



Port of Seattle
State Auditor Report Responses
And Action Plan

August 8, 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

RECOMMENDATION	PORT RESPONSE	ACTION PLANNED	CONTACT PERSON	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activities involving expenditure of public funds related to construction and construction management – should be rescinded and re-assigned to the CPO and her or his staff.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>OA1.a Outside facilitator with extensive procurement expertise hired in November 2007.</p> <p>OA1.b Internal Procurement Recommendation Team assembled in December 2007. Team includes representatives from major procurement centers within the Port.</p> <p>OA1.c Procurement Recommendation Team meets weekly.</p> <p>Implement functional centralized procurement office.</p> <p>OA1.d Prepare job description, advertise, and select Chief Procurement Officer.</p> <p>OA1.e Complete necessary organizational logistics.</p>	<p>Linda Strout Deputy CEO</p>	<p>6/1/08</p>	<p>OA1.a. In November 2007 the Port obtained the services of an outside facilitator with extensive procurement expertise who led a planning process that defined roles, responsibilities, and related position descriptions for the new Central Procurement Office. In addition, CEO Tay Yoshitani began the process of establishing a Capital Development Division to oversee the Central Procurement Office – a step designed to govern the Port's procurement practices in a more robust manner than what is included in the recommendation.</p> <p>OA1.b. December 20, 2007 through March 8, 2008 the Internal Procurement Team was assembled by the Deputy CEO.</p> <p>OA1.c. December 20, 2007 through March 8, 2008 the Internal Procurement Team met weekly.</p> <p>OA1.d. On March 15, 2008 the Central Procurement Office functions, responsibilities, and staffing were sufficiently defined and a job description for a Chief Procurement Officer was prepared.</p> <p>On March 19, 2008 Dwayne Lee was appointed interim Chief Procurement Officer and the Central Procurement Office was made functionally active on March 20, 2008.</p> <p>On March 21, 2008 the position description was posted and advertised for a permanent Chief Procurement Officer.</p> <p>On May 7, 2008 the process of interviewing for a Chief Procurement Officer was completed.</p> <p>On June 12, 2008 the new Director of the Central Procurement Office, Nora Huey, was announced. A licensed attorney, Ms. Huey has significant experience in contracting and procurement practices. Her first day of work will be June 30, 2008.</p> <p>OA1.e. On February 28, 2008, CEO Yoshitani announced the creation of the Capital Development Division to oversee the Central Procurement Office as well as existing engineering and construction functions with in the organization.</p> <p>On March 20, 2008 the Port functionally established a Central Procurement Office and consolidated procurement functions and activities within this new organization.</p> <p>April 7, 2008 through May 5, 2008 the organizational logistics, roles and responsibilities of the Central Procurement Office were announced Port wide via email.</p>

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					As of June 3 rd the Capital Development Division was functionally established. The hiring process for the Manager, Capital Development is nearing completion.
OA2. The [Port] Commission should re-evaluate the current Delegation of Authority to the [Port] CEO (encompassed in Resolution 3181) and develop and issue a new Delegation of Authority resolution that more clearly defines the Commission's intent with respect to construction management and reporting to the Commission and the public concerning construction activities.	Resolution 3181 is the structural framework underlying the relationship between the Port Commission and the CEO. Resolution 3181 was adopted in 1994. It has remained substantially unchanged for the past 13 years. However, only one of the five Commissioners who voted on and signed Resolution 3181 remains in office. A change of CEO occurred earlier this year. Given these circumstances, it is appropriate that the Commission and the CEO review the provisions of this bedrock document. Ultimately, the Commission, in conversation with the CEO, will strike the balance between policy direction and implementation, as well as other matters concerning the scope of the CEO's authority. To advance that effort, the CEO has asked members of his executive team, led by the General Counsel, to provide him with recommendations for updating, clarifying and strengthening a variety of provisions in Resolution 3181 within 90 days. The CEO has directed the team to give specific attention to the results of this performance audit and the 49 resulting recommendations. In particular, the team is charged	<p>On January 8, 2008, the Port Commission established a subcommittee to review the delegation of Commission authority currently described in Resolution 3181.</p> <p>OA2.a Commissioners Davis and Tarleton will serve on the subcommittee.</p> <p>OA2.b Subcommittee may retain outside experts.</p> <p>OA2.c Subcommittee will report back to full Commission with proposed amendments by June 30, 2008.</p> <p>CEO directed Port staff to review and provide detailed recommendations for changes to the Resolution 3181 provisions related to construction management and construction activity reporting by March 15, 2008.</p> <p>OA2.d Internal team assembled and meeting to review specific provisions and processes.</p>	Commissioners Davis/Tarleton	7/22/08	<p>OA2.a. On January 8, 2008, the Port Commission passed a motion establishing a subcommittee to review delegation of the Commission's authority throughout the organization. Commissioners Davis and Tarleton agreed to lead the subcommittee, and invited several members of the public with expertise in governance structures to serve as panelists assisting the subcommittee. Phyllis Campbell, President, The Seattle Foundation, Thomas L. Purce, President, The Evergreen State College, Jim Warjone, Chairman, Port Blakely Companies and current chair of the Seattle Chamber of Commerce, and Shan Mullin, Partner, Perkins Coie, accepted the invitation and agreed to assist Commissioners Davis and Tarleton in revising Resolution 3181, the document governing delegation of Commission authority.</p> <p>On May 1, 2008 the Subcommittee held its first hearing to accept public comment on proposed changes to the Delegation of Authority.</p> <p>On May 13, 2008 the Port opened a 30 day public comment period on the Delegation of Authority.</p> <p>On June 10, 2008 the Port extended the public comment period to June 30, 2008. Also the Subcommittee held its second hearing to accept public comment on proposed changes to the Delegation of Authority. At the same time the Port invited employees to comment on the subject.</p> <p>On June 23, 2008 the Subcommittee held its third hearing to accept public comment on the proposed changes to the Delegation of Authority.</p> <p>OA2.b. On May 1, 2008 the Subcommittee held its first hearing to accept public comment on proposed changes to the Delegation of Authority.</p> <p>On June 10, 2008 the Subcommittee held its second hearing to accept public comment on proposed changes to the Delegation of Authority.</p> <p>On June 23, 2008 the Subcommittee held its third hearing to accept public comment on the proposed changes to the Delegation of Authority.</p> <p>OA2.c. Commissioners Davis and Tarleton have spent multiple hours with Port staff discussing best practices for organizational governance. On July 1, 2008 the Subcommittee reported to the full Commission and presented a summary of recommended changes to the Delegation of</p>

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	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>Authority.</p> <p>On August 5, 2008 Tom Barnard, Commission Research and Policy Analysis, presented a consolidated draft of the revised delegation of authority to the full Commission.</p> <p>OA2.d. The Port Commission passed a motion on January 8, 2008 affirming its desires to review Commission Resolution 3181 to ensure that the delegated authority is structured in a manner that ensures maximum public trust in the Port and is in line with best practices in organizational governance. Per the motion the Commission established a subcommittee to review Resolution 3181 and to make recommendations on amendments to Resolution 3181 to the full Commission.</p> <p>The Subcommittee drafted revisions to the construction management sections of Resolution 3181. On May 1, 2008 the subcommittee hosted a public meeting to receive comment and testimony on the proposed changes. The Port is now seeking public comment during a 30 day comment period from May 13, 2008 to June 11, 2008. (Note: comment period extended to June 30, 2008)</p> <p>Next steps include:</p> <ul style="list-style-type: none"> • August 12, 2008 first reading of new resolution • August 26, 2008 second reading of new resolution
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	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	<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</p>	Ray Rawe Chief Engineer	6/5/08	<p>1.a. On January 24, 2008 by direction of the Chief Engineer interim actions were implemented requiring all change orders to be reviewed by Construction Managers and Contract Administrators prior to execution and that evidence of that effort to be placed in the files.</p> <p>On February 8, 2008 the item was discussed at the training sessions held for action item 1b.</p> <p>On February 27, 2008 the item was discussed at the training sessions held for action item 1b.</p> <p>1.b. On February 8, 2008 training was completed on the review process for all change orders. This included roles and responsibilities within the new review process and change order estimating.</p> <p>On February 27, 2008 training was completed on the review process for all change orders. This included roles and responsibilities within the new review process and change order estimating.</p> <p>1.c. On May 29, 2008 a standard procedure for preparing Engineer's Estimates was established. For modifications greater than ten thousand dollars but less than fifty thousand dollars a Rough Order of Magnitude</p>

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documented supervisory reviews and approvals.	reviews are well-documented in the files.	<p>change order request requires a 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>(ROM) is required. For modifications exceeding fifty thousand dollars an Independent Estimate is required. A standard cover sheet will be used for all cost estimates; this sheet will also summarize the information contained in the estimate.</p> <p>On May 30, 2008 training for change order estimating was provided to capital development personnel that are directly affected by the new procedures.</p> <p>On June 2, 2008 training for change order estimating was provided to capital development personnel that are directly affected by the new procedures.</p> <p>1.d. On May 29, 2008 a standard procedure for preparing Engineer's Estimates was established. For modifications greater than ten thousand dollars but less than fifty thousand dollars a Rough Order of Magnitude (ROM) is required. For modifications exceeding fifty thousand dollars an Independent Estimate is required along with a standard cover sheet.</p> <p>On May 30, 2008 training for change order estimating was provided to capital development personnel that are directly affected by the new procedures.</p> <p>On June 2, 2008 training for change order estimating was provided to capital development personnel that are directly affected by the new procedures.</p> <p>1.e. As of June 2, 2008 the Engineering Department had coordinated with the Chief Procurement Office to implement revisions to the Construction Manual Standard Operating Procedures and the Contract Manual. Training for affected employees was also completed.</p> <p>1.f. On May 29, 2008 online CA & CM Manuals were updated with the new forms.</p> <p>1.g. On May 30, 2008 training was provided to capital development personnel that are directly affected by the new procedures.</p> <p>On June 2, 2008 training was provided to capital development personnel that are directly affected by the new procedures.</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	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	<p>The Port will review current project trend logs, identify inconsistencies and note corrective actions or evaluate recommendations.</p> <p><u>Immediate Action:</u></p> <p>2.a Identify all cases where engineers' estimates and contractors' proposed</p>	Joyce Kirangi Internal Audit Manager	8/31/08	<p>2.a. On February 22, 2008 an analysis of project trend logs detailing change order amounts which coincided with the contracts amount was completed. On March 3, 2008 this information was forwarded to the Internal Audit Manager.</p> <p>2.b. On February 26, 2008 the Internal Audit Manager forwarded a copy of the proposed review methodology to SAO.</p>

