



Port of Seattle Commission

AUDIT COMMITTEE

December 5, 2024 – 10:00 a.m.

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

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

To listen live from a remote location, call in at: +1 (206) 800-4046 or (833) 209-2690 and Conference ID 952 306 579#

Committee members:

Commissioner Toshiko Hasegawa, Chair
Commissioner Ryan Calkins, Member
Committee Public Member Sarah Holmstrom

Also Attending:

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

ORDER OF BUSINESS

1. Call to Order
2. Approval of Minutes – September 19, 2024 (p.3)

External Audits (Presentation)

3. Moss Adams – 2024 Audit Entrance (Presentation) (p.7)
Olga Darlington, Partner; Anna Waldren, Senior Manager; Connor McCauley, Audit Manager
4. R.L. Townsend & Associates – Construction Audit Services Annual Report (Presentation) (p.17)
Debbie Townsend, President & Executive Construction Cost Control Consultant; Patricia Farrell-Shear, Project Executive; Rachel Townsend-Smith, Senior Professional Associate

Updates and Approval (Glenn Fernandes, Director, Internal Audit) (Presentation – Items #5-8) (p.25)

5. 2024 Audit Plan Update
6. Approval of Proposed 2025 Internal Audit Plan
7. Internal Audit Outreach Project Update
8. Open Issue Status

Performance Audits (Glenn Fernandes, Director, Internal Audit; Dan Chase, Manager, Internal Audit; Nikita Goyal, Sr. Internal Auditor)

9. Partner in Employment (Report) (p.44)
10. Equity Policy Directive Compliance (Report) (p.51)
11. Utilities Management – Port-Wide (Report) (p.58)
12. Delegation of Authority (Report) (p.67)
13. T-117 Sites 23-25 Restoration Project GC/CM Closeout (Report) (p.67)

Information Technology Audits¹ (Glenn Fernandes, Director, Internal Audit; Ritika Marwaha, Manager – Internal Audit - IT, Brent Layman, Senior IT Auditor) (p.69)

14. Application Software Security (Report)

¹ Information Technology audits are security sensitive and are not discussed in public meetings; all or part of the audit reports may be exempt from public records disclosure under RCW 42.56.420

Limited Contract Compliance Audits (*Glenn Fernandes, Director, Internal Audit, Dan Chase, - Manager, Internal Audit*)

15. Seattle Chocolate Company, LLC (Report)

(p.70)

Concluding Business

16. Committee Comments

17. Adjournment



P.O. Box 1209
Seattle, Washington 98111
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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING
September 19, 2024**

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, September 19, 2024. The meeting was held in the Commission Chambers located at the Port of Seattle Headquarters Building, 2711 Alaskan Way, Seattle, WA, and virtually via Microsoft Teams. Committee members present included Commissioner Ryan Callins, Commissioner Toshiko Hasegawa, and Public Member Sarah Holmstrom (non-voting).

1. Call to Order:

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

**Internal Audit Department presentation contains information for Agenda Items 4 through 6.*

2. Approval of Audit Committee Meeting Minutes of June 20, 2024

The minutes of the Audit Committee special meeting of June 20, 2024, were approved without objection.

EXTERNAL AUDITS

3. Office of the Washington State Auditor – Accountability Audit Entrance Conference 2023

Presenters:

Joseph Simmons, Program Manager
Sonia Khokhar, Assistant State Auditor
Maddie Frost-Shaffer, Assistant Audit Manager

The Office of the Washington State Auditor presented regarding the accountability entrance audit, reviewing January 1, 2023 through December 31, 2023, to examine the management, use and safeguarding of public resources to ensure there is protection from misuse and misappropriation; and to evaluate whether there is reasonable assurance for adherence to applicable state laws, regulations and policies and procedures, using a risk-based audit approach for the Port.

Discussion ensued regarding the functioning of an external auditor and the differences between internal audits, external audits, and best practices.

Members of the Committee thanked the State Auditor's Office team for their entrance presentation.

UPDATES AND APPROVALS

4. Internal Audit Overview and Initiatives

Presenters:

Glenn Fernandes, Director, Internal Audit

Director Fernandes overviewed the Internal Audit department organization; spoke regarding 2025 major departmental initiatives including development of an information technology audit plan that focuses on incident response and disaster recovery and implementation of the Internal Audit Outreach Program.

5. Approval of 2025 Proposed Budget

Presenters:

Glenn Fernandes, Director, Internal Audit

Director Fernandes overviewed a chart of capitalized outside services, new budget requests, and the 2025 proposed budget.

Discussion ensued regarding if the 2024 actual budget will align with budget projections, specifically regarding department vacancies. Discussion also took place regarding examples of a promotional expense for Internal Audit and if salaries and benefits changes take into account the new Port compensation program.

The motion, to recommend approval of the 2025 proposed budget, passed without objection.

In favor: Calkins and Hasegawa (2)

Opposed: (0)

6. 2024 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

Director Fernandes overviewed the status of the 2024 Audit Plan, going over completion timelines, items added (including 'partner in employment'), and issuance of the audit report anticipated in November. The Internal Audit Capital GC/CM continuous audits process was also discussed. Director Fernandes noted information technology audits delayed to 2025 due to the recent Port network outage.

The motion, to approve the 2024 Audit Plan update, passed without objection.

In favor: Calkins and Hasegawa (2)

Opposed: (0)

PERFORMANCE AUDITS

7. Aqueous Film Forming Foam (AFFF) Transition

Presenters:

Glenn Fernandes, Director, Internal Audit
Nikita Goyal, Senior Internal Auditor

The presentation addressed:

- audit scope through August 15, 2024; to include the fire department and airport facilities that use AFFF;
- evaluations and reviews conducted during the audit;
- the fire department's transition to PFAS-Free Firefighting Foam (F3), with decontamination of Aircraft Rescue and Fire Fighting (ARFF) vehicles in August 2024;
- Consolidated Rental Car Facility (CRCF) in the early stages of transitioning to water sprinkler systems;
- Delta Airlines exploring water sprinkler systems for their hangar; and
- Alaska hangar, PACCAR hangar, Seattle Airport Fuel Farm - no definitive transition plans provided to-date;
- State and Federal regulations applicable to Class B firefighting foam and approval for the use of F3 foam;
- audit ratings, findings, and recommendations; and
- management's responses to issues identified.

