 18.c. Training scheduled for June 24th, 25th, and 26th.</p>
14. We recommend that [the Port] initiate a comprehensive review of all [professional services agreements] to determine the full extent to which competition requirements have been	The Port will undertake additional review of professional services agreements using procedures consistent with accepted auditing standards to evaluate whether	Internal Audit will undertake a comprehensive review of Port PSAs. We will establish the total population of PSAs for the past three years. Using a statistical sampling method, we will sample the PSAs	Internal Audit Manager	8/31/08	

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>circumvented, and take appropriate corrective actions.</p>	<p>other instances of non-compliance exist and will take corrective action as warranted.</p>	<p>and determine the extent to which competitive requirements may have been circumvented and/or Port policies and procedures not followed. Using a risk-based audit approach, Internal Audit will further review additional PSAs from Port departments that are deemed high risk and vulnerable to non-compliance.</p> <p><u>Immediate Action</u></p> <p>14.a Obtain SAO confirmation of sampling and risk-based audit methodology that will be used.</p> <p>14.b Review PSA contracts for past 3 years.</p> <p><u>Additional Action</u></p> <p>14.c Determine further review based on outcome of the immediate action.</p> <p>14.d Take appropriate corrective action.</p>		<p>2/15/08</p> <p>8/31/08</p> <p>TBD</p> <p>TBD</p>	<p>Complete</p> <p>Audit of PSAs is underway.</p>
<p>15. We recommend that [the Port] revise [Purchasing Policy] PUR-2 to incorporate a limit on the size allowed for amendments to Category 3 and Category C contracts so that a legal review becomes necessary before a contract is allowed to exceed a specified limit. That review should be designed to assure that:</p>	<p>The Port agrees that large professional service agreements should have additional controls to ensure amendments are consistent with original scope and prevent inappropriate contract segmentation. The Port will evaluate what kind of controls are most effective.</p>	<p>As recommended, the Port will revise Purchasing Policy PUR-2, incorporating a limit on the size allowed for amendments on Category 3 and C contracts making a legal review necessary.</p> <p><u>Immediate Action:</u></p> <p>15.a As an interim step, the Port immediately requires that all amendments over \$100,000 receive</p>	<p>Senior Manager, Procurement Services</p>	<p>1/29/08</p>	<p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>1. The project scope of work is not being divided into smaller segments to avoid PUR-2, statutory, or delegation of authority procedures.</p> <p>2. The increased amended consultant responsibilities are generally related or associated with the project scope utilized in the original consultant selection.</p>		<p>review and concurrence from Purchasing Manager, who may elect to forward the review to the Legal Department as necessary.</p> <p><u>Additional Action:</u> 15.b Upon completing the review currently underway and implementing the CPO, the Port will implement necessary changes PUR-2 to strengthen procurement protocols and establish appropriate central oversight.</p>		7/31/08	Working group established.
<p>16. We recommend that [the Port] a) determine the extent to which costs in violation of Federal grant requirements have been claimed for reimbursement and received from DOT and other Federal agencies, (b) notify applicable Federal grant officers of these violations, and (c) initiate corrective actions prescribed by Federal officials.</p>	<p>The Port has been subject to extensive external audits with respect to both its financial statements and federal grant compliance by public accounting firms (who themselves are subject to regular review by the federal government). These audits, which include rigorous internal controls testing of major risk areas, have not identified any material compliance or accountability concerns involving federal grants. While this performance audit did not identify any violations of federal grant requirements, if, in the course of investigating and following up on these findings and recommendations, the Port discovers any federal grant violations it will take prompt and</p>	<p><u>Immediate Action:</u> 16.a The Port will conduct a complete review to identify all PSAs funded by Federal grants and any PSA contract awards not awarded in compliance with competitive bid requirements.</p> <p><u>Additional Action:</u> 16.b If discrepancies are identified, determine necessary corrective action and resolve with U.S. Department of Transportation (DOT) or Transportation Security Administration (TSA), referencing details of the applicable SAO performance audit findings.</p>	Internal Audit Manager	8/31/08 TBD	Rescheduled to 8/31/08 as part of contracted audit work.

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
	appropriate action, including notification to applicable agencies.				