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amounts are consistently the same and, in such cases, undertake a further evaluation of the underlying causes; followed by remedial actions as appropriate.	and also apply the process improvements described above in Recommendation 1.	<p>amounts are consistently the same and determine underlying causes.</p> <p><u>Additional Action:</u></p> <p>2.b Review matches identified and recommend remedial action.</p> <p>2.c Provide report to Senior Management.</p> <p>2.d Take appropriate remedial action as directed by Senior Management.</p>			<p>2.c. The report to Senior Management will happen at a later yet to be determined date.</p> <p>2.d. Results from the internal auditor will be reviewed with Senior Management and remedial action will be taken by construction management and contract administration personnel.</p>
3. We recommend that [the Port] revise its SOP Manual to include specific guidelines for proper and accurate change order documentation. [The Port] should provide training to its consultant staff/construction managers to improve the manner in which [the Port] is documenting project change orders.	The Port has begun revising its construction Standard Operating Procedures Manual as part of its TKW performance audit action plan. Specifically, this revision will include more guidelines for change order negotiations and documentation. Port staff will receive necessary training to support these new guidelines.	<p>The Port will revise its Standard Operating Procedures manual to include specific guidelines for proper and accurate change order documentation, and will take the following steps:</p> <p><u>Immediate Action:</u></p> <p>3.a Provide training on current requirements for change order documentation for CMs, REs and CAs.</p> <p><u>Additional Action:</u></p> <p>3.b Establish team to evaluate current practices.</p> <p>3.c Establish minimum change order documentation requirements and provide change order review checklist.</p> <p>3.d Review current documentation of change order negotiations and develop standard format.</p> <p>3.e Provide training to inspectors, REs, CMs, CAs, Program Leaders, Project Managers, PCS, Facilities & Infrastructure, internal designers and internal auditors on new procedures.</p> <p>3.f Coordinate process with new Central Procurement Office (CPO), which will provide quality control, oversight and continuous improvement.</p>	Ray Rawe Chief Engineer	7/31/08	<p>3.a. On February 27, 2008 training was completed on the review and documentation process for all Change Orders as well as roles and responsibilities within this new review process.</p> <p>3.b. On March 12, 2008 team members were established and the team was formed.</p> <p>3.c. On February 7, 2008 minimum change order documentation requirements were included in the new change order review process and checklist. These requirements are an update to already existing requirements in the Construction Manual.</p> <p>3.d. As of June 2, 2008 revisions incorporating improved change order negotiation and documentation procedures have been made to the Construction Manual Standard Operating Procedures.</p> <p>3.e. On May 30, 2008 required training for affected personnel was completed.</p> <p>On June 2, 2008 required training for affected personnel was completed</p> <p>3.f. As of June 2, 2008 the processes were coordinated and carried out by members of both the Engineering Department and the Central Procurement Office.</p>
4. We recommend that [the Port] develop	As noted in the Port's response to Recommendation	The Port will develop standard operating procedures that align with best industry	Ray Rawe Chief Engineer	6/5/08	4.a. As of March 25, 2008 the requirement for a negotiation summary was

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Standard Operating Procedures (SOPs) that align with industry practices. Current [Port] SOPs do not provide adequate information regarding change order negotiations.	3, the Port has begun revisions to its procedures manual to better conform to industry best practices.	<p>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>included in the change order review and checklist.</p> <p>4.b. On February 27, 2008 training was completed on the review and documentation process for all Change Orders as well as roles and responsibilities within this new review process.</p> <p>4.c. On March 11, 2008 a team was established to review best industry practices for change order negotiations.</p> <p>On April 3, 2008 team members interviewed various public agencies to determine best industry practices for change order negotiations.</p> <p>4.d. On April 3, 2008 the team developed a spread sheet to compare various local agencies best industry practices for change order negotiations.</p> <p>On April 14, 2008 the team determined that the method currently used by the Port of Seattle is consistent with industry best practices.</p> <p>On May 29, 2008 Pre-Negotiation Position form for change orders valued at or above two hundred thousand dollars was established.</p> <p>4.e. On April 14, 2008 it was determined by the team that the current "Summary of Negotiations" form is consistent with best industry practices. The form shall contain a chronological summary of the negotiations and all pertinent information shall be attached to the form.</p> <p>On May 29, 2008 Pre-Negotiation Position form for change orders valued at or above two hundred thousand dollars was established.</p> <p>4.f. On May 30, 2008 training for Port of Seattle personnel directly affected by the new procedures for change order negotiations was conducted.</p> <p>On June 2, 2008 training for Port of Seattle personnel directly affected by the new procedures for change order negotiations was conducted.</p> <p>On June 19, 2008 training for Port of Seattle personnel directly affected by the new procedures for change order negotiations was conducted.</p>
5. [Port] management should take immediate steps to assure that [the Port] rigorously enforces all contractual schedule requirements. Then, when requests for time	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	<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</p>	Ray Rawe Chief Engineer	8/1/08	<p>5.a. On February 27, 2008 training was completed on the review process for all Change Orders as well as roles and responsibilities within this new review process, including construction schedules.</p> <p>5.b. As of February 26, 2008 All active projects were reviewed for contractual schedule compliance. Information gathered from the compliance review was utilized to develop the schedule training</p>

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<p>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>specific attention to the practices of other state and local agencies with respect to scheduling and enforcement when conducting this review.</p>	<p>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>presentation.</p> <p>5.c. As of February 26, 2008 a compliance survey of all active projects was performed. A list of items requiring attention or response was identified.</p> <p>From February 26 to April 4, 2008 construction managers and resident engineers met to discuss the necessary action steps. This was done to achieve compliance in schedule requirements for each contract in compliance.</p> <p>On April 4, 2008 all ongoing non-compliant contracts were reviewed and resident engineers issued notification letters to the Contractors that were out of compliance. Where applicable they requested Contractors submit required documentation to bring contracts into compliance.</p> <p>5.d. On April 4, 2008 a team was established to benchmark other government agencies practices and policies relating to schedule and schedule compliance.</p> <p>5.e. Review of other agencies practices is complete, comparisons were analyzed and recommendations were implemented. Action complete on July 31, 2008.</p> <p>5.f. On May 29, 2008 training associated with the revised schedule enforcement procedures and processes was conducted by Engineering and Procurement Office Staff.</p> <p>On June 2, 2008 training associated with the revised schedule enforcement procedures and processes was conducted by Engineering and Procurement Office Staff.</p> <p>On June 19, 2008 training associated with the revised schedule enforcement procedures and processes was conducted by Engineering and Procurement Office Staff.</p>
<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</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></p> <p>6.a Port staff was notified that this practice is no longer permitted.</p> <p>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>Ray Rawe Chief Engineer</p>	<p>6/5/08</p>	<p>6.a. On January 24, 2008 an email was issued to all Construction Managers and staff with a directive to stop any informal resolution of change orders and actions.</p> <p>On February 8, 2008 this item was discussed, along with required documentation, at the training sessions held in conjunction with action item 1b.</p> <p>On February 27, 2008 this item was discussed, along with required documentation, at the training sessions held in conjunction with action item 1b.</p> <p>6.b. On January 24, 2008 an email was issued to all Construction</p>

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differences.		<p><u>Additional Action:</u> 6.c All change order negotiations will be fully documented.</p> <p>6.d Change order documentation will be improved as outlined in Recommendations 1, 3, 4 and 5.</p> <p>6.e Port management will provide interim guidance until revised processes and procedures are put in place.</p>			<p>Managers and staff that all change order negotiations and actions shall be reviewed by the Construction Manager and Contract Administrator prior to execution.</p> <p>On February 8, 2008 this item was reviewed at the training sessions held in conjunction with action item 1b.</p> <p>On February 27, 2008 this item was reviewed at the training sessions held in conjunction with action item 1b.</p> <p>6.c. As of February 27, 2008 the change order training sessions held for all Resident Engineers, Construction Managers, and Contract Administrators, emphasized that all negotiations shall be fully documented. The requirement for a negotiation summary has been included in the change order review and checklist.</p> <p>6.d. As of June 2, 2008 Change Order documentation was improved as outlined in Recommendations 1, 3, 4, and 5. These improvements were included in the Construction Manual Standard Operation Procedures.</p> <p>6.e. As of February 27, 2008 the change order training sessions held for all Resident engineers, Construction Managers, and Contract Administrators, emphasized the requirement for improved change order documentation, including a new change order review and checklist.</p>
7. We recommend that [the Port] 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.	The Port will undertake additional review of change orders using procedures consistent with accepted auditing standards to determine whether other incorrect mark-ups on change orders exist.	<p>Using a statistical sampling methodology, Internal Audit will review Port construction 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>	Joyce Kirangi Internal Audit Manager	8/31/08	<p>7.a. On February 26, 2008 the Internal Audit Manager forwarded a copy of statistical sample methodology to SAO.</p> <p>7.b. Review is in progress and has an estimated completion date of August 31, 2008.</p> <p>7.c. Following the completions of the review, the Port will determine if further review is necessary.</p> <p>7.d. As of August 30, 2007 corrective action was taken by CM and CA with the recovery of \$8,895.54. Other cost recovery will be made where appropriate.</p> <p>Review is in progress and has an estimated completion date of August 31, 2008</p>