Discussion ensued regarding:

- the non-major leak occurring at Alaska Hanger that went unreported until found;
- if people entering spaces or using hazmat materials prepared with the correct equipment;
- understanding the scope of where PFAS is present;
- knowing when recommendations have been implemented and timelines associated with implementation;
- the status of the Port – in compliance with all regulations related to the issue;
- Port actions to work with the Department of Ecology and the Legislature to address disposal of PFAS issues;
- providing a briefing to the Commission regarding the state of litigation around PFAS;
- development of best practices and training regarding the issues; and
- understanding the needs around management of F3 foam.

Members of the Committee thanked the Internal Audit Department for their presentation and audit, and management for their response.

8. TSE Phase 2 Bollards and ADA Ramps

Presenters:

Glenn Fernandes, Director, Internal Audit
Kerem Onat, Senior Internal Auditor

The presentation addressed:

- the scope of the TSE Phase 2 Bollards and ADA Ramps project – to enhance accessibility and safety in main terminal arrivals, departures curbsides, the main garage at the pedestrian sky bridge entrances, and the courtesy vehicle plaza;
- change orders associated with project budget overages;
- project completion anticipated by September 30, 2024;
- project delay timeline;
- audit finding regarding the failure to verify all required insurance coverages before project commencement risked non-compliance with contractual terms, potentially leading to disputes, delays, or increased costs;
- recommendation to following the Port standard operating procedure to ascertain that all insurance documentation is obtained prior to project commencement;
- the need for the Port to have created a change order for additional joint sealant work prior to work starting and the audit recommendation to follow the standard operating procedure to ensure that no additional work commences without an approved not-to-exceed change order in place; and
- management's concurrence with the recommendations made and commitment to continue to train staff to improve compliance with existing requirements.

Members of the Committee thanked the Internal Audit Department for their presentation and audit, and management for their response.

LIMITED CONTRACT COMPLIANCE AUDITS

9. Seattle Food Partners, LLC

Director Fernandes noted that there were no findings related to this audit.

INFORMATION TECHNOLOGY AUDITS

No information technology audits were presented.

11. Committee Comments

Commissioner Hasegawa thanked Commissioner Calkins for chairing the meeting.

13. Adjournment

There being no further business, the meeting adjourned at 11:40 a.m.

Prepared:

Attest:

Michelle M. Hart, MMC, Commission Clerk

Toshiko Hasegawa, Audit Committee Chair

Minutes approved: December 5, 2024.



MOSSADAMS

Port of Seattle

Discussion with the Audit Committee

2024 AUDIT ENTRANCE

December 5, 2024

Presented by:

Olga A. Darlington, Anna Waldren, Connor McCauley



Agenda

1. Scope of Services
2. Responsibilities (Auditor and Management)
3. Audit Process
4. Areas of Audit Emphasis
5. Audit Timeline
6. Recent and Upcoming Accounting Developments
7. Moss Adams Service Team



Scope of Services

Annual Audit



- Annual audit and report on the financial statements for the year ended December 31, 2024, for the Port's Enterprise Fund and Fiduciary Fund, comprised of the Warehousemen's Pension Trust Fund, included in the Port's Annual Comprehensive Financial Report;
- Audit and report on compliance related to Major Federal Award Program(s), the Schedule of Expenditures of Federal Awards and related internal controls;
- Audit and report on the schedule of Passenger Facility Charge (PFC) program receipts and expenditures, and related internal controls;
- Audit and report on the schedule of net revenues available for revenue bond debt service;
- Communication to Those Charged With Governance and Internal Control Related Matters;

Limited Procedures



- Required Supplementary Information
 - Management discussion and analysis
 - Pension schedules and related disclosures
 - Other Postemployment Benefits (OPEB) schedules and related disclosures
- Agreed Upon Procedures and report to State of Washington Department of Ecology relating to Terminal 91 Facility
- Agreed Upon Procedures and report to the Environmental Protection Agency relating to East Waterway SRI/FS



Our Responsibilities

Assess if the financial statements prepared by management with your oversight are fairly presented, in all material respects, and in accordance with U.S. GAAP. However, our audit doesn't relieve you or management of your responsibilities.

Perform an audit in accordance with:

- Generally accepted auditing standards issued by the AICPA
- *Government Auditing Standards* issued by the Comptroller General of the United States

Design the audit to provide reasonable assurance about whether the financial statements are free of material misstatement.

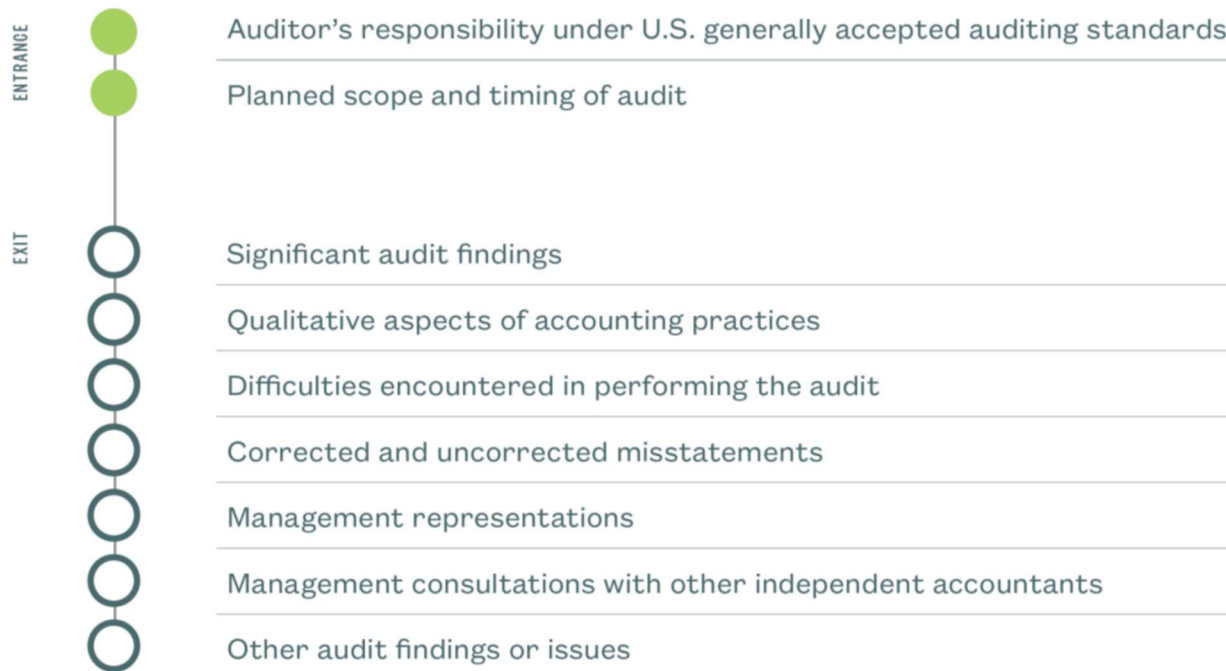
Consider internal controls over financial reporting and compliance as a basis for designing effective audit procedures.