<p>17. We recommend that [the Port] undertake a review of all of its professional services agreements to assure that:</p> <ul style="list-style-type: none"> • Such agreements comply with State law in terms of being for specific [Port] requirements rather than being used as supplements of [Port] staffing, • The agreements are being administered in strict conformity with contract provisions and requirements, • The contracts contain defined labor category qualifications, and • Contract files are complete and maintained by [Port] employees rather than contractor personnel. 	<p>The Port will undertake additional review of professional service agreements using procedures consistent with accepted auditing standards to ensure compliance with applicable statutes and Port policy. The Port will also ensure that agreements are administered in conformance with contract provisions and requirements and contain all relevant rates. The Port will also ensure that contract files are complete, but separate supporting files will hold the qualification information (degrees, experience, etc.) related to labor category rates.</p>	<p>Internal Audit will undertake a comprehensive review of current active PSAs awarded in the past three years. Using a statistical sampling methodology enhanced by a risk-based audit approach, Internal Audit will review PSAs for the 4 key areas of vulnerability identified in the recommendation.</p> <p><u>Immediate Action</u></p> <p>17.a Obtain SAO confirmation of sampling and risk-based audit methodology that will be used.</p> <p><u>Additional Action</u></p> <p>17.b Review current active PSAs awarded or amended during the past 3 years.</p> <p>17.c Determine further review based on outcome of the immediate action.</p>	<p>Internal Audit Manager</p>	<p>8/31/08</p> <p>2/15/08</p> <p>TBD</p> <p>TBD</p>	<p>Complete.</p> <p>Audit is underway.</p>
<p>18. We recommend that [the Port] establish a policy whereby, before contracting for consultant services, [the Port] perform a cost analysis to determine if the required work can be more economically performed</p>	<p>The Port will take this recommendation into consideration in reviewing its existing consultant policies and procedures, given that cost is not the only factor used in</p>	<p>The Port will establish a policy requiring performance of a cost analysis prior to contracting for consultant services. The analysis will determine if the required work can be more economically performed with Port personnel.</p>	<p>PMEC</p>		<p>This activity is envisioned to be part of the Port's new Port Procurement Office, see OA1.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>with [Port] personnel. (We suggest that [the Port] study and adapt Federal Office of Management and Budget Circular A-76 for this purpose.)</p>	<p>considering the use of consultants. The Port will note its reasoning for retaining outside consultants within the set of documentation files that support actual future agreements. For example, documentation will include whether the consultant has been hired as a result of having special expertise not found among the Port staff, or hired because existing Port staff do not have enough available time to perform the work, etc. For full-time consultant assignments longer than twelve months, the documentation will consider the potential benefits or risks of hiring a new Port staff member to perform the work. The Port will also review OMB Circular A-76 for applicability.</p>	<p><u>Additional Action:</u> 18.a As recommended, the Port will review OMB Circular A-76 for applicability. 18.b The Port will develop a cost analysis model that also will consider:</p> <ul style="list-style-type: none"> • Special expertise; • Availability of existing Port staff; • Duration of assignment; • Potential benefits or risks in hiring new Port staff. <p>18.c The Port will then provide training on new procedures for all appropriate staff members.</p>		<p>4/4/08</p> <p>7/31/08</p> <p>7/31/08</p>	<p>Complete.</p> <p>Development of model underway.</p> <p>Course content under development. Training scheduled for June 24th, 25th, and 26th.</p>
<p>19. We recommend that [the Port] add the following procedures to the list of procedures being performed during the invoice approval process for the PMSC contract and other [professional services agreements], as appropriate:</p> <ul style="list-style-type: none"> • Assure that all personnel being billed have been approved to work on the contracts based on the most recent annual review or work authorization. 	<p>The Port agrees and has implemented the recommendation.</p>	<p><u>Immediate Action:</u> 19.a The Port confirmed that during invoice approval on the PMSC contract, those billed have been approved; consultants have not been paid more than stipulated rates; and that labor categories on invoices match those in the contract.</p> <p><u>Additional Action:</u> 19.b Suggestions included in this recommendation will be used to improve the Port's PSA procedures.</p>	<p>PMEC</p>	<p>10/07</p> <p>7/31/08</p>	<p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/REMARKS
<ul style="list-style-type: none"> Assure that labor categories and rates being billed do not exceed the contractually stipulated labor categories and rates. 					