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		7.d Implement cost recovery where appropriate.			
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 means for tracking actual project expenditures against initial estimates to prevent unforeseen cost overruns.	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 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>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 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>	Larry McFadden PCS General Manager	7/31/08	<p>8.a. On January 29, 2008 PCS contract administration staff was formally notified by e-mail to not authorize any new work authorizations above 90% of the current contract value.</p> <p>On February 21, 2008 a meeting was held with the departments within the Port that prepare, advertise, execute, and administer small works contracts to address this item.</p> <p>On March 20, 2008 a meeting was held for all Construction Managers and Contract Administrators to review the new required procedures.</p> <p>On June 5, 2008 the immediate action item that was signed off as being completed on March 31, 2008, was amended to include additional action item steps that had been implemented.</p> <p>8.b. On January 29, 2008 PCS contract administration staff was formally notified by e-mail to not authorize any new work authorizations above 90% of the current contract value.</p> <p>On February 21, 2008 the departments within the Port that prepare, advertise, execute, and administer small works contracts participated in discussions on this item and agreed to comply with the new required procedures.</p> <p>On February 27, 2008 a meeting was held to discuss to limit work authorizations from going over their original amounts.</p> <p>On March 6, 2008 a decision was made to create a matrix that could be used by the Construction Managers to monitor their costs with the information contained on the daily logs.</p> <p>On June 5, 2008 the immediate action item that was signed off as being completed on March 31, 2008, was amended to include additional action item steps that had been implemented.</p> <p>8.c. On March 20, 2008 a meeting was held for all Construction Managers and Contract Administrators within PCS to provide training on revised procedures for tracking small works expenditures against budgets.</p> <p>On March 21, 2008 The Contract Work Authorization Estimate and Tracking Sheet was revised.</p> <p>On June 5, 2008 the immediate action item that was signed off as being completed on March 31, 2008, was amended to include additional action</p>

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					<p>item steps that had been implemented.</p> <p>8.d. On March 27, 2008 A meeting with ICT was held to discuss existing and future enhancements to the Project Management Information System (PMIS) that will prevent cost overruns and improve project reporting.</p> <p>In PMIS, there is a formula that restricts the total value of Work Authorizations (WA) that can be opened against a contract. The formula has been changed to assume that all WA will exceed their budgets by 20%. If the total remaining unencumbered amount on the contract is less than the total of all budgeted WA amounts plus 20%, a Construction Manager cannot open a new WA against the contract.</p> <p>8.e. Final recommendations were provided to the CPO on July 16, 2008.</p>
<p>9. We recommend that [the Port] develop and include in all contracts 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 Port will strengthen the language limiting the contract to the stated amount and ensure that this revised standard is consistently included in all contracts.</p>	<p>The Port will strengthen the existing “cost limitation” clause in small works open order 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>Larry McFadden PCS General Manager</p>	<p>7/31/08</p>	<p>9.a. On February 14, 2008 existing “not to exceed” language was identified to others.</p> <p>On April 7, 2008 this immediate action item was complete in that the Port would continue using the existing “not to exceed” language while developing new language for the specifications.</p> <p>9.b. On January 29, 2008 PCS contract administration staff was formally notified by e-mail to not authorize any new work authorizations above 90% of the current contract value.</p> <p>On February 21, 2008 the departments within the Port that prepare, advertise, execute, and administer small works contracts participated in discussions on this item and agreed to comply with the new required procedures.</p> <p>On March 20, 2008 a meeting was held for all Construction Managers and Contract Administrators within PCS to provide training on revised procedures for tracking small works expenditures against budgets.</p> <p>On June 5, 2008 this immediate action item that was signed off as being completed on March 31, 2008, was amended to include additional action steps that have been implemented.</p> <p>9.c. On March 4, 2008 a meeting was held to review edits to the proposed language changes.</p> <p>On March 6, 2008 a meeting was held to review edits to the proposed language changes.</p> <p>On March 27, 2008 a meeting was held to review edits to the proposed language changes.</p>

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					<p>On April 16, 2008 a meeting was held to review edits to the proposed language changes.</p> <p>On April 29, 2008 a meeting was held to review edits to the proposed language changes.</p> <p>On May 2, 2008 a meeting was held to review edits to the proposed language changes.</p> <p>On March 20, 2008 a meeting was held for all Construction Managers and Contract Administrators within PCS to provide training on revised procedures for tracking small works expenditures against budgets and to be informed of future changes to the language in the specifications.</p> <p>The Port has completed its evaluation of this action item and identified changes to be made to the bid documents regarding the "Cost Limitations" language. Responding to the Auditor's recommendation, the existing "cost limitation" language in the following sections has been revised and will be included in the contract documents for all projects bidding through the CPO as of July 31, 2008.</p> <ul style="list-style-type: none"> • 0100 Requests for Bids • 0200 Instruction to Bidders • 0410 Bid Form • 0800 Supplementary Conditions
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.	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 interested bidders from competing for Port contracts.	<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</p> <p>1.) Consistent with statutory requirements and Port policies, the Port will continue 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>2.) 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</p>	Larry McFadden PCS General Manager	7/31/08	<p>While the Port disagrees with the auditor's recommendation, we took several steps to ensure that our project recruitment processes, particularly those related to the Port's Small Works Roster, are as inclusive as possible and adhere to Washington statutes. We believe these changes achieve the intent behind the auditor's recommendation.</p> <p>10.a. (1) On November 16, 2007 the Port decided to solicit bids from all contractors under the applicable craft code for each contract and to publicly display all contracts on the website.</p> <p>On February 21, 2008 these required procedures were communicated to all departments that compile plans and specifications, advertise, execute, and administer small works contracts for the Port of Seattle.</p> <p>On March 6, 2008 these required procedures were communicated to all departments that compile plans and specifications, advertise, execute, and administer small works contracts for the Port of Seattle.</p> <p>10.a.(2) In October 2007 the Port of Seattle began the <u>Account Information Update Project</u> to update the Small Works Roster (SWR) by sending out letters, e-mail and faxes to approximately 1,580 contractors on the roster that were identified as active accounts.</p>

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		<p>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>			<p>In November 2007 notices were placed in the Daily Journal of Commerce, the NW Asian Weekly, and the Medium News that the Port of Seattle was accepting requests for inclusion onto the Port of Seattle Small Works Roster.</p> <p>During May 2008 the <u>Account Information Update Project</u> was completed with a total of 971 active accounts on the SWR.</p> <p>On June 5, 2008 this specific action item was signed off as being completed. The Port solicits bids from all contractors listed under applicable craft code, publicly displays all bids on its website, and has updated the Small Works Roster Program.</p> <p>10.b. On February 21, 2008 a meeting was held in the Office of Port Construction Services to review immediate procedures and processes that are being taken in response to the SAO Audit.</p> <p>On March 6, 2008 meetings were held in the AOB and at P-69 to review immediate procedures and processes that are being taken in response to the SAO audit.</p> <p>On June 10, 2008 a meeting was held with all Contract Administrators in the Centralized Procurement Office that work on small works projects to again review those procedures and processes that are being taken by the Port in response to the SAO Audit.</p> <p>On June 11, 2008 this specific action item was signed off as being completed.</p>
<p>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.</p>	<p>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.</p>	<p>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.</p> <p><u>Immediate Action:</u> 11.a Obtain SAO confirmation of sampling and risk-based audit methodology that will be used.</p>	<p>Joyce Kirangi Internal Audit Manager</p>	<p>8/31/08</p>	<p>11.a. On February 26, 2008 the Internal Audit Manager forwarded a copy of the statistical sampling methodology to SAO.</p> <p>11.b. Testing is in progress on a statistical sample of PCS contracts for the last 3 years. The estimated completion date is August 31, 2008.</p> <p>11.c. Following the completions of the review, the Port will determine if further review is necessary.</p> <p>11.d. Following completion of the review the Port will determine if any corrective action is required.</p> <p>The review is in progress and has an estimated completion date of August 31, 2008</p>

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		<u>Additional Action</u> 11.b Review those contracts identified based on sampling and risk-based audit methodology. 11.c Determine if further review is necessary based on outcome of initial steps. 11.d Take appropriate corrective action.			
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.	The Port will review this contract and take action as appropriate.	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.	Joyce Kirangi Internal Audit Manager	4/30/2008	12.a. As of April 30, 2008 the Internal Audit concluded that available documentation clearly shows how the contract was awarded, but does not resolve the question as to how the contractor in question was added to the invite-to-bid list with the same degree of clarity.
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 requirements are not circumvented.	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 compliance with Port procurement policies.	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. <u>Immediate Action:</u> 13.a The Port completed a partial audit review of Professional Service Agreements in 2007. 13.b At the direction of Senior Management, Internal Audit completed an audit of an expanded number of capital Professional Services Agreements in 2007. 13.c Internal Audit report was presented to Senior Management in 2007. 13.d Interim action was taken to strengthen the controls related to execution of new	Tim Jayne Senior Manager, Procurement Services	7/31/08	13.a. In August 2006 a partial review was conducted. 13.b. As of August 8, 2007 the review was complete and the report was issued. 13.c. As of August 8, 2007 the review was complete and presented to Senior Management. 13.d. As of February 22, 2008 the Senior Manager of Procurement reviews and approves all PSA contracts and amendments in excess of \$100,000 to ensure that proper polices and procedures are being followed, including insuring that competition requirements are not being circumvented. 13.e. A training curriculum has been developed that will enforce procedures for awarding and amending service agreements. Training for Project Management and Administration Personnel was held on June 24 th and 26 th , 2008. Training for Construction Management is already completed. Additional training was been scheduled for June 29 th . A team has begun work on developing a course for PSA administration. Once complete this course will be provided to all POS staff that administer Service Agreements.