Communicate findings that are relevant to your responsibilities in overseeing the specific matters of the financial reporting process and administering federal awards.

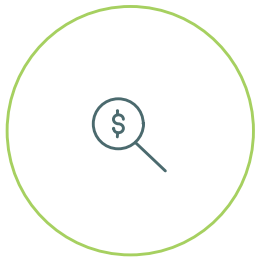
When applicable, communicate particular matters required by law or regulation, by agreement with you, or by other requirements applicable to the engagement.



Required Communications to Those Charged with Governance



Significant Audit Areas

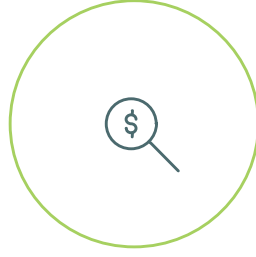


**INTERNAL CONTROL
OVER FINANCIAL
REPORTING AND
SIGNIFICANT BUSINESS
CYCLES – CASH
RECEIPTS, CASH
DISBURSEMENTS,
PAYROLL, PROJECT
MONITORING &
CONSTRUCTION IN
PROGRESS COST
ADDITIONS**

**CYBERSECURITY
ASSESSMENT & IT
CONTROL TESTING**



**EXISTENCE AND
VALUATION OF
CAPITAL ASSETS
AND
CLASSIFICATION OF
CONSTRUCTION IN
PROGRESS
BALANCES**



**REVENUE
RECOGNITION AND
VALUATION OF
RECEIVABLES,
EVALUATION OF
LEASE REVENUE
AND RELATED
RECEIVABLE
BALANCES**



**MANAGEMENT
ESTIMATES –
ENVIRONMENTAL
AND LEGAL
RESERVES,
PENSION
ASSUMPTIONS**



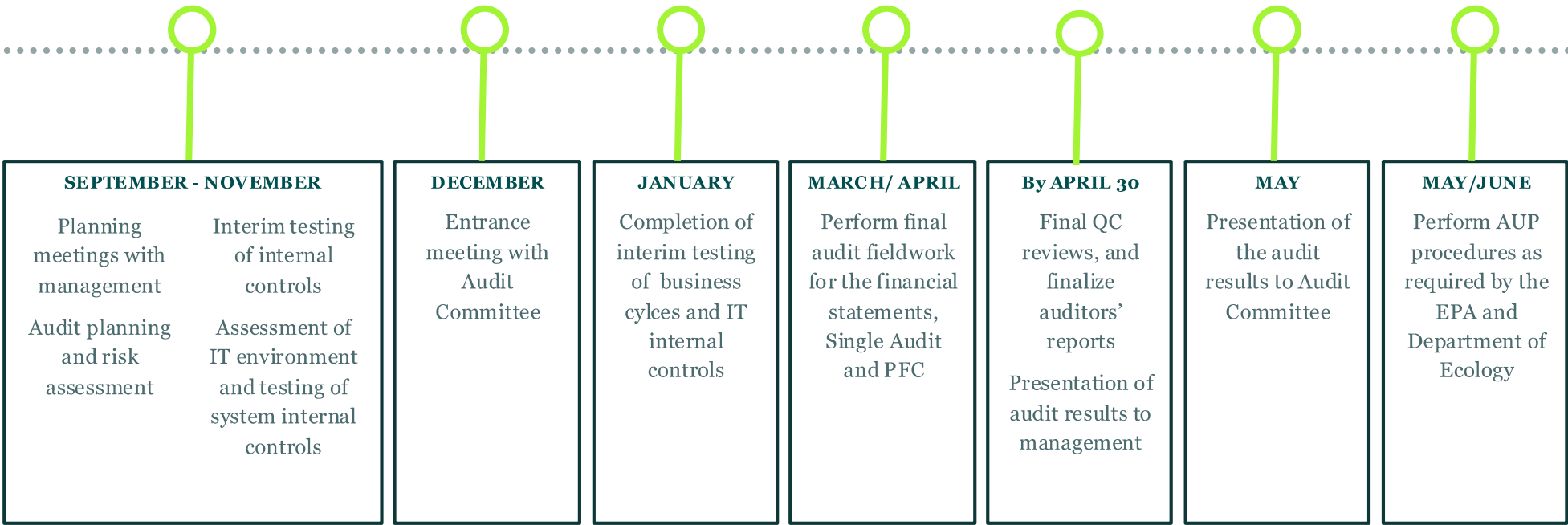
**COMPLIANCE
WITH FEDERAL
LAWS AND
REGULATIONS,
UNIFORM GRANT
GUIDANCE
(SINGLE AUDIT)**



Audit Timeline

2024

2025



Recent and Upcoming Accounting Developments

- *GASB Statement No. 100, Accounting Changes and Error Corrections (effective 2024)*
- *GASB Statement No. 101, Compensated Absences (effective 2024)*
- *GASB Statement No. 102, Certain Risk Disclosures (effective 2025)*
- *GASB Statement No. 103, Financial Reporting Model Improvements (effective 2026)*
- *GASB Statement No. 104, Disclosures of Certain Capital Assets (effective 2026)*



Your Service Team



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THANK
YOU





Construction Audit Services Annual Report

R. L. TOWNSEND
& ASSOCIATES^{LLC}

Knowledge | Perspective | Partnership

Main Terminal Low Voltage (SD #1)

Scope

- Review EC/CM monthly pre-construction and construction billings

Progress

- Pre-construction pay apps (1-27)
 - Pending formal Exhibit with approved names of allowed personnel/ positions
- Construction pay apps (1-22)
 - Audit issues are resolved prior to pay application approval

Potential Issues Identified During Reconciliation (December 2023)

- Several positions included in Cost of Work were not specifically identified on the cost matrix. These positions appear to be General Conditions personnel.
- Invoices associated with different project numbers were identified.
- There is a variance between the total job cost and amount billed to date. This could be a possible timing delay.
- These items are under review by VECA

Phase C-1 Building Expansion (SD #2)

Scope

- Review MC/CM, EC/CM and EW/CM pre-construction and construction billings

Progress

- Pre-construction pay apps (1-36)
 - Pending formal Exhibit with approved names of allowed personnel/ positions
- Construction pay apps (1-23)
 - Issues are resolved prior to pay app approval. If not, items are carried forward to be addressed on future pay apps.