<p>20. We recommend that [Port Construction Services] develop a means of tracking the award of contracts to ensure that a majority of the work isn't being repeatedly awarded to the same contractors.</p>	<p>Port Construction Services does track contract awards and has information available on the distribution of both contracts and the contract dollars awarded. The Port notes that the current distribution is based entirely on award to the responsible bidder submitting the lowest price. Nonetheless, the Port will evaluate the distribution of Small Works Roster Program awards and will also look carefully at the suggestion to distribute Port contracts on a basis other than low bid. In fact, this appears to tie to the Port's small business contracting initiative. However, since this change raises a major policy issue, it will require careful consideration by and discussion with the Port Commission and local stakeholders.</p>	<p><u>Immediate Action:</u> 20.a The Port will continue tracking and reporting the distribution of small works contracts using existing procedures.</p> <p><u>Additional Action:</u> 20.b The Port will work on enhancing its current means of tracking and reporting the distribution of small works contracts.</p> <p>20.c PCS will work with the newly established Office of Social Responsibility and the Legal Department to investigate alternatives other than lowest responsible bidder for awarding small works contracts.</p> <p>20.d Required procedures will be coordinated and applied Port-wide for all users of the Small Works Roster.</p>	<p>PCS General Manager</p>	<p>Ongoing</p> <p>7/31/08</p> <p>6/27/08</p> <p>7/31/08</p>	<p>Complete.</p> <p>On May 15th Port staff met with outside agencies to discuss/learn about alternative methods for awarding small works contracts.</p>
<p>21. We recommend that Small Works Roster program controls be established to assure that the random rotation process cannot be circumvented to allow preferred contractors to be added to the</p>	<p>The Port disagrees with this recommendation. Except to advance important societal objectives like those reflected in the Port's small business contracting initiative, the Port</p>	<p>The Port's Action Steps to advertise to all contractors with the applicable craft code are addressed under Recommendations 10, 22, & 23.</p>	<p>PCS General Manager</p>	<p>Started 10/07</p> <p>7/31/08</p>	<p>Complete</p> <p>Consider the need to</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
23. We recommend that [Port Construction Services] create controls in the Small Works Roster Program to ensure that all procurements are advertised (i.e. that solicitations are actually distributed to potential bidders as required).	See response to Recommendation 22.	The Port's action items regarding this recommendation are addressed under Recommendation 10.	PCS General Manager	7/31/08	
24. We recommend that [Port Construction Services] develop consistent bid evaluation criteria, particularly when the descriptions of work state that "[Port Construction Services] is unable to determine the precise types of work that may be performed under this contract at this time."	The Port will review and evaluate its process regarding open order contracts and make changes as appropriate to ensure fair competition among all potential bidders.	<p><u>Immediate Action:</u> 24.a The Port will continue to ensure bid evaluations are developed prior to bid opening of any small works contract, and that documentation of this process is included in the contract file.</p> <p><u>Additional Action:</u> 24.b PCS will work with Purchasing and Legal departments to review and evaluate its current bid evaluation process and identify possible improvements.</p> <p>24.c Required procedures will be coordinated and applied Port-wide for all users of the Small Works Roster.</p>	PCS General Manager	Ongoing 6/15/08 7/31/08	Complete. On May 8 th Port departments met to discuss and finalize action steps. On May 21 st draft language was submitted to legal for editing and approval.
25. We recommend that the [Port] Commission revise Resolution 3181 to make it clear that, when circumstances requiring reporting under Paragraph V (Contract Administration/Bid Irregularities) occur, [the Port] should provide full and complete information and allow	Port staff currently notifies the Port Commission of all bid irregularities and provides a window of time within which the Port Commission can consider and provide input on those irregularities. Nonetheless, Port staff will look for and recommend	On January 8, 2008, the Port Commission established a subcommittee to review the delegation of Commission authority currently described in Resolution 3181. <ul style="list-style-type: none"> Commissioners Davis and Tarleton will serve on the subcommittee. May retain outside experts. 	Commission		Public meeting held May 1st. Additional public meetings scheduled for June 10 th and 23 rd . Schedule to present draft

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
the Commission adequate time for deliberation and decision-making.	ways in which it can increase transparency and oversight by the Port Commission in connection with bid irregularities. The Chief Executive Officer will review these recommendations with the Port Commission for approval and formal adoption.	The subcommittee will report to the Commission on proposed amendments by June 30, 2008.		6/30/08	resolution to full Commission on July 1 st with first reading on July 8 th and second reading on July 22 nd .
26. We recommend that the [Port] Commission re-evaluate the policy under which [Port] management has carte blanche approval and spending authority under project-wide authorizations regardless of project size and, instead, develop more sensible requirements for [the Port] to fully inform the Commission regarding significant or unusual expenditures of public funds.	In connection with project-wide authorizations, the Port Commission currently identifies the specific staff vested with authority to act and places bounds on that authority. Nonetheless, Port staff will review the practice of project-wide authorizations and recommend additional notifications and/or limitations to ensure adequate oversight by the Port Commission. The Chief Executive Officer will review these recommendations with the Port Commission for approval and formal adoption.	<p>On January 8, 2008, the Port Commission established a subcommittee to review the delegation of Commission authority currently described in Resolution 3181.</p> <ul style="list-style-type: none"> • Commissioners Davis and Tarleton will serve on the subcommittee. • May retain outside experts. <p>The subcommittee will report to the Commission on proposed amendments by June 30, 2008.</p>	Commission	6/30/08	Public meeting held May 1st. Additional public meetings scheduled for June 10 th and 23 rd . Schedule to present draft resolution to full Commission on July 1 st with first reading on July 8 th and second reading on July 22 nd .