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		<p>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> 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>13.f. As of April 7, 2008 the CPO will assist and manage all Personal and Professional Service Agreements according to the Authority matrix.</p> <p>All Action Steps for this recommendation were completed on or before June 26, 2008</p>
<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 circumvented, and take appropriate corrective actions.</p>	<p>The Port will undertake additional review of professional services agreements using procedures consistent with accepted auditing standards to evaluate whether other instances of non-compliance exist and will take corrective action as warranted.</p>	<p>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 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>	Joyce Kirangi Internal Audit Manager	8/31/08	<p>14.a. On February 26, 2008 the Internal Audit Manager forwarded a copy of the statistical sampling methodology to SAO.</p> <p>14.b. Testing is in progress on a statistical sample of PCS contracts for the last 3 years. The estimated completion date is August 31, 2008.</p> <p>14.c. Following the completions of the review, the Port will determine if further review is necessary.</p> <p>14.d. Following completion of the review the Port will determine if any corrective action is required.</p> <p>The review is in progress and has an estimated completion date of August 31, 2008</p>
<p>15. We recommend that [the Port] revise [Purchasing Policy] PUR-2 to incorporate a</p>	<p>The Port agrees that large professional service agreements should have additional controls to ensure</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</p>	Tim Jayne Senior Manager, Procurement Services	7/31/08	<p>15.a. As of January 29, 2008 a Senior Manager in procurement services now reviews all requests for amendments and contract requests over \$100,000, and coordinates with the Legal department on any requests the present potential compliance issues.</p>

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<p>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> <ol style="list-style-type: none"> 1. The project scope of work is not being divided into smaller segments to avoid PUR-2, statutory, or Delegation of Authority procedures. 2. The increased amended consultant responsibilities are generally related or associated with the project scope utilized in the original consultant selection. 	<p>amendments are consistent with original scope and prevent inappropriate contract segmentation. The Port will evaluate what kinds of controls are most effective.</p>	<p>review necessary.</p> <p><u>Immediate Action:</u> 15.a As an interim step, the Port immediately requires that all amendments over \$100,000 receive 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>			<p>15.b. A draft of a revised PUR-2 policy and procedures is complete, and will include limitations on the size of amendments.</p> <p>A work group has been established for this item.</p>
<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</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>	<p>Joyce Kirangi Internal Audit Manager</p>	<p>8/31/08</p>	<p>16.a. It was determined that a complete review of all PSAs would be too broad in scope. Internal Audit proposed an alternative means to establish the review base.</p> <p>On February 26, 2008 the Internal Audit Manager forwarded a copy of the statistical sampling methodology to SAO.</p> <p>16.b. The review is in progress and has an estimated completion date of August 31, 2008. If discrepancies are identified, the appropriate corrective action will be implemented.</p>

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	findings and recommendations, the Port discovers any federal grant violations it will take prompt and appropriate action, including notification to applicable agencies.				
17. We recommend that [the Port] undertake a review of all of its professional services agreements to assure that: <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. 	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>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>	Joyce Kirangi Internal Audit Manager	8/31/08	<p>17.a. On February 26, 2008 the Internal Audit Manager forwarded a copy of the statistical sampling methodology to SAO.</p> <p>17.b. The review is in progress and has an estimated completion date of August 31, 2008</p> <p>17.c. Following the completions of the review, the Port will determine if further review is necessary.</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 with [Port] personnel. (We suggest that [the	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 considering the use of consultants. The Port will note its reasoning for retaining outside consultants within the set of documentation files that	<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><u>Additional Action:</u></p> <p>18.a As recommended, the Port will review OMB Circular A-76 for applicability.</p> <p>18.b The Port will develop a cost analysis</p>	Bob Riley Director Aviation CIP	7/31/08	<p>18.a. On March 17, 2008 a meeting was held to review the applicability of A-76. It was determined that A-76 is not applicable to the Port of Seattle. Information from "Attachment C – Calculating Public-Private Competition Costs" will be included in design of our cost analysis model.</p> <p>18.b. Guidelines have been drafted for the decision about when to hire Port FTE employees versus when to use consultants. The guidelines include appropriate concepts from OMB Circular A-76. The draft guidelines will be tested during the initial training and refined as necessary.</p> <p>As of June 26, 2008 the guidelines are complete and in place.</p>

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Port] study and adapt Federal Office of Management and Budget Circular A-76 for this purpose.)	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>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>18.c. The initial training on new procedures for Service Agreements was completed on June 24th and June 26th 2008. The curriculum includes the guidelines developed for 18.b above and the other improvements that have been developed for using consultant services.</p> <p>All Action Steps for this recommendation were completed on or before June 26, 2008</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: <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. • Assure that labor categories and rates being billed do not exceed the contractually stipulated labor categories and rates. 	The Port agrees and has implemented the recommendation.	<p><u>Immediate Action:</u></p> <p>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></p> <p>19.b Suggestions included in this recommendation will be used to improve the Port's PSA procedures.</p>	Bob Riley Director Aviation CIP	7/31/08	<p>19.a. On October 1, 2007 Invoices were checked for correct billing rates for each individual and all labor categories used on invoices have been corrected to match those in the PMSC contract.</p> <p>19.b. Suggestions included in this recommendation will be used to improve the Port's PSA procedures.</p>
20. We recommend that	Port Construction Services	<u>Immediate Action:</u>	Larry McFadden	7/31/08	20.a. As of April 7, 2008 this specific action item was signed off as being

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<p>[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>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>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>complete. The Port will continue to use existing systems to report contract awards while working with ICT on possible enhancements.</p> <p>20.b. On March 20, 2008 a meeting was held with ICT to address the current means of tracking and reporting on small works contracts and possible enhancements.</p> <p>On April 2, 2008 the ICT Governance Board approved the expenditure of \$187,000 for the Small Works Roster Program Project.</p> <p>A meeting was held on May 14, 2008 to address enhancements to the Small Works Roster Program.</p> <p>A meeting was held on May 21, 2008 to address enhancements to the Small Works Roster Program.</p> <p>A meeting was held on June 4, 2008 to address enhancements to the Small Works Roster Program.</p> <p>The working draft revisions (dated May 6, May 16, and June 4, 2008) had been discussed.</p> <p>On July 10, 17, and 31, 2008 meetings were held that included ICT, OSR, CPO, PCS, and representatives from the small business community to discuss alternatives for awarding small works contracts as identified in item 20.c.</p> <p>This specific action item continues to be worked on as part of the Small Works Roster V2 Program Update. In the meantime, the CPO will continue to invite quotations from all contractors on the small works roster that have indicated the capability of performing the kind of work being contracted.</p> <p>20.c. A meeting was held on March 6, 2008 with representatives from Legal, Centralized Procurement Office, Seaport Maintenance, and the office of Social Responsibility. During the meeting alternatives were discussed to ensure that contracts were not being repeatedly awarded to the same contractors and possibly not awarding to the lowest responsible bidder.</p> <p>A meeting was held on March 26, 2008 with representatives from Legal, Centralized Procurement Office, Seaport Maintenance, and the office of Social Responsibility. During the meeting alternatives were discussed to ensure that contracts were not being repeatedly awarded to the same contractors and possibly not awarding to the lowest responsible bidder.</p> <p>A meeting was held on April 17, 2008 with representatives from Legal, Centralized Procurement Office, Seaport Maintenance, and the office of</p>

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					<p>Social Responsibility. During the meeting alternatives were discussed to ensure that contracts were not being repeatedly awarded to the same contractors and possibly not awarding to the lowest responsible bidder.</p> <p>A meeting was held on May 19, 2008 with representatives from Legal, Centralized Procurement Office, Seaport Maintenance, and the office of Social Responsibility. During the meeting alternatives were discussed to ensure that contracts were not being repeatedly awarded to the same contractors and possibly not awarding to the lowest responsible bidder.</p> <p>A meeting was held on May 27, 2008 with representatives from Legal, Centralized Procurement Office, Seaport Maintenance, and the office of Social Responsibility. During the meeting alternatives were discussed to ensure that contracts were not being repeatedly awarded to the same contractors and possibly not awarding to the lowest responsible bidder.</p> <p>A meeting was held on June 3, 2008 with representatives from Legal, Centralized Procurement Office, Seaport Maintenance, and the office of Social Responsibility. During the meeting alternatives were discussed to ensure that contracts were not being repeatedly awarded to the same contractors and possibly not awarding to the lowest responsible bidder.</p> <p>On May 15, 2008 the Port of Seattle staff had the opportunity to hear about the Regional Small Business Development Program used in the Seattle School District for Historically Underutilized Businesses (HUB)</p> <p>On June 11, 2008 this specific action item was signed off as being completed. An investigation of the alternatives to ensure a more equitable distribution of contract awards has been completed and is ready to move forward with our recommendations as part of action item 20d.</p> <p>20.d. Currently the Port's PeopleSoft Financial System and PCS's Project Management Information System both have information available on contracts and the contract dollars awarded.</p> <p>On June 25, 2008 representatives from the Office of Social Responsibility, Central Procurement Office, Capital Development Division, Legal, Executive, and Port Construction Services met to review alternatives for awarding small works contracts, seek Executive and CPO input/guidance, and reach agreement on how to proceed forward. Upon final decision of a possible new process for awarding contracts, the policy will be developed and implemented.</p> <p>On July 10, 17, and 31, 2008 meetings were held that included ICT, OSR, CPO, PCS, and representatives from the small business community to discuss policy development, implementation procedures, and enhancements to the Small Works Roster V2 project.</p>