Identified Issues

- VECA was billing overscale rates for individuals (not previously approved by the Port). This has been approved by the Port as long as the overscale rates can be verified. Audit team is currently verifying the overscale rates through certified payroll.
- Items shipped to personal residential addresses, VECA's home office, and other non-project specific locations were identified. These items were removed from the billings. Additional controls were set in place for future billings.
- An audit is currently being conducted by the Port to confirm materials shipped to general warehouses (owned by subcontractors) are designated for the project.
- Apollo was billing labor rates that were declined by the Port or not approved. Credit adjustments will be incorporated on future Pay App.

Construction Audit Services Annual Report

Port of Seattle

**Main Terminal Low Voltage Upgrade Project (SD #1)
Concourse C-1 Building Expansion Project (SD #2)
Post IAR Airline Realignment Project (SD #3)**



Construction Audit Report Submitted By:

R. L. Townsend & Associates, LLC

December 5, 2024

The contents of this report are based on our understanding of documents and other information provided to us as of the date of this report. If anyone has any questions regarding the contents of this report, please contact our office for clarification.

A revised report will be issued with a revised date if any material representation needs to be corrected.

Executive Summary

As a part of an overall program of controlling construction costs, Port of Seattle (POS) engaged R. L. Townsend & Associates to perform a review of the contract and billing records associated with the Main Terminal Low Voltage (MTLV) Upgrade, Concourse C-1 Expansion, and Post IAR Airline Realignment projects.

The objective of the audit is to ensure the project is billed in accordance with the contract terms.

R. L. Townsend is reviewing the following projects/ scopes of work:

- SD #1: Main Terminal Low Voltage (MTLV)
 - Pre-construction – VECA (EC/CM)
 - Construction – VECA (EC/CM)
- SD #2: Concourse C-1 Building Expansion
 - Pre-construction – VECA (EC/CM)
 - Construction – VECA (EC/CM)
 - Pre-construction – Apollo (MC/CM)
 - Construction – Apollo (MC/CM)
 - Pre-construction – Crown Corr (EW/CM)
 - Construction – Crown Corr (EW/CM)
- SD #3: Post IAR Airline Realignment Project
 - Pre-construction – TBD (EC/CM)
 - Construction – TBD (EC/CM)
 - Pre-construction – TBD (MC/CM)
 - Construction – TBD (MC/CM)
 - Pre-construction – TBD (SC/CM)
 - Construction – TBD (SC/CM)

The status and audit activities for each project are summarized on the pages that follow.

Main Terminal Low Voltage Upgrade

Project Status:

Project: Main Terminal Low Voltage Upgrade		
GC/CM	Mortenson	
EC/CM Subcontractor	VECA Electric & Technologies, LLC	
Phase	Pre-construction	Construction
Contract Signature	6/25/2020	11/3/2022
Original Contract Value	\$ 412,000	\$ 42,983,257
Executed CO	\$ 933,528	\$ 138,291
Current Contract Value	\$ 1,345,528	\$ 43,121,548
Billed as of October 2022 (Pay App #27)	\$ 1,345,528	
Billed as of September 2024 (Pay App #22)		\$ 25,852,968
% Complete	100%	60%

Audit Activities:

- Pre-Construction
 - All EC/CM pre-construction billings to date (Pay Apps 1-27) were reviewed in accordance with the contract. Supporting documentation was reviewed for all pay applications.
 - The pre-construction items were resolved via discussions with the Port of Seattle and VECA. A formal Exhibit of allowed personnel is still pending. This is the last item needed to close out pre-construction.
- Construction
 - All EC/CM billings to date (Pay Apps 1-22) were reviewed in accordance with the contract. Supporting documentation was reviewed for all pay applications.
 - All audit comments/ questions are sent via e-mail and responses to audit questions/comments are provided via e-mail. To date, all audit questions/comments have been resolved.
 - A reconciliation of all VECA costs through December 2023 was performed, and the review was sent to VECA. The primary issues included the following:
 - There is a variance between total job cost and pay app. This could be a possible timing delay.
 - Potential General Conditions personnel were included in Cost of Work. These specific positions were not included on the cost matrix, as a result, not specifically identified as General Conditions or Cost of Work personnel. This will need to be discussed with VECA and POS.
 - Invoices with different project numbers were identified. VECA is currently reviewing.
 - Payroll verification for select individuals is currently pending payroll documentation.

Port of Seattle – Construction Audit Services Annual 2024 Status Report

Report Date: December 5, 2024

Concourse C-1 Building Expansion**Project Status:**

Project: Phase C-1 Building Expansion						
GC/CM	Turner					
EC/CM Subcontractor	VECA Electric & Technologies, LLC		Apollo Mechanical Contractors		Crown Corr, Inc.	
Phase	Pre-construction	Construction	Pre-construction	Construction	Pre-construction	Construction
Contract Signature	9/30/2021	8/16/2022	8/12/2022	8/12/2022	1/9/2023	1/6/2023
Original Contract Value	\$ 194,000	\$ 150,694	\$ 194,000	\$ 113,445	\$ 246,486	\$ 5,239,538
Executed CO	\$ 277,000	\$ 55,476,711	\$ 80,037	\$ 38,737,042	\$ 106,250	\$ 4,812,600
Current Contract Value	\$ 471,000	\$ 55,627,405	\$ 274,037	\$ 38,850,487	\$ 352,736	\$ 10,052,138
Billed as of September 2023	\$ 470,969		\$ 274,037		\$ 350,050	
Billed as of September 2024		\$ 8,126,096		\$ 2,961,532		\$ 2,286,175
% Complete	100%	15%	100%	8%	99%	23%

Audit Activities:

- Pre-Construction
 - All EC/CM, MC/CM and EW/CM pre-construction billings to date (Pay Apps 1-36) were reviewed in accordance with the contract. Supporting documentation was reviewed for all pay applications.
 - The pre-construction items were resolved via discussions with the Port of Seattle. A formal Exhibit of allowed personnel is still pending. This is the last item needed to close out pre-construction.
- Construction
 - All EC/CM, MC/CM and EW/CM billings to date (Pay Apps 1-23) were reviewed in accordance with the contract. Supporting documentation was reviewed for all pay applications.
 - Bluebeam Studio is used to review construction payment applications. All initial comments are placed within Bluebeam Studio. All responses to audit questions/comments are provided via email.
 - Notable items within the pay app reviews included the following:
 - VECA: VECA has been billing overscale rates that were not previously approved by POS. POS confirmed the overscale base rates would be paid if VECA could justify the overscale rates via certified payroll. The audit team is going through the process of verifying the overscale rates.
 - VECA: Audit team identified items shipped to personal residential addresses and other non-project specific locations. These items have been removed from the pay application.
 - VECA: Audit team identified items that were shipped to VECA's home office that were not project related and were not accepted by the POS Project Team. These items have been removed from the pay application. We have asked POS for specific approved shipping locations for materials. Any materials not shipped to these locations will be questioned on future pay applications.
 - VECA: An audit is currently being conducted by the Port to confirm materials shipped to general warehouses (owned by subcontractors) are designated for the project.
 - Apollo: Audit team has identified labor rates billed which either were declined by POS or not approved. We are awaiting credit adjustments for these items.

Post IAR Airline Realignment

Project Status:

Audit received the PO in October 2023 and a kickoff meeting was held in May 2024. A document request list was provided at the time of the kickoff meeting. The audit team is still pending documentation to begin work. The delay could be partially due to a recent security breach earlier this year and turnover on the project team. Townsend will continue to follow up with the project team and may request assistance if needed in the near future.

Not for Distribution

Financial Stewardship

Accountability

Transparency

Port of Seattle Audit Committee

Internal Audit Update

Glenn Fernandes - Director, Internal Audit

December 5, 2024

P69 Commission Chambers

10:00 AM – 12:00 PM

Operational Excellence

Governance



2024 AUDIT PLAN STATUS

Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fire Department – PFAS Use, Storage, and Phase-out	Performance												
Time Approval Controls	Performance												
Delegation of Authority	Performance												
Equity Policy Directive Compliance	Performance												
Utility Management – Port-wide	Performance												
Partner in Employment ¹	Performance												
Concourse A Building Expansion for Lounges/DELTA TRA ²	Performance - Capital												
T-117 Sites 23-25 Restoration Project GC/CM Closeout	Performance - Capital												
TSE - Phase 2 Bollards and ADA Ramps	Performance - Capital												
Parking Garage Elevator Modernization	Performance - Capital												
Application Software Security	IT												
Network Infrastructure Management (ICT) ³	IT												
TSA Cybersecurity ³	IT												
Payment Card Industry (PCI) QSA Assessment Results ⁴	IT												
Stellar Bambuza SEA, LLC	Contract Compliance												
Seattle Food Partners, LLC	Contract Compliance												
1915 KCHouse Concepts – SEATAC, LLC	Contract Compliance												
Pallino SeaTac, LLC	Contract Compliance												
Seattle Chocolate Company, LLC ⁵	Contract Compliance												

1. This audit was added to the 2024 Plan to assess the impact of fraud allegations.
2. This audit was started in the Fourth Quarter of 2023 and completed in the First Quarter of 2024.
3. This audit was deferred due to the recent Cybersecurity Incident.
4. This audit was performed by an external consultant and managed by InfoSec.
5. This audit was added from the 2024 Contingency Audit Plan.

KEY	Complete
	In Process
	Deferred

2025 Audit Plan Approach

- Century Agenda Goals and Strategic Objectives of the Port
- Regulatory mandates, required audits, and routine audits
- Risk-based, compliance-focused, and adaptable to the evolving landscape
- Enterprise risks from discussions with key business leaders
- Benford's Analysis – A mathematical method that utilizes distribution of numbers in a data set to detect anomalies
- Established frameworks - Center for Internet Security (CIS), National Institute of Standards & Technology Cybersecurity Framework (NIST), etc.

2025 Audit Plan Approach

➤ Risk interviews held with a sample of Port leaders, from the following departments:

- ✓ Legal
- ✓ Labor
- ✓ Human Resources
- ✓ Executive
- ✓ Maritime Finance & Budget
- ✓ Information Security
- ✓ Aviation Maintenance
- ✓ Engineering General Services
- ✓ Construction Safety
- ✓ Aviation Security
- ✓ Aviation Project Management Group
- ✓ Aviation Accounting, Finance & Budget
- ✓ Aviation Planning, Development & Infrastructure
- ✓ Information, Communication, & Technology
- ✓ Waterfront Project Management
- ✓ Aviation Project Management

Key Highlights from Risk Assessment Meetings

- With the cyber incident, numerous systems are down.
 - Lots of documentation is being stored in SharePoint, paper, or in electronic files.
 - Information will have to be loaded into the systems when they come online.
- Projects have fallen behind because of the cyber incident.
- Tenant Reimbursement Agreements/Alternative Delivery Methods
- Construction bids that come in surprisingly close to each other
- Control of third parties (contractors/consultants)
- Information Technology's new security posture

Strategic Objectives Aligned to Proposed Audits

Strategic Objective	ED Priority	Associated Risks	Performance Audits
Foster an environment of transparency, accountability, respect, leadership, and fairness to give Port staff the tools to be exceptional public servants.	Recovery from the 2024 cyber event, protection of Port assets and funds, accuracy of data/information, and compliance with laws and regulations.	<p>Data entry errors/omissions</p> <p>Purchases made for non-Port business</p> <p>Poor decision making</p> <p>Strategies aren't guided by employees with sufficient knowledge, experience.</p> <p>Port culture/values aren't observed.</p> <p>Ineffective onboarding/off boarding (keys, badge, system access)/IT Risks</p>	<p>Recovery Effort – Data Integrity – General</p> <p>P-Cards & Accounts Payable Payments and Banking / Fraud Controls</p> <p>Consultants/Interns/Contractor Management</p> <p>Port Management Governance Committees</p>