27. We recommend that [the Port] begin preparing and providing the semi-annual report summarizing contracts awarded under Resolution 3181, Paragraph V (Contract Administration/Bid Irregularities) as required.	The Port agrees and has already implemented this recommendation.	<p><u>Immediate Action:</u> 27.a This semi-annual reporting requirement has been implemented. The next semi-annual report is due to be published January 30, 2008 and will cover the period of July through December 2007.</p> <p><u>Additional Action:</u></p>	PMEC CFO	10/07	Complete.

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
		<p>27.b On January 8, 2008, the Commission passed a motion directing that quarterly reports be given to the Commission for each capital project with approved funding over \$10 million. Staff is developing a report format to meet this new requirement.</p> <p>27.c The reports will be presented to the Commission in public session quarterly and published on the Port's Web site. The first report will cover the period January to March 2008.</p>		<p>3/15/08</p> <p>4/30/08</p>	<p>Complete.</p> <p>Published on the Ports web page on 5/23/08 and scheduled to be presented to Commission on 6/10/08.</p>
<p>28. We recommend that when the [Port] general counsel is asked to provide legal advice, he document the advice provided so that a clear record of his analysis and advice is established and retained.</p>	<p>The Port agrees that legal advice provided in connection with significant contracting decisions should be reflected in writing. While the degree of formality associated with those records will vary depending on the needs and circumstances, the fact of review should be captured.</p>	<p><u>Immediate Action:</u> The Port will record the fact of legal review in connection with significant contracting decisions.</p>	<p>General Counsel</p>	<p>1/29/08</p>	<p>Complete.</p>
<p>29. We recommend that [the Port] reassign Consultant SK to a position where he has no conflict of interest. We also recommend that [the Port] either establish an ethics policy for consultants or revise [Port] Policy EX-3 to make it clear that [Port] consultants are expected to adhere to at least the same ethical standards that [Port] employees are</p>	<p>The Port has fully reviewed the circumstances surrounding Consultant SK and finds no conflict of interest. As a result, there is no need to reassign Consultant SK. Existing consultant contracts include a prohibition on conflicts of interest. Nonetheless, the Port agrees that it should adopt an additional clear</p>	<p><u>Immediate Action:</u> 29.a All consultant contracts at the Port will now require that consultants adhere to relevant portions of the Port's Employee Ethics Code. 29.b The Port will draft specific language in PSAs and will develop a proposed consultant's ethics code.</p>	<p>General Counsel</p>	<p>2/15/08</p> <p>2/15/08</p>	<p>Complete.</p> <p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
required to follow.	policy statement reflecting the ethical standards to which it expects its consultants to adhere and will, in consultation with relevant industry groups, develop such a policy statement.	29.c Presentation to the Commission.		3/1/08	Complete.
30. We recommend that [Port] Policy EX-3 be (a) clarified to make clear that conflicts of interest are not limited solely to situations where there is a direct financial interest and (b) revised to require employees and consultants to recuse themselves from participating in decisions where conflicts of interest exist.	The Port's Ethics Policy currently recognizes and prohibits conflicts beyond those that are strictly financial. A review of the Port's Ethics Policy for employees is currently underway. As part of this review, the Port will ensure the policy is consistent with both government and industry best practices and will implement revisions as appropriate.	<u>Immediate Action:</u> 30.a The Port's Employee Ethics Code was revised and republished in December 2007. Its provisions are now consistent with the State of Washington Ethics Code as well as similar codes adopted by the City of Seattle and King County. The Port's code now clearly states that it extends to both actual conflicts and the appearance of conflicts of interest.	General Counsel	12/07	Complete.
31. We recommend that [the Port] develop, implement, and enforce control procedures that include timely updating for the SPOTS, PACT, and PMIS systems with accurate project information until the project is closed out and the project data are archived.	The Port agrees that timely and accurate updates of its management information systems are vital and will evaluate opportunities for additional improvement to its practices with respect to the use of the SPOTS, PACT and PMIS systems. As an example of this commitment, the Seaport Project Management group recently staffed a Project Controls office to ensure timely and accurate updates of SPOTS.	The Port has control procedures that include timely updating with accurate information for the Seaport Project Office Tracking System (SPOTS), Parsons Aviation Cost Trends (PACT), and PMIS systems until the project is closed and the project data is archived. The standard for timeliness is different for the various systems. Seaport and Aviation projects can last several months or, in some cases, five or more years. Conversely, PCS projects can be as short as one day. Therefore, project management information needs differ significantly. <u>Immediate Action:</u> 31.a The Port is committed to effectively using and improving these systems,	PMEC	Ongoing	This work is currently ongoing under TKW Item 1a, 1b and 10a. Complete.