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					<p>The decision made to proceed with development of these alternatives will require additional and significant enhancements to the Small Works Roster Program. Further development and programming changes to the existing system are on hold pending development of the final scope. The revised scope is expected to be completed by August 31, 2008. The schedule will be adjusted per the work identified in the revised scope.</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 selection list.</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 interested bidders from competing for Port contracts. The Port is, however, currently reviewing the rotation process and making appropriate revisions to eliminate any ability to otherwise circumvent that process.</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>Larry McFadden PCS General Manager</p>	<p>7/31/08</p>	<p>While the Port disagrees with the auditor's recommendation, we took several steps to ensure that our project recruitment processes, particularly those related to the Port's Small Works Roster, are as inclusive as possible and adhere to Washington statutes. We believe these changes achieve the intent behind the auditor's recommendation.</p> <p>21.a. On February 21, 2008 a meeting was held with those additional departments within the Aviation Division, Seaport Division, and Corporate Division that prepare, advertise, execute and administer small works contracts. The purpose of this meeting was to communicate the new required procedures and processes that are to be followed when executing small works contracts. Specifically, the Port will advertise to all contractors with the applicable craft code.</p> <p>On March 6, 2008 a meeting was held with those additional departments within the Aviation Division, Seaport Division, and Corporate Division that prepare, advertise, execute and administer small works contracts. The purpose of this meeting was to communicate the new required procedures and processes that are to be followed when executing small works contracts. Specifically, the Port will advertise to all contractors with the applicable craft code.</p> <p>A meeting was held on March 20, 2008 to discuss future enhancements to the Small Works Roster Program.</p> <p>A meeting was held on March 27, 2008 to discuss future enhancements to the Small Works Roster Program.</p> <p>A meeting was held on May 14, 2008 to address enhancements to the Small Works Roster Program.</p> <p>A meeting was held on May 21, 2008 to address enhancements to the Small Works Roster Program.</p> <p>A meeting was held on June 4, 2008 to address enhancements to the Small Works Roster Program.</p> <p>The working draft revisions (dated May 6, May 16, and June 4, 2008) had been discussed.</p>

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					<p>This specific action item continues to be worked on as part of the Small Works Roster V2 Program update.</p> <p>On July 10, 17, and 31, 2008 meetings were held that included ICT, OSR, CPO, PCS, and representatives from the small business community to discuss policy development, implementation procedures, and enhancements to the Small Works Roster V2 project.</p> <p>The decision made to proceed with development of these alternatives will require additional and significant enhancements to the Small Works Roster Program. Further development and programming changes to the existing system are on hold pending development of the final scope. The revised scope is expected to be completed by August 31, 2008. The schedule will be adjusted per the work identified in the revised scope.</p>
<p>22. We recommend that [Port Construction Services] require contract files to include email and fax confirmations for the advertisements as proof that invitations to bid are actually received by potential bidders.</p>	<p>Although currently complying with all legal requirements related to the advertisement of small works contract opportunities, Port Construction Services agrees with this recommendation and will improve its documentation associated with advertisements and bid notice communications. Port Construction Services intends to integrate this documentation into the Small Works Roster Program.</p>	<p><u>Immediate Action:</u> 22.a The Port will continue to follow-up on any bid invitations returned as “undeliverable” and proactively maintain and update the information in the Small Works Roster for accuracy to promote broad competition on small works contracts.</p> <p><u>Additional Action:</u> 22.b The Port will require documentation for small works contracts to include confirmation as proof that invitations to bid have been sent, and to improve its procedures to make the bid advertisement as widely available as possible.</p> <p>22.c Required procedures will be coordinated and applied Port-wide for all users of the Small Works Roster.</p>	<p>Larry McFadden PCS General Manager</p>	<p>7/31/08</p>	<p>22.a. As of November 2007 the following documents are now contained in the contract files as confirmation of follow-up on those bid invitations that were returned as “undeliverable.”</p> <ul style="list-style-type: none"> • Copy of the Abstract of Bids that identifies all the firms that were invited to bid, which firms actually bid on the contract, and their actual bid amount • Small Works Roster Screenshot showing the contract advertisement on the Port’s website • List of all contractors invited to bid (also indicates that it was publicly displayed on Port’s website) • List of all current contractors (as of March 7, 2008) that are listed with the applicable craft code for the work that is being advertised (Note: This list constantly changes as new contractors are added to the list or existing contractors are removed from the active list) • E-mail corrections / contacts log when applicable – (Began checking on February 13, 2008 as a result of working with the contractors to have them update their contact information on the small works roster) • Re-sent bid advertisements when applicable – (Began resending on February 13, 2008 as a result of working with the contractors to have them update their contact information on the small works roster) <p>During October 2007 the Port of Seattle began the <u>Account Information Update Project</u> to update the Small Works Roster (SWR) by sending out letters, e-mail and faxes to 1,580 contractors on the roster that were identified as active accounts.</p> <p>Notices were placed in the Daily Journal of Commerce, the NW Asian Weekly, and the Medium News that the Port of Seattle was accepting requests for inclusion onto the Port of Seattle Small Works Roster.</p> <p>In May 2008 the <u>Account Information Update Project</u> was completed with a total of 971 active accounts on the SWR.</p>

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					<p>On June 5, 2008 this immediate action item was signed off as being completed. All "undeliverable" bid invitations are being followed-up on and the Small Works Roster has been updated.</p> <p>22.b. On November 16, 2007 actual work to address these findings began with a decision by the Port to solicit bids from all contractors under the applicable craft code for each contract and to publicly display all contracts on its website.</p> <p>On February 21, 2008 the departments that prepare, advertise, execute, and administer small works contracts participated in discussions on this action item and agreed to comply with these new required procedures.</p> <p>On March 6, 2008 the departments that prepare, advertise, execute, and administer small works contracts participated in discussions on this action item and agreed to comply with these new required procedures.</p> <p>A notebook has been created that contains information on all bid advertisements beginning November 16, 2007 and ending March 31, 2008. Because these documents are now required to be a part of the contract files, this information will no longer be kept in a separate notebook.</p> <p>On March 31, 2008 this immediate action item was signed off as being completed. All contract files are required to contain proof that invitations have been sent and bid advertisements have been widely distributed.</p> <p>22.c. On February 21, 2008 a meeting was held in the office of PCS to review immediate procedures and processes that are being taken in response to the SAO audit. This included the requirement that the contract files are to have a list of all contractors that the solicitation was sent. This will also demonstrate that it was displayed publicly on the Port's website.</p> <p>On March 6, 2008 a meeting was held with those additional departments within the Aviation Division, Seaport Division, and Corporate Division that prepare, advertise, execute and administer small works contracts. The purpose of this meeting was to communicate the new required procedures and processes that are to be followed when executing small works contracts. Specifically for this recommendation, there is a requirement to ensure that the contract files contain a list of all contractors to whom the solicitation was sent. This will also demonstrate that it was displayed publicly on the Port's website.</p> <p>On June 10, 2008 a meeting was held with all Contract Administrators in the Central Procurement Office that work on small works projects. The purpose of this meeting was to review those procedures and processes that are being taken by the Port in response to the SAO Audit.</p>

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					On June 12, 2008 this specific action item was signed off on as being completed. Bid invitations are on the Port's website, all contractors with applicable craft code are being invited to bid, "Undeliverable" invitations are being followed-up on, and the Small Works Roster Program had been updated.
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.	Larry McFadden PCS General Manager	7/31/08	<p>23.a. On February 21, 2008 a meeting was held to review immediate procedures and processes to ensure that all procurements are advertised.</p> <p>On March 6, 2008 a meeting was held to review immediate procedures and processes to ensure that all procurements are advertised.</p> <p>On March 20, 2008 a meeting was held to discuss future enhancements to the Small Works Roster Program.</p> <p>On May 14, 2008 a meeting was held with ICT and PCS to discuss the latest revision, dated May 6, 2008 of the business case (Titled Small Works Roster V2) for future Small Works Roster Program enhancements. There were several modifications requested.</p> <p>Meetings were held to discuss the latest revisions (dated May 16, 2008 and June 4, 2008) of the business case (titled Small Work Roster V2) for future Small Works Roster Program enhancements. There were several modifications requested.</p> <p>This specific action item continues to be worked on as part of the Small Works Roster V2 Program update and is scheduled for completion by ICT on July 31, 2008.</p> <p>On July 10, 17, and 31, 2008 meetings were held that included ICT, OSR, CPO, PCS, and representatives from the small business community to discuss policy development, implementation procedures, and enhancements to the Small Works Roster V2 project.</p> <p>The decision made to proceed with development of these alternatives will require additional and significant enhancements to the Small Works Roster Program. Further development and programming changes to the existing system are on hold pending development of the final scope. The revised scope is expected to be completed by August 31, 2008. The schedule will be adjusted per the work identified in the revised scope.</p>
24. We recommend that [Port Construction Services] develop consistent bid evaluation criteria, particularly when	The Port will review and evaluate its process regarding open order contracts and make changes as appropriate to ensure fair competition	<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	Larry McFadden PCS General Manager	7/31/08	24.a. On February 21, 2008 a meeting was held with departments affected to communicate the new required procedures and processes that are to be followed when executing small works contracts. Specifically there is a requirement to ensure that bid evaluations are developed prior to the bid opening for every small works open order contract and that the