Strategic Objectives Aligned to Proposed Audits

Strategic Objective	ED Priority	Associated Risks	Performance Audits
<p>Increase utilization of WMBE and DBE firms and eliminate disparity of access to opportunities.</p> <p>Ensure that all internal and external programs, structures, and practices provide equitable opportunities for all.</p> <p>Advance regional workforce development (WFD) in port-related industries to provide equitable access to quality careers.</p>	<p>Continue to support and aid in recovery for WMBEs/DBEs through engagement and technical assistance.</p> <p>Develop a comprehensive workplan and infrastructure to implement all aspects of the Equity Policy Directive.</p> <p>Improve WFD processes</p> <p>Launch South King County Community Impact Fund 2.0 (SKCCIF)</p>	<p>Compliance with contract terms (use of funds)</p> <p>Lack of adequate internal controls</p>	<p>South King County Fund – (Community Initiatives)</p>

Strategic Objectives Aligned to Proposed Audits

Strategic Objective	ED Priority	Associated Risks	Capital Audits (Performance)
<p>Set the standard for high quality, cost-effective, and timely delivery of capital programs.</p> <p>Meet the region's air transportation needs by delivering vital facilities and infrastructure in a sustainable and cost-effective manner.</p> <p>Increase utilization of WMBE and DBE firms and eliminate disparity of access to opportunities.</p>	<p>Improve capital delivery process.</p> <p>Advance infrastructure capital construction projects and SAMP initiatives.</p>	<p>Inaccurate billings/cost project delays</p> <p>Available skillset</p> <p>Legal risks</p>	<p>Terminal 91 Uplands Redevelopment</p> <p>Maritime Center at Fishermen's Terminal</p> <p>2023 Airfield Projects – Contract 2</p> <p>Widen Arrivals Roadway</p> <p>Construction Solicitation / Bidding</p> <p>Recovery Effort – Data Integrity – Construction Management</p>

Internal Audit Capital GC/CM Continuous Audits

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

Capital GC/CM Continuous Audits	
Main Terminal Low Voltage System Upgrade	<i>Under Contract</i>
Post IAF Airline Realignment	<i>Under Contract</i>
C Concourse Expansion Project	<i>Under Contract</i>
Eastside Fire Station	<i>Under Contract</i>
Baggage Optimization Phase 3	<i>Under Contract</i>
Concourse Low Voltage Upgrade	<i>Under Contract</i>
South Concourse Evolution	<i>Under Contract</i>

Strategic Objectives Aligned to Proposed Audits

Strategic Objective	ED Priority	Associated Risks	IT Audits
Foster an environment of transparency, accountability, respect, leadership, and fairness to give Port staff the tools to be exceptional public servants.	Recovery from the 2024 cyber event, protection of Port assets and funds, accuracy of data/information, and compliance with laws and regulations.	<p>Excessive/unauthorized access</p> <p>Use of unsupported or legacy systems</p> <p>IT Governance</p> <p>Third-Party Risks</p> <ul style="list-style-type: none"> - Insufficient contractual safeguards - Vendor onboarding/offboarding 	<p>Access Control Management</p> <p>Third-Party Risk Management</p> <p>Closed Network System – Satellite Transit System (STS)(AVM)</p> <p>New IT Environment – Information Technology General Controls (ITGC)</p>

Proposed 2025 Information Technology Audits

Name	Risk	Selection Criteria
Access Control Management	High	CIS/Risk Assessment
Third-Party Risk Management	High	Risk Assessment
Closed Network System – Satellite Transit System (STS) (AVM)	High	Risk Assessment
New IT Environment – Information Technology General Controls (ITGC)	High	Risk Assessment

Contingency Audits ²	Risk	Selection Criteria
Network Monitoring and Defense	High	CIS/Risk Assessment
Baggage Conveyor System (AVM)	High	Risk Assessment

1. See **Appendix C** – Information Technology Audit Universe.

2. If resources exist, or a proposed audit cannot be performed, these audits will be moved to the 2025 Audit Plan at the Internal Audit Director's discretion.

Strategic Objectives Aligned to Proposed Audits

Strategic Objective	ED Priority	Associated Risks	Concession Audits
Increase career and business opportunities for local communities in all Port-related industries.	Review and execute a comprehensive equitable economic recovery strategy.	<p>Inaccurate and delay in concession payments</p> <p>Lack of adequate internal controls of concessionaires</p> <p>Third-party noncompliance with Port values/requirements</p>	<p>Gate Gourmet, Inc.</p> <p>BF Foods, LLC</p> <p>Concourse Concessions, LLC</p> <p>SSP America SEA, LLC</p> <p>-Ballard Brew Hall</p> <p>-Mi Casa Cantina</p> <p>-Le Grand Comptoir</p> <p>-Camden Food Co.</p>

Proposed 2025 Lease and Concession Audits

Name	Division	Rating	Amount ¹
Gate Gourmet, Inc.	Aviation	High	\$7.5 MM
BF Foods, LLC	Aviation	Low	1.1 MM
Concourse Concessions, LLC	Aviation	Medium	2.5 MM
SSP America SEA, LLC (Ballard Brew Hall)	Aviation	Medium	3.0 MM
SSP America SEA, LLC (Mi Casa Cantina)			
SSP America SEA, LLC (Le Grand Comptoir)			
SSP America SEA, LLC (Camden Food Co.)			
Total			\$14.1 MM

Contingency Audits ²	Division	Rating	Amount
LaTrelle's Flight Kitchen, LP (Wendy's)	Aviation	Low	\$866 K
The Yarrow Group, LLC	Aviation	Low	1.3 MM
Sun's, Inc.	Aviation	Low	519 K
Total			\$2.7 MM

1. January 2021 – August 2023 Approximate Concessionaire Revenue – Should not be used for other financial purposes.

2. If resources exist, or a proposed audit cannot be performed, these audits will be moved to the 2025 Audit Plan at the Internal Audit Director's discretion.

Historical Reports Overview 2021 – 2025

Report Type	2021	2022	2023	2024	2025 (Proposed)
Performance	6	4	5	6	5
Performance – Capital	4	4	5	4	6
Information Technology	5	6	3	1	4
Limited Contract Compliance	4	3	3	*5	7
Total	19	17	16	18	22

GC/CM Continuous Audits ¹	1	2	2	7	7
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1. RCW 39.10.385 requires an independent audit, paid for by the public body, to confirm the proper accrual of costs, for General Contractor/Construction Manager (GC/CM) projects. This audit work is performed by external, independent auditors through Service Agreements. A year-end status report will be provided at the December Audit Committee. Internal Audit performs periodic cost reviews of these projects and reviews areas that are not looked at by the independent auditors.