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
		<p>and several efforts are underway to actively improve them, including the following:</p> <p>SPOTS: Seaport Project Management has staffed a dedicated Project Controls office to ensure timely and accurate updates of SPOTS.</p> <p>PACT: Aviation Project Management has written procedures for the system and has assigned a dedicated staff of 12 to track and update the PACT system.</p> <p>PMIS: PCS will emphasize staff accountability for accurately updating projects and contracts, and will continue to use weekly management reports to monitor accuracy and timeliness of project and contract information.</p> <p><u>Additional Action:</u> 31.b The Port will evaluate the possibility of acquiring a single source project control system that would be used across the Port's capital project delivery system.</p>		6/15/08	<p>Staff has solicited information through a formal request to vendors. Staff has viewed various system demonstrations. Work continues on preparing a report and recommendation.</p>
32. We recommend that [the Port] develop policies and procedures for ensuring that [PeopleSoft Financial	The Port disagrees with this recommendation. PeopleSoft Financial System is the Port's	Currently, the Port updates from PeopleSoft to PMIS daily for reporting, SPOTS twice weekly, and PACT at least monthly. These	PMEC, ICT Senior Manager, Business		This work is currently ongoing under TKW Item

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
System] data are consistent with data maintained in the other systems.	general ledger and project costing software. PeopleSoft is not a project management tool. PeopleSoft is the definitive source for data on all Port financial transactions.	frequencies meet and match the requirements for the Port project control systems. <u>Additional Action:</u> 32.a The Port will evaluate the possibility of acquiring a single source project control system that would be used across the Port's capital delivery system.	Services, Accounting Director	6/15/08	1a, 1b and 10a. Staff has solicited information through a formal request to vendors. Staff has viewed various system demonstrations. Work continues on preparing a report and recommendation.
33. We recommend that SPOTS be revised to include information regarding change order costs.	Currently, change order costs for Seaport contracts are accurately tracked outside of SPOTS. The Port will assess whether the benefit of upgrading SPOTS to include this information offsets the costs associated with doing so and make upgrades as appropriate.	SPOTS will be revised to include information regarding change order costs. <u>Immediate Action:</u> 33.a Establish a CA/CM/PM/ICT working group. <u>Additional Action:</u> 33.b Develop a plan for including change order costs in SPOTS. 33.c Upgrade SPOTS to include change order costs information.	PMEC	2/29/08 4/15/08 TBD	33.c pending completion of 31.b and 32.a and decision on a single source project controls system.
34. We recommend that [the Port]	The Port continues to look for	<u>Additional Action:</u> 34.a The Port's response to schedule	PMEC	8/1/08	This work is currently ongoing

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>enforce contract requirements for project schedule updates so forecasted project completion dates can be accurately recorded in the [Port's] project management information systems. We recommend that [the Port] implement a means of tracking current forecasted project completion dates, current change order amounts, original budget amounts, commission funding authorizations, budget transfers in <i>all</i> of its management information systems (SPOTS, PACT/Margen, PMIS).</p>	<p>integrated software solutions to meet its project management needs and, until one is sourced, will be proactive in making improvements to its current information systems. Currently, detailed project schedules are maintained outside of SPOTS, PACT and PMIS. The Port will assess whether the benefit of upgrading these systems to include detailed schedule information offsets the costs associated with doing so and make upgrades as appropriate.</p>	<p>issues is addressed under Recommendation 5.</p> <p>34.b The Port's response to project control systems issues is addressed under Recommendation 31, Action Stem 31.b.</p>		6/15/08	<p>under TKW Item 1a, 1b and 10a.</p> <p>Staff has solicited information through a formal request to vendors. Staff has viewed various system demonstrations. Work continues on preparing a report and recommendation.</p>
<p>35. We recommend that [the Port] establish a central repository for Project Notebooks within each [Port] division.</p>	<p>The Port agrees and intends to establish a central repository within each division for Project Notebooks.</p>	<p><u>Immediate Action:</u> 35.a The Port will establish a central repository for Project Notebooks within each division.</p>	PMEC	2/5/08	<p>Complete. This work is currently ongoing under TKW Item 4 a, b and c.</p>