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<p>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.”</p>	<p>among all potential bidders.</p>	<p>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>			<p>documentation is included in the contract file.</p> <p>On March 6, 2008 a meeting was held with affected departments to communicate the new required procedures and processes that are to be followed when executing small works contracts. Specifically there is a requirement to ensure that bid evaluations are developed prior to the bid opening for every small works open order contract and that the documentation is included in the contract file.</p> <p>On April 7, 2008 this specific action item was signed off as being completed. Bid evaluations will continue to be developed prior to the bid opening while the bid matrix evaluation process is being reviewed as identified in action item 24b.</p> <p>24.b. A meeting was held on April 21, 2008 to review language edits and discuss this specific action item.</p> <p>A meeting was held on May 8, 2008 to review language edits and discuss this specific action item.</p> <p>A meeting was held on June 5, 2008 to review language edits and discuss this specific action item.</p> <p>A meeting was held on June 11, 2008 to review language edits and discuss this specific action item.</p> <p>On June 16, 2008 this specific action item was signed off as being completed. The required changes to the General Conditions will be completed by July 31, 2008 as part of action item 24c.</p> <p>24.c. The Port completed its evaluation of this action item and identified changes to be made in the bid documents regarding the evaluation process for time and materials contracts. The required procedures have been coordinated and applied Port-wide for all users of the Small Works Roster.</p>
<p>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 the</p>	<p>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 ways in which it can increase transparency and oversight by the Port Commission in</p>	<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>	<p>Commissioners Davis/Tarleton</p>	<p>6/30/08</p>	<p>25.a. On January 8, 2008 the Port of Seattle passed a motion establishing a Commission Subcommittee to review the Delegation of Authority.</p> <p>On May 1, 2008 the Subcommittee held its first hearing to accept public comment on proposed changes to the Delegation of Authority.</p> <p>On May 13, 2008 the Port opened a 30 day public comment period on Delegation of Authority.</p> <p>On June 10, 2008 the Port extended the public comment period to June 30, 2008. Also, the Subcommittee held its second hearing to accept public comment on proposed changes to the Delegation of Authority. At</p>

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Commission adequate time for deliberation and decision-making.	connection with bid irregularities. The Chief Executive Officer will review these recommendations with the Port Commission for approval and formal adoption.				<p>the same time, the Port invited employees to comment on the subject.</p> <p>On June 23, 2008 the Subcommittee held its third hearing to accept public comment on the proposed changes to the Delegation of Authority.</p> <p>On July 1, 2008 the Subcommittee reported to the full Commission and presented a summary of recommended changes to the Delegation of Authority.</p> <p>On August 5, 2008 Tom Barnard, Commission Research and Policy Analysis, presented a consolidated draft of the revised delegation of authority to the full Commission.</p> <p>Next steps include:</p> <ul style="list-style-type: none"> • August 12, 2008 first reading of new resolution • August 26, 2008 second reading of new resolution
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>	Commissioners Davis/Tarleton	6/30/08	<p>26a. On January 8, 2008 the Port of Seattle passed a motion establishing a Commission Subcommittee to review the Delegation of Authority.</p> <p>On May 1, 2008 the Subcommittee held its first hearing to accept public comment on proposed changes to the Delegation of Authority.</p> <p>On May 13, 2008 the Port opened a 30 day public comment period on Delegation of Authority.</p> <p>On June 10, 2008 the Port extended the public comment period to June 30, 2008. Also, the Subcommittee held its second hearing to accept public comment on proposed changes to the Delegation of Authority. At the same time, the Port invited employees to comment on the subject.</p> <p>On June 23, 2008 the Subcommittee held its third hearing to accept public comment on the proposed changes to the Delegation of Authority.</p> <p>On July 1, 2008 the Subcommittee reported to the full Commission and presented a summary of recommended changes to the Delegation of Authority.</p> <p>On August 5, 2008 Tom Barnard, Commission Research and Policy Analysis, presented a consolidated draft of the revised delegation of authority to the full Commission.</p> <p>Next steps include:</p> <ul style="list-style-type: none"> • August 12, 2008 first reading of new resolution • August 26, 2008 second reading of new resolution
27. We recommend that [the Port] begin preparing	The Port agrees and has already implemented this	<u>Immediate Action:</u> 27.a This semi-annual reporting requirement	Ray Rawe Chief Engineer	4/30/08	27.a. On August 30, 2007 the 1 st Semi-annual report was submitted for the time frame of January – June 2007.

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and providing the semi-annual report summarizing contracts awarded under Resolution 3181, Paragraph V (Contract Administration/Bid Irregularities) as required.	recommendation.	<p>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> 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>On January 30, 2008 the 2nd Semi-annual report was submitted for the time frame of July – December 2007.</p> <p>27.b. As of April 1, 2008 a list of all projects greater than \$10 million and a draft reporting format for the January through March 2008 report were presented to the Commission. A report will be made to the Commission in May of only those projects that have an exception.</p> <p>27.c. On April 22, 2008 a request was made to the Commission to postpone the submission of 1st quarter 2008 reports until May 23, 2008 in order to have additional time to provide a uniform format. The next available meeting to present the exceptions would be June 10, 2008.</p> <p>On May 21, 2008 the 1st Quarter 2008 reports were posted to the Port's web page.</p> <p>On June 10, 2008 the 1st Quarter 2008 projects were presented to the Commission. Projects that had variances were discussed.</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.	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><u>Immediate Action:</u> The Port will record the fact of legal review in connection with significant contracting decisions.</p>	Craig Watson General Counsel	1/29/08	28.a. As of April 1, 2008 this recommendation has been discussed in a regularly scheduled attorney meeting and direction given by the general counsel to all attorneys to reflect any significant contracting decisions in writing.
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 required to follow.	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 policy statement reflecting the ethical standards to which it expects its consultants to adhere and will, in consultation with relevant industry groups,	<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.</p> <p>29.b The Port will draft specific language in PSAs and will develop a proposed consultant's ethics code.</p> <p>29.c Presentation to the Commission.</p>	Craig Watson General Counsel	3/1/08	<p>After full review of the circumstances, the Port does not believe that Consultant SK's position represented a conflict of interest. The Port has adopted a clear policy statement reflecting ethical standards for consultants, which we believe addresses the auditor's underlying concern.</p> <p>29.a. On March 7, 2008 Ethics Policy for Port Consultants (EX-16) was created.</p> <p>29.b. On March 6, 2008 PSA agreements were revised for Agreements valued at \$50,000 or less and Agreements valued at more than \$50,000 by adding section XII Ethics and Interest of Consultants.</p> <p>29.c. As of March 6, 2008 PSA agreements were revised for Agreements valued at \$50,000 or less and Agreements valued to more than \$50,000 and by adding section XII Ethics and Interest of Consultants.</p>

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	develop such a policy statement.				On March 17, 2008 EX-16 was created.
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.	Craig Watson General Counsel	12/07	30.a. As of December 21, 2007 a revised Ethics Policy for Port Employees (EX-3) is in place.
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, and several efforts are underway to actively improve them, including the following: SPOTS: Seaport Project Management has staffed a dedicated Project Controls office to ensure timely and accurate updates of SPOTS. 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.	Curt Stahlecker Acting Manager Seaport Project Management	TBD	31.a. As of September 12, 2007 the staffing of a dedicated Seaport Project Controls Office was completed. Monthly Project Controls meetings were set up to provide the Project Controls Team with time for verification of information accuracy in SPOTS and in PeopleSoft. Starting on September 20, 2007 the Project Controls Office issued monthly reports for the Project Managers to review. The information will be used to facilitate the monthly meetings. On November 9, 2007 the Seaport Project Management Team was requested to transmit project related financial information to the Project Controls Office. This minimizes the possibility of disconnect between databases and provide a central control procedure. On January 28, 2008 a spreadsheet (DM651303) was created to track updates to the SPOTS database from PeopleSoft. As of January 29, 2008: Contracts information is managed by the Engineering Department. The contract information in PACT is used at the Discretion of the Project Manager. When a new enterprise wide system is implemented functionality will be evaluated to determine if contract information can be maintained in the system. The MARGEN system is used to report on Authorization, Budget, and Expenditures. This report is generated on a monthly basis and extrapolates information from both PACT and PeopleSoft. Reconciliation capabilities are there. Project Schedule Dates maintained at the contract level are not the official