*Amended from '7' to '5'

Proposed 2025 Audit Plan

Item #6

Limited Contract Compliance

- Gate Gourmet, Inc.
- BF Foods, LLC
- Concourse Concessions, LLC
- SSP America SEA, LLC (Ballard Brew Hall)
- SSP America SEA, LLC (Mi Casa Cantina)
- SSP America SEA, LLC (Le Grand Comptoir)
- SSP America SEA, LLC (Camden Food Co.)

Performance

Performance

- Recovery Effort – Data Integrity – General
- P-Cards & Accounts Payable Payments and Banking/Fraud Controls
- South King Co. Fund (Community Initiatives)
- Consultants/Interns/Contractor Management
- Port Management Governance Committees

Capital

- Terminal 91 Uplands Redevelopment
- Maritime Center at Fishermen's Terminal
- 2023 Airfield Projects- Contract 2
- Widen Arrivals Roadway
- Construction Solicitation/Bidding
- Recovery Effort - Data Integrity - Construction Management

Information Technology

- Closed Network System – Satellite Transit System (STS) (AVM)
- Third-Party Risk Management
- Access Control Management
- New IT Environment – Information Technology General Controls (ITGC)

Proposed Contingency Audits

If resources exist, these audits will be moved to the 2025 Audit Plan at the Internal Audit Director’s discretion.

Limited Contract Compliance

- LaTrelle’s Flight Kitchen, LP (Wendy’s)
- The Yarrow Group, LLC
- Sun’s, Inc.

Performance

- Capital
 - Tenant Reimbursement Agreement (TBD)

Information Technology

- Network Monitoring and Defense
- Baggage Conveyor System (AVM)

Internal Audit Outreach Project Update

Item #7

Controls Training:

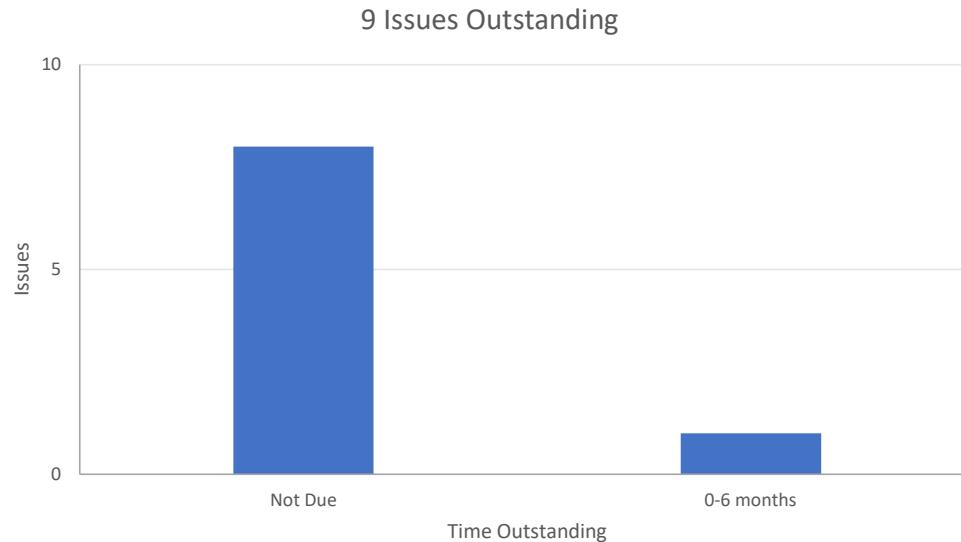
➤ **Phase 2 – For Newly Hired Port Managers and Staff (Ongoing)**

- Developed training materials and worked on logistics in coordination with HR.
- Implemented controls training starting November 2023, at the Port New Employee Orientation (PNEO).
- Training is being conducted monthly during the PNEO sessions.

➤ **Phase 3 – For Small Businesses (2025)**

- Promote awareness and understanding of the Internal Audit process, emphasizing the importance of internal controls and risk mitigation through targeted outreach and education initiatives.
- Provide educational support to small businesses partnering with the Port, particularly those that do not have sufficient resources to train their staff on internal controls and risk management.

Open Issue Status – Aging Report as of November 18, 2024



1. Security Sensitive issues from Information Technology and Performance audits are excluded from the Public Session Open Issues Status presentation and will be discussed during the non-public session.
2. One issue related to the parking garage has been closed as management has decided not to bill the parties in violation of the policy. This could potentially be viewed as a gift of public funds; however, management has accepted this risk. The Port now has a process in place to prevent future policy violations.

See **Appendix A** for a detailed listing of outstanding issues, including Report Finding, Issue Owners, and Current Status as of November 18, 2024.

Audits Completed in Fourth Quarter – 2024

- 1) Partner in Employment
- 2) Equity Policy Directive Compliance
- 3) Utilities Management – Port-wide
- 4) Delegation of Authority
- 5) T-117 Sites 23-25 Restoration Project GC/CM Closeout
- 6) Application Software Security
- 7) Seattle Chocolate Company, LLC

Partner in Employment

- The objective of the audit was to verify Partner in Employment (PIE) compliance with deliverables in contracts with the Port of Seattle (Port).
- Initiated due to fund misappropriation allegations by a PIE employee.
- Covered three active contracts, totaling approximately \$509K, supporting refugee and immigrant services.
- PIE's Executive Director (ED) confirmed misappropriation occurred between March and May 2024, but was only detected in late May.
- PIE reported fraud to King County Sheriff's Department after Whistleblower complaint.

1) Rating: High

The figures, reported by PIE, did not accurately reflect the actual number of clients served and were materially inflated. Furthermore, PIE failed to maintain sufficient supporting documentation to substantiate the numbers reported to the Port, for clients served and related expenses.

Key observations from the three contracts:

P-00321145:

- PIE reported inflated figures in the reports submitted to the Port.
- Subsequent to our inquiries, PIE resubmitted figures, claiming alignment with contract terms. However, supporting documentation for these figures was insufficient, preventing verification of their accuracy.

1) Rating: High

A comparison was made between reported and resubmitted figures submitted to the Port over three months:

Month Report Data	April 2024		May 2024		June 2024	
	Reported	Resubmitted	Reported	Resubmitted	Reported	Resubmitted
Number of Clients/Participants Served	45	10	68	10	71	10
Number of Clients Participating in Training Sessions	10	10	10	10	18	10
Number of Job Placements	21	0	18	1	18	0
Number of Participants Recruited	0	0	0	0	15	0
Number Retained in Employment	15	5	73	0	55	1
Number of Webinars or Workshops offered	10	10	26	3	11	5

1) Rating: High**P-00321150:**

- PIE submitted sign-in sheets as evidence of in-person client service.
- 30 clients were sampled monthly from April-June 2024 for feedback on services.
- Sign-in sheets included all office visitors, not just those seeking services as per the contract requirements.
- Reported numbers in monthly reports did not match sign-in sheets; unable to explain.
- Lack of adequate supporting documentation.