<p>36. We recommend that [the Port] develop a check-out and tracking system for the Project Notebooks and utilize it.</p>	<p>The Port agrees and intends to establish an appropriate check-out and tracking system for Project Notebooks.</p>	<p><u>Immediate Action:</u> 36.a The Port will develop and utilize a check-out and tracking system for the Project Notebooks.</p> <p>This item will be completed in conjunction with Recommendation 35.</p>	PMEC	2/5/08	<p>Complete. This work is currently ongoing under TKW Item 4 a, b and c.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>37. We recommend that [the Port] require project managers to periodically and on a timely basis update the Project Notebooks with current Construction Trend Logs, Change Order Logs, and Schedule Updates.</p>	<p>The Port disagrees with this recommendation because it would be inconsistent with industry best practices. Construction trend logs, change order logs, and schedule updates are more efficiently maintained elsewhere; and including this information in Project Notebooks would be redundant. The earlier independent TKW performance audit noted that the Port's notebook process is consistent with best industry practices. The Port will continue to implement the TKW recommendations to ensure consistent Project Notebook entries.</p>	<p><u>Immediate Action:</u> 37.a The Port will continue current practices for maintaining trend and change order logs and schedule updates in existing data management systems.</p> <p><u>Additional Action:</u> 37.b The Port will require PMs to update Project Notebooks to support authorization actions such as a change in status or requests for Commission action.</p> <p>37.c Improvements to the Project Notebooks are being made in accordance with the recommendations contained in the TKW performance audit.</p>	<p>PMEC</p>	<p>2/25/08</p> <p>7/31/08</p>	<p>This work is currently ongoing under TKW Item 4 a, b and c.</p> <p>Complete.</p> <p>A cross department team has developed new content to be included in Project Notebooks and an index of required information is complete. Work is underway to develop the content detail.</p>
<p>38. We recommend that [the Port] integrate assessments of Project Notebook completeness and quality into the [Port] personnel performance evaluation processes.</p>	<p>The Port agrees that accountability of its personnel is important and will include assessments of Project Notebooks in connection with the Port's Performance Review,</p>	<p>The Port will integrate assessment of Project Notebook completeness and quality into POS personnel performance evaluations.</p> <p><u>Immediate Action:</u> 38.a The POS PREP documents will be revised for Project Management staff</p>	<p>PMEC</p>	<p>3/31/08</p>	<p>This work is currently ongoing under TKW Item 4 a, b and c.</p> <p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
	Evaluation and Planning process.	<p>to include accountability for Project Notebooks. Requirements will be defined and will include:</p> <ul style="list-style-type: none"> • Notebook content; • When notebooks will be submitted; • When notebooks will be updated; • Filing and maintaining notebooks. 			
<p>39. We recommend that if [the Port] continues including the [Construction Document Management System] requirement in its contracts, it develop a system for monitoring each project's [Construction Document Management System] data updates. This contract requirement, just as any other, should be enforced and controlled.</p>	<p>Livelink® – the Port's Construction Document Management System – enhances efficiency and transparency in connection with construction contract management. The Port agrees that timely, consistent use of Livelink® is important on contracts where it is employed and will, consistent with the recommendation, take steps to ensure and monitor its usage.</p>	<p><u>Immediate Action:</u> 39.a Training for consistent application of Livelink® by all document control specialists was completed in December 2007.</p> <p><u>Additional Action:</u> 39.b Develop a process for determination of when a project will utilize Livelink®.</p> <p>39.c Provide additional training to document control specialists, construction management and contract administrative personnel on when to use Livelink®.</p>	PMEC	<p>12/12/07</p> <p>3/28/08</p> <p>5/30/08</p>	<p>Complete.</p> <p>Complete</p> <p>Complete 4/22/08.</p>
<p>40. We recommend that [the Port] immediately undertake a comprehensive review of its contracts requiring use of Livelink to determine the full extent of contract noncompliance and initiate corrective actions accordingly.</p>	<p>The Port disagrees with this recommendation since it believes that the current use of Livelink® generally meets its requirements. Nonetheless, the Port is developing a procedures manual with its document control specialists to enhance Livelink®</p>	<p>The Port will review contracts that require use of Livelink® to determine the extent of any contract noncompliance and initiate corrective actions.</p> <p><u>Immediate Action:</u> 40.a The Port is currently reviewing all active projects to identify projects</p>	PMEC	2/29/08	Complete.