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		<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>			<p>records for the contract. The official information is maintained by the Engineering department. Project schedule is maintained in Primavera which is included in MARGEN reporting and is periodically reconciled with PeopleSoft. When a new enterprise wide system is implemented functionality to match schedule information between the two systems will be considered.</p> <p>Aviation control procedures include creating trends for construction change orders. This is done on a monthly basis and more often if need arises. Project or program contingency may be utilized to cover these change order amounts if it is determined that the construction contingency is insufficient to cover the specific change order or the trend of change orders shows a significant increase to the contract.</p> <p>When a new enterprise wide system is implemented the functionality will be evaluated to determine if contract information can be maintained in the system and follow into the trending system. If so, this would eliminate the need to process monthly construction change order trends in the project management system.</p> <p>Actual costs are captured in PACT on a monthly basis at the end of the reporting month. If the actual amounts were compared to the month end reports there would be a discrepancy due to the timing difference between the actual end of the month and the closing of the books at months end by accounting. The decision to complete an earlier capture in PACT is to provide more timely reporting of data and avoid the most significant exclusions of pro-rated overhead. This practice will continue.</p> <p>As of March 6, 2008 the Project Control Office Mailbox is in use allowing for the centralization of requests for amendments and new work project requests at the Seaport. This is available to all members of the Project Control staff and allows the staff to keep SPOTS up to date.</p> <p>31.b. On February 21, 2008 the ICT Department formed a team that was comprised of technical experts and representatives from each of the project management groups to conduct the evaluations.</p> <p>On April 18, 2008 a thorough review and evaluation of the existing systems was conducted. This review included evaluations of technical architecture, data integrity, system security, functionality and ability of the systems to meet business requirements for managing projects. A report was presented that documented the findings.</p> <p>On April 30, 2008 alternative project control systems were evaluated through both system demonstrations and response to requests for information. A table representing this information was developed.</p> <p>On May 30, 2008 a review of systems used in other organizations was</p>

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					<p>conducted and documentation was made on the discoveries.</p> <p>On June 6, 2008 a draft report with evaluations and a recommendation for proceeding with a new enterprise project delivery system was prepared and reviewed by the team.</p> <p>As of June 10, 2008 the report had been reviewed by the team and a final draft was prepared for submittal to the ICT Governance Board.</p> <p>On June 11, 2008 the report was presented to the ICT Governance Board.</p> <p>On June 14, 2008 a final report was completed.</p>
<p>32. We recommend that [the Port] develop policies and procedures for ensuring that [PeopleSoft Financial System] data are consistent with data maintained in the other systems.</p>	<p>The Port disagrees with this recommendation. PeopleSoft Financial System is the Port's 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.</p>	<p>Currently, the Port updates from PeopleSoft to PMIS daily for reporting, SPOTS twice weekly, and PACT at least monthly. These frequencies meet and match the requirements for the Port project control systems.</p> <p><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.</p>	<p>Kim Albert, Senior Manager, IT Business Services</p>	<p>TBD</p>	<p>As stated in the Port's original response, PeopleSoft is not a project management tool. The Port's ICT Department has researched available systems and made a recommendation for a dedicated project management system to the ICT Governance Board.</p> <p>32.a. On February 21, 2008 the ICT Department formed a team comprised of technical experts and representatives from each of the project management groups to conduct the evaluations.</p> <p>On April 18, 2008 a thorough review and evaluation of the existing systems was conducted. This review included evaluations of technical architecture, data integrity, system security, functionality and ability of the systems to meet business requirements for managing projects. A report was presented that documented the findings.</p> <p>On April 30, 2008 alternative project control systems were evaluated through both system demonstrations and response to requests for information. A table representing this information was developed.</p> <p>On May 30, 2008 a review of systems used in other organizations was conducted and documentation was made on the discoveries.</p> <p>On June 6, 2008 a draft report with evaluations and a recommendation for proceeding with a new enterprise project delivery system was prepared and reviewed by the team.</p> <p>On June 10, 2008 the report had been reviewed by the team and a final draft was prepared for submittal to the ICT Governance Board.</p> <p>On June 11, 2008 the report was presented to the ICT Governance Board.</p> <p>On June 14, 2008 a final report was completed.</p>

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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.	<p>SPOTS will be revised to include information regarding change order costs.</p> <p><u>Immediate Action:</u> 33.a Establish a CA/CM/PM/ICT working group.</p> <p><u>Additional Action:</u> 33.b Develop a plan for including change order costs in SPOTS.</p> <p>33.c Upgrade SPOTS to include change order costs information.</p>	Curt Stahlecker Acting Manager Seaport Project Management	TBD	<p>33.a. On February 23, 2008 the working group was established</p> <p>33.b. On March 17, 2008 the group met and reviewed status of incorporating-construction change order costs in the SPOTS database.</p> <p>On April 4, 2008 it was found that converting change order costs from the trend logs into the SPOTS database would require a significant amount of coding work. The possibility of acquiring a single source project control system has been evaluated by a response team and that information can be found in action item 31b.</p> <p>The above information was revised with the following to allow sufficient time to develop an implementation plan.</p> <p>After SAO 31b has been submitted, and a recommendation response is provided by the Port ICT Governance Board, the 33a working group will review the 31b recommendation response and; 1) Confirm the need for including change order costs in SPOTS; and 2) Develop a plan for including change orders into SPOTS within 30 days of the response.</p> <p>33.c. On June 6, 2008 the SPOTS upgrade was placed on hold until the development plan has been formalized for implementing change order cost information.</p>
34. We recommend that [the Port] 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,	The Port continues to look for 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><u>Additional Action:</u> 34.a The Port's response to schedule 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>	Ray Rawe Chief Engineer	8/1/08/TBD	<p>34.a. The Review and Acceptance Forms for Recommendation 5 describe the actions the Port has taken to improve enforcement of schedule provisions in construction contracts. The decision to proceed with a Port-wide project management system is pending. At present the current scheduling systems are adequate for the Port's needs. With the completion of Recommendation 5 issues related to this item and schedules are complete.</p> <p>34.b. On February 21, 2008 the ICT Department formed a team comprised of technical experts and representatives from each of the project management groups to conduct the evaluations.</p> <p>On April 18, 2008 a thorough review and evaluation of the existing systems was conducted. This review included evaluations of technical architecture, data integrity, system security, functionality and ability of the systems to meet business requirements for managing projects. A report was presented that documented the findings.</p> <p>On April 30, 2008 alternative project control systems were evaluated through both system demonstrations and response to requests for information. A table representing this information was developed.</p>

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PACT/Margen, PMIS).					<p>On May 30, 2008 a review of systems used in other organizations was conducted and documentation was made on the discoveries.</p> <p>On June 6, 2008 a draft report with evaluations and a recommendation for proceeding with a new enterprise project delivery system was prepared and reviewed by the team.</p> <p>As of June 10, 2008 the report had been reviewed by the team and a final draft was prepared for submittal to the ICT Governance Board.</p> <p>On June 11, 2008 the draft report was presented to the ICT Governance Board.</p> <p>On June 14, 2008 a final report was completed.</p>
35. We recommend that [the Port] establish a central repository for Project Notebooks within each [Port] division.	The Port agrees and intends to establish a central repository within each division for Project Notebooks.	<p><u>Immediate Action:</u></p> <p>35.a The Port will establish a central repository for Project Notebooks within each division.</p>	Curt Stahlecker Acting Manager Seaport Project Management	2/5/08	<p>35.a. On January 2, 2008 a request was made that a central notebook repository be established in each division.</p> <p>On February 5, 2008 a central notebook repository was established for both the Seaport and the Airport Divisions.</p>
36. We recommend that [the Port] develop a check-out and tracking system for the Project Notebooks and utilize it.	The Port agrees and intends to establish an appropriate check-out and tracking system for Project Notebooks.	<p><u>Immediate Action:</u></p> <p>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>	Curt Stahlecker Acting Manager Seaport Project Management	2/5/08	<p>36.a. On January 27, 2008 a request was made of project management staff to have a central repository notebook check out policy in place by February 5, 2008.</p> <p>On February 5, 2008 notebook repository procedures were developed and implemented.</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.	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	<p><u>Immediate Action:</u></p> <p>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></p> <p>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>	Curt Stahlecker Acting Manager Seaport Project Management	N/A	<p>The Port believes the recommendations contained in the TKW audit report, received in 2007, better address the industry best practices, and therefore, the Port has chosen to implement those recommendations. However, the Port believes that implementing those reforms will address the auditor's concerns about timely and accurate documentation in project notebooks.</p> <p>37.a. As of October 30, 2007 the Port continues to maintain trends, change order logs, and schedule updates with the existing data management systems.</p> <p>37.b. On February 5, 2008 procedures detailing setup of the Central Notebook Repository were distributed to Project Management staff.</p> <p>On February 22, 2008 a directive was distributed to the Project Management Group requiring notebooks to be updated with Revisions to the Commission Authorizations.</p> <p>On March 31, 2008 procedures were established for updating the</p>

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	ensure consistent Project Notebook entries.				<p>notebooks and were distributed.</p> <p>37.c. On July 17, 2007 a copy of the Internal Performance Audit Tasks 7/05/08.xls spreadsheet was distributed via email. This spreadsheet identifies the leads and team members assigned to work on the TKW tasks.</p> <p>On December 17, 2007 an outline was distributed to the team for review and comment.</p> <p>On December 20, 2007 the redline version of the notebook outline was transmitted to PEMC.</p> <p>On January 30, 2008 the notebook team was re-engaged and resumed bi-weekly meetings and writing assignments.</p> <p>On April 25, 2008 the notebook team presented the current version of the notebook outline and the schedule to PEMC.</p> <p>On May 13, 2007 weekly team meetings are established.</p> <p>During the months of June and July 2008 the draft notebook guidelines were routed for edits and review.</p> <p>On July 31, 2008 final notebook guidelines were complete.</p>
38. We recommend that [the Port] integrate assessments of Project Notebook completeness and quality into the [Port] personnel performance evaluation processes.	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, Evaluation and Planning process.	<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 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. 	Anne Porter Capital Construction Project Manager 5	3/31/08	<p>38.a. On March 13, 2008 the proposed language had been drafted and was under review.</p> <p>On March 31, 2008 an email with the final language was sent out to Aviation project managers and to Seaport project managers with direction to add to PREP documents.</p>
39. We recommend that if [the Port] continues including the [Construction Document	Livelink® – the Port's Construction Document Management System – enhances efficiency and	<p><u>Immediate Action:</u> 39.a Training for consistent application of Livelink® by all document control specialists was completed in December</p>	Ray Rawe Chief Engineer	5/30/08	<p>39.a. As of December 7, 2007 the training for consistent application of Livelink was completed.</p> <p>39.b. On March 14, 2008 a policy was developed stating Engineering's</p>