P-00320892:

- Unable to validate the reported information due to missing supporting documentation.

2) Rating: High

There was no formal procedure in place to verify the accuracy of reports and invoices submitted to the Port.

- Program managers reported no formal process to verify PIE's reports, causing the Port to rely on trust for fund disbursement.
- Although some site visits and workshop attendance occurred, there was no consistent, active monitoring of PIE's contract performance.
- Managers identified oversight gaps, highlighting the need for consistent processes across PIE and similar contracts.

Management Response – Issue 1

- Management will discuss in person.

Management Response – Issue 2

- South King County Fund (SKCF) and Workforce Development (WFD) are developing standardized templates and reviewing procedures, contract evaluations, and onboarding plans to enhance monitoring and compliance across all partner organizations. This phased implementation is expected to be completed by December 2025.

DUE DATE: 12/31/2025

Management will discuss in detail. (Full response in Audit Report No. 2024-17)

Equity Policy Directive Compliance

- In 2019, the Port of Seattle (Port) committed to being a leader in achieving equity and social justice.
 - Created the first-ever Office of Equity, Diversity, & Inclusion (OEDI) for a U.S. port authority
 - Various advancements made, with OEDI playing a pivotal role on different initiatives
- April 2023: Formally adopted the Equity Policy Directive (Directive)
 - Broad guidebook for the Port's overall strategy and vision related to Equity, Diversity, & Inclusion (EDI)

Roadmap



Source: OEDI Annual Report Presentation

1) Rating: High

Port wide compliance with the annual mandatory racial equity training stated within the Directive is not being enforced. In 2023, only 453 employees, representing 19.6% of the Port, completed the mandatory Equity, Diversity, and Inclusion (EDI) training requirement for the year.

- Annual Requirement per OEDI's recommendation:
 - All Employees: 5 Hours
 - Supervisors/Managers/Leadership: Additional 1 Hour (Total: 6)
- Overall compliance has been low:
 - For 2023, 0 out of 10 sampled employees were compliant
 - As of October 2024, only 2 out of 10 sampled employees were compliant

1) Rating: High

2023 Completion Status of EDI Training Requirement:

Department	Manager	Non-Manager	Total
Aviation	53	195	248
Central Services	63	82	145
Economic Development	3	6	9
Maritime	24	27	51
Grand Total	143	310	453

2) Rating: High

The HR report used by OEDI in their analysis of employees' training progress for the year is not complete and accurate. The data generated from the Port's Learning Management System (LMS) cannot be fully relied upon due to discrepancies noted during testing.

- IA randomly sampled 10 employees and reviewed LMS transcripts for 2023 and 2024.
 - We compared transcripts to the HR-generated report for OEDI.
 - Discrepancies noted for **3 of our 10** samples in 2023 and **1 of our 10** samples in 2024.
 - Employees' transcripts had more courses listed than the HR-generated report.

Management Response – Issue 1

- Accurate tracking and reporting of the annual EDI training requirement has been a challenge since the requirement was implemented. Most of this challenge derives from complications with LMS. However, OEDI and HR have been working closely together to generate completion reports and a corresponding dashboard.
- We also agree with the observations and issues identified related to the second recommendation. While this is a requirement, as per the Equity Policy Directive, there is no consequence, per se, for failing to meet the requirement. This does not seem to be specific to the EDI training requirement but seems to be an issue related to all required training.
- Finally, regarding the third recommendation, OEDI is in the process of evaluating the most effective ways to engage employees while also assuring that our organization is deepening its understanding of and ability to practice racial equity.

DUE DATE: Multiple Dates

Management will discuss in detail. (Full response in Audit Report No. 2024-16)

Management Response – Issue 2

- As discussed in our response to the first issue, we are in the process of working closely with HR to identify the discrepancies so that we can generate accurate reports and therefore accurate dashboards.
- HR is currently working with and training two members of the OEDI team to utilize LMS more effectively, which includes being able to generate these reports. HR is doing this with other departments as well, and they are creating tools and resources to assist in this process. By the end of Q1 2025, we hope to be generating these reports on our own without the assistance of HR.

DUE DATE: 04/30/2025

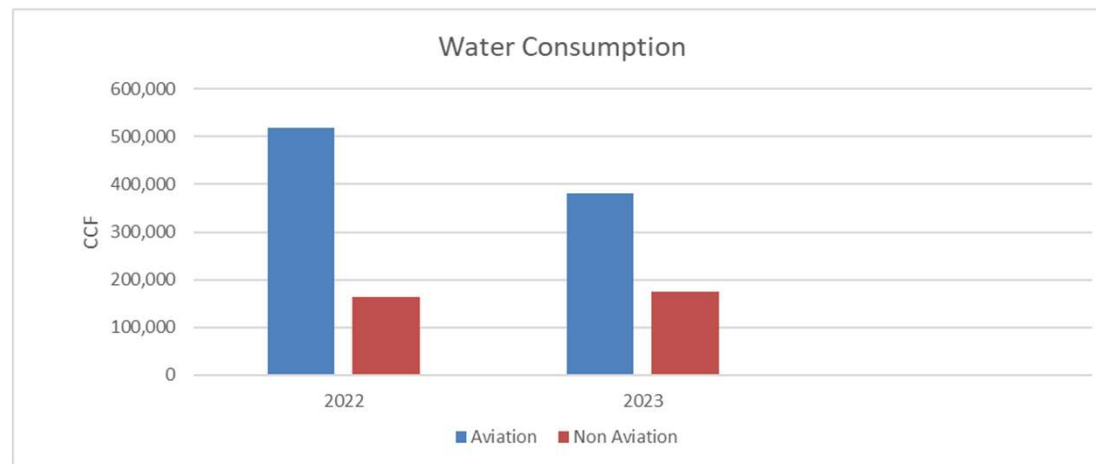
Management will discuss in detail. (Full response in Audit Report No. 2024-16)

Utilities Management – Port-Wide

- Period audited January 2023 – June 