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
	utilization consistent with Port requirements in connection with each active contract and will initiate corrective action as required.	<p>utilizing Livelink® and the level of compliance with the specifications.</p> <p>40.b Initiate corrective actions.</p> <p>40.c In October 2007, the Port initiated the development of a procedures manual for the use of Livelink®. The manual will be complete in March of 2008.</p> <p><u>Additional Action:</u> 40.d Training of additional project and construction staff as necessary.</p>		<p>2/29/08</p> <p>3/14/08</p> <p>4/23/08</p>	<p>Complete.</p> <p>Complete.</p> <p>Complete.</p>
<p>41. We recommend that [the Port] take immediate steps to enforce all contract provisions on all ongoing and future contracts, particularly provisions regarding [Critical Path Method] project schedule submission requirements and withholding of contractor payments due to contractor failures to comply with contract requirements. [The Port] should also be more aggressive in timely assessing liquidated damages based on contemporaneous analyses of delay impacts.</p>	<p>The Port disagrees with the facts supporting this recommendation and believes that its enforcement of contract terms in the cases cited was appropriate under the circumstances. Nonetheless, the Port will review whether opportunities exist to enhance its enforcement of contract schedules, evaluation of time extension requests, and contemporaneous assessment of liquidated damages. The Port will also evaluate the practices of other state and local agencies with respect to scheduling and enforcement. When appropriate, the Port will continue to withhold contractor payments consistent with contract documents and</p>	<p>The Port's response to schedule issues is addressed under Recommendations 5.</p> <p><u>Immediate Action:</u> 41.a The Port will continue to put contractors on notice for liquidated damages, and assess liquidated damages consistent with contract documents and resolution of disputed issues. When appropriate, the Port will continue to withhold contractor payments consistent with contract documents and state law.</p> <p><u>Additional Action:</u> 41.b The Port will review industry best management practices for specifying and implementing liquidated damage enforcement.</p>	<p>PMEC</p>	<p>Ongoing</p> <p>6/5/08</p>	<p>Complete.</p> <p>Training course and content in development. Construction and Contract Management training</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>42. We recommend that [the Port] establish a fraud governance policy that provides for the design and implementation of a comprehensive and coordinated approach to fraud mitigation (deterrence, detection, and prevention).</p>	<p>state law.</p> <p>The Port agrees that it should have a fraud governance policy. The Port will research best practices in fraud governance among other state and local governments and will implement policy enhancements as necessary. If appropriate, the Port will integrate this new policy with its Ethics Policy, which the Port is currently revising. In addition, the Port will, as part of its annual compliance and financial audits, continue to review its controls to deter, detect, and prevent fraud and will implement additional controls as appropriate.</p>	<p><u>Immediate Action:</u> 42.a A draft fraud awareness and prevention policy has been prepared and is circulating internally for final legal review and comment from Senior Management.</p> <p><u>Additional Action</u> 42.b The policy will be incorporated into existing Port policy HR 18, Standards of Performance and Conduct. "Fraud" will be included in the definition of "gross misconduct" as set out in HR 18 , for which immediate termination without progressive discipline may be imposed.</p> <p>42.c Notice of change and staff orientation plan to be developed.</p>	<p>General Counsel</p>	<p>2/15/08</p> <p>3/5/08</p> <p>3/15/08</p>	<p>scheduled for May 30th and June 2nd.</p> <p>Complete.</p> <p>Complete.</p> <p>Complete.</p>
<p>43. We recommend that [the Port] initiate a comprehensive fraud risk assessment focused on its procurement and management of construction and professional services. This assessment should focus on vulnerabilities to fraud under current [Port] procurement processes and the identification of possible fraud schemes that may be occurring.</p>	<p>The Port agrees and will undertake a comprehensive fraud assessment using its internal audit and Financial Controls Analysis teams.</p>	<p><u>Immediate Action:</u> 43.a On January 22, 2008, the Port Commission established a Special Investigative Committee to investigate the findings of the State Auditor's 2007 Performance Audit of the Port.</p> <p><u>Additional Action:</u> 43.b Committee may hire legal counsel and independent fraud investigator.</p> <p>43.c Committee to recommend how the Port</p>	<p>Commissioners Tarleton/Bryant (Chair)</p>	<p>1/22/08</p> <p>TBD</p> <p>TBD</p>	<p>Complete.</p> <p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
		<p>should strengthen controls in areas deemed vulnerable to fraud and recommend control mechanisms designed to deter, prevent and detect fraud.</p>			
<p>44. We recommend that [the Port] use the results of the fraud risk assessment to revise its policies and procedures in order strengthen controls in the areas deem [sic] vulnerable and implement specific control mechanisms designed to deter, prevent, and detect the fraud schemes deemed to be viable.</p>	<p>Based on the outcome of the fraud risk assessment, the Port will revise its policies and procedures and implement all necessary training to ensure that employees both understand their obligations with respect to fraud, and adhere to the Port's protocols regarding fraud.</p>	<p><u>Additional Action:</u> 44.a Further action will be taken in response to recommendations of the independent fraud investigator and the Commission Special Investigative Committee.</p> <p>Also see Action Item for Recommendation #43.</p>	<p>Internal Audit Manager</p>	<p>TBD</p>	
<p>45. We recommend that [the Port] revise and strengthen its policies regarding employee conflicts of interest and establish an organizational code of conduct designed to make all [Port] employees and consultants aware of their fraud deterrence, prevention, and detection responsibilities. Training on these policies should be mandatory for all existing and new employees and annual update training sessions should be mandatory.</p>	<p>The Port's Ethics Policy broadly addresses conflicts of interest, but the Port will nonetheless look at that issue as it proceeds with revisions to that Policy. As noted above in response to Recommendation 42, the Port agrees that it should also have a fraud governance policy and intends to develop one consistent with best governmental practices. The Port will also implement communication and training protocols related to these policies as appropriate.</p>	<p><u>Immediate Action:</u> 45.a The Port's Employee Ethics Code was revised and republished in December 2007. Its provisions now are consistent with the State of Washington Ethics Code as well as similar codes adopted by the City of Seattle and King County. Changes clarify that the Port's code extends to both actual conflicts and the appearance of conflicts of interest.</p> <p>45.b A draft fraud awareness and prevention policy has been prepared and is circulating internally for final legal review and comment from Senior Management.</p>	<p>General Counsel</p>	<p>12/07</p> <p>2/15/08</p>	<p>Complete.</p> <p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
	<p>vulnerable to fraud to the degree suggested by the Performance Auditor, it nonetheless takes such risk seriously and has zero tolerance for fraud. If, in the course of investigating and following up on the findings and recommendations of this report, the Port discovers fraud of any kind it will take immediate action, including notification of law enforcement where appropriate.</p>	<p>Attorney's Office to ensure that any fraud investigation will not interfere with any criminal investigation.</p> <p>47.d The Port is implementing a fraud awareness and prevention policy, which is currently circulating internally for final legal review and Senior Management comment. Implementation of this policy will provide for prompt disciplinary action for Port employees and for reporting to appropriate law enforcement for any fraud discovered (employees, contractors, others).</p> <p><u>Additional Action:</u> 47.e If, in the course of the Port's own fraud investigation or any of the external investigations, fraud of any kind is discovered, the Port will take immediate action, including notification of law enforcement where appropriate. Immediate termination without progressive discipline also may be imposed.</p>		<p>3/5/08</p> <p>TBD</p>	<p>Complete.</p>
<p>48. We recommend that [the Port] re-examine and clarify its policies and guidelines on art expenditures regarding (a) what "accessible and visible to the public" means; (b) how the 1-percent determination should be made in cases where major projects consist of portions that are</p>	<p>The Port's Art Program has always been subject to oversight and final approval by the Port Commission (including the case cited by the Performance Auditor), thus assuring that the program is open and transparent and that the public interest is</p>	<p><u>Immediate Action:</u> 48.a Port staff has completed first draft of revised Art Program Guidelines and PMG procedure. The Guidelines and Procedures address:</p> <ul style="list-style-type: none"> • "Visible or accessible" determinations • The 1 percent for art 	<p>Deputy Airport Director</p>	<p>1/28/08</p>	<p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>clearly outside the policy's defined base; and (c) when matters should be referred back to the Commission for discussion in public meetings. The guidelines should also be revised to require budget-versus-actual reporting for each project so that accountability is assured. The guidelines should stipulate that the Art Oversight Committee should document its determination that specific projects comply with all provisions, including the recommended revisions above.</p>	<p>served by the Program. Nonetheless, the Port will examine its policy in light of these recommendations.</p>	<p>determinations.</p> <ul style="list-style-type: none"> Budget and cost accounting of art projects. <p><u>Additional Action</u> 48.b Present revised guidelines and procedures to Art Oversight Committee (that includes Commission membership) for review.</p> <p>48.c Convene panel of outside art administration professionals and community experts to consider possible future refinements to art policies and procedures, based on best practices for public art. Present best practices recommendations to Art Oversight Committee and ultimately to the entire Port Commission to ratify procedures.</p>		<p>2/12/08</p> <p>7/30/2008</p>	<p>Art guidelines submitted for Division review and comment.</p>
<p>49. We recommend that the following actions be taken with respect to the internal audit function within [the Port]:</p> <ul style="list-style-type: none"> The internal auditor should be given a direct reporting line to both the [Port] CEO and the [Port] Audit Committee and should not be under the direct supervision or management of or have performance appraisals done by either the Director of Accounting, Internal Audit & Procurement Services 	<p>The Port generally agrees with this recommendation. It notes, however, that while it concurs that the Audit Committee should be able to meet with the internal audit manager without management present, the specific timing will be developed in collaboration with the Audit Committee.</p>	<p><u>Immediate Action:</u> As of January 1, 2008, the Port's Internal Audit function reports to the Port Commission Audit Committee and the Port CEO. Some daily management may be provided by the Port Deputy CEO.</p> <ul style="list-style-type: none"> The Internal Auditor will schedule monthly meetings with the Port Commission Audit Committee. The Port Commission Audit Committee will review, have input into and approve the internal audit work plan and any resulting audit reports. 	<p>CEO</p>	<p>1/1/08</p>	<p>Complete.</p>

SAO RECOMMENDATION	PORT RESPONSE	ACTION STEPS	ACCOUNTABILITY	ESTIMATED COMPLETION	STATUS/ REMARKS
<p>or the Chief Financial Officer.</p> <ul style="list-style-type: none"> The internal auditor should not be able to be terminated without the concurrence of the [Port] Audit Committee. The [Port] Audit Committee should meet at least monthly with the internal audit manager, without the presence of [Port] management. The [Port] Audit Committee should review, have input into, and approve the internal audit annual work plan. 		<ul style="list-style-type: none"> The Internal Auditor shall not be terminated without the concurrence of the Port Commission Audit Committee and the Port CEO. 			