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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.	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.	2007. <u>Additional Action:</u> 39.b Develop a process for determination of when a project will utilize Livelink®. 39.c Provide additional training to document control specialists, construction management and contract administrative personnel on when to use Livelink®.			commitment to using Livelink on all projects, that any exceptions must go through a stated approval process, and what the determining factors are for such a decision. 39.c. On April 15, 2008 training was held with Document Control Specialists. On April 22, 2008 special announcement email sent to all Livelink users to inform them of an upgrade scheduled for June 30, 2008. This email included an attachment of the Livelink Policies and Procedures. Livelink training is an ongoing process as new projects start or new staff joins a project. On June 30, 2008 POS will be upgrading from Livelink version 9.5 to Livelink 9.7. Step-by-step instructions will be provided to the users on the changes/differences with this new version.
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.	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® utilization consistent with Port requirements in connection with each active contract and will initiate corrective action as required.	The Port will review contracts that require use of Livelink® to determine the extent of any contract noncompliance and initiate corrective actions. <u>Immediate Action:</u> 40.a The Port is currently reviewing all active projects to identify projects utilizing Livelink® and the level of compliance with the specifications. 40.b Initiate corrective actions. 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. <u>Additional Action:</u> 40.d Training of additional project and construction staff as necessary.	Ray Rawe Chief Engineer	4/23/08	40.a. On February 28, 2008 an audit of all projects currently open was completed to determine those projects utilizing Livelink and their compliance with procedures. On February 29, 2008 a memo was sent out to Contract and Construction Managers noting which contracts were not in compliance and the list of items that needed correcting. By April 23, 2008 memos giving status were updated and memos stating that all contracts are now within compliance had been received. 40.b. Between January 17 and March 6, 2008 meetings were held with Document Control staff to ensure compliance with policy and procedures of Livelink. Also, a request to ITC was made to have Livelink explorer installed on Construction Managers and Resident Engineers computers. On March 13, 2008 a step-by-step instruction on the use of Livelink was provided to those individuals for the upgrade that will take place on June 30, 2008. 40.c. From October 2007 to March 2008 the development was completed for the policy and the procedures manual for the use of Livelink. The completion date was March 14, 2008. 40.d. On November 8 and 9, 2008 meetings were held to advise staff of Livelink updates that would be coming up, provide preliminary training on the new procedures being developed, and the review of LiveLink audit findings.
41. We recommend that [the Port] take immediate steps to enforce all	The Port disagrees with the facts supporting this recommendation and believes	The Port's response to schedule issues is addressed under Recommendations 5.	Ray Rawe Chief Engineer	6/5/08	41.a. On February 26, 2008 a compliance survey of all active projects was performed that took into consideration contract schedule requirements for each active project. Items requiring action or response

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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.	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 state law.	<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>were identified and a spreadsheet was created.</p> <p>Between February 26 and April 4, 2008 Construction Managers and Resident Engineers met to discuss necessary action steps. This was done to facilitate the recovery of liquidated damages requirements for each contract in compliance.</p> <p>As of April 4, 2008 all ongoing Airport contracts were reviewed and found to be in compliance or proper enforcement steps were in process. Resident Engineers will continue to assess liquidated damages at the appropriate time and as required by the contract.</p> <p>41.b. On April 4, 2008 a team was established to benchmark other government agencies practices and policies.</p> <p>On June 4, 2008 the benchmarks were completed for eight local agencies. A draft of the guidelines for assessment and withholding of Liquidated Damages was written and submitted for review.</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).	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><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>	Craig Watson General Counsel	3/15/08	<p>42.a. As of March 7, 2008 a fraud awareness and prevention policy had been implemented by the CEO as Port policy EX-18 and is posted on the Port's website.</p> <p>42.b. As of March 7, 2008 Port Policy HR-18 had been revised to include a reference to "Fraud, as defined and determined in Port policy EX-18" in a section listing types of situations that may be viewed as "gross misconduct", for which immediate termination without progressive discipline may be imposed.</p> <p>42.c. As of March 21, 2008 this reference was in place and a Port-wide message from the CEO was sent out on the Fraud Policy and the revision of HR-18.</p>
43. We recommend that [the Port] initiate a comprehensive fraud risk assessment focused on its procurement and management of construction and	The Port agrees and will undertake a comprehensive fraud assessment using its internal audit and Financial Controls Analysis teams.	<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></p>	Commissioners Tarleton/Bryant	TBD	43.a. On January 22, 2008 the Port of Seattle Commission created a Special Investigative Committee to investigate the findings of the State Auditor's 2007 Performance Audit. The Committee will investigate certain contracting policies, procedures, and practices vulnerable to fraud or under which fraud may have occurred. The Committee is comprised of Commissioners Tarleton and Bryant with Commissioner Bryant as the chair.

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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>43.b Committee may hire legal counsel and independent fraud investigator.</p> <p>43.c Committee to recommend how the Port should strengthen controls in areas deemed vulnerable to fraud and recommend control mechanisms designed to deter, prevent and detect fraud.</p>			<p>43.b. On February 22, 2008 the Port Commission passed a motion to retain the services of Mike McKay, of McKay Chadwell, to assist in the ongoing audit investigation.</p> <p>43.c. When the internal investigation is completed the Committee will recommend how the Port should strengthen controls in areas deemed vulnerable to fraud and recommend control mechanisms designed to deter, prevent and detect fraud.</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.	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><u>Additional Action:</u></p> <p>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>	Joyce Kirangi Internal Audit Manager	TBD	<p>44.a. On January 22, 2008 the Port of Seattle Commission created a Special Investigative Committee to investigate the findings of the State Auditor's 2007 Performance Audit. This committee will investigate certain contracting policies, practices, and procedures vulnerable to fraud or under which fraud may have occurred.</p> <p>On February 12, 2008 the Commission passed a motion to retain the services of Mike McKay, of McKay Chadwell, to assist in the ongoing audit investigation.</p> <p>At a yet to be determined date, which will follow the completion of the internal investigation, the Committee will recommend how the Port should revise its policies and procedures to strengthen controls in areas deemed vulnerable to fraud and recommend control mechanisms designed to deter, prevent and detect fraud.</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.	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><u>Immediate Action:</u></p> <p>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>45.c The fraud awareness and prevention policy will be incorporated by reference into existing Port Policy HR 18, Standards of Performance and Conduct. "Fraud" will be included in the definition of "gross misconduct" as</p>	Craig Watson General Counsel	3/5/08	<p>45.a. On December 21, 2007 revised Ethics Policy for Port Employees (EX-3) was established.</p> <p>On December 31, 2007 this was e-mailed to all Port employees.</p> <p>45.b. On February 15, 2008 a Fraud Awareness & Prevention, Loss of Public Funds & Assets Policy (EX-18) was established.</p> <p>On March 11, 2008 a memo was sent to all Managers and Directors requiring all employees to read EX-18.</p> <p>45.c. During the week of February 11, 2008 the Human Resources and Development staff began revising existing Port procedure HR-18, Standards of Performance and Conduct, Corrective Action and Discipline.</p> <p>During the week of February 25, 2008 the Port provided revised HR-18 to General Counsel for review.</p> <p>On March 7, 2008 the CEO approved HR-18.</p> <p>During the week of March 10, 2008 the Port staff worked with General Counsel and Public Affairs</p>

RECOMMENDATION	PORT RESPONSE	ACTION PLANNED	CONTACT PERSON	ESTIMATED COMPLETION	STATUS/ REMARKS
	where appropriate.	<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.			
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 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.	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 served by the Program. Nonetheless, the Port will examine its policy in light of these recommendations.	<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: <ul style="list-style-type: none"> • "Visible or accessible" determinations • The 1 percent for art determinations. • Budget and cost accounting of art projects. <u>Additional Action</u> 48.b Present revised guidelines and procedures to Art Oversight Committee (that includes Commission membership) for review. 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.	Michael Feldman Deputy Airport Director	7/30/2008	48.a. As of June 10, 2008 Project Reporting: Policy and Guidelines have been revised to require budget versus actual costs reporting. 48.b. As of June 10, 2008 revised guidelines and procedures were presented to the Art Oversight Committee for review. 48.c. On July 8, 2008 revised Port of Seattle Art Program Policy and Guidelines were presented to the Port Commission. At the request of the Commission, Port staff will be working with Commissioners Davis and Tarleton to make revisions to the proposed revised policy and will return to the Commission at a later date with a revised version incorporating suggested changes.
49. We recommend that the following actions be	The Port generally agrees with this recommendation. It notes,	<u>Immediate Action:</u> As of January 1, 2008, the Port's Internal Audit function reports to the Port Commission	Tay Yoshitani CEO	1/1/08	49.a. As of January 1, 2008 the Port's internal Audit function reports to the Port Commission Audit Committee and the Port CEO. Some daily

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<p>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 or the Chief Financial Officer. 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. 	<p>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>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. The Internal Auditor shall not be terminated without the concurrence of the Port Commission Audit Committee and the Port CEO. 			<p>management may be provided by the Port Deputy CEO. The Internal Auditors will schedule monthly meetings with the Port Commission Audit Committee. The Port Commission Audit Committee review, have input into and approve the internal audit work plan and any resulting audit reports. The Internal Auditor shall not be terminated without the concurrence of the Port Commission Audit Committee and the Port CEO.</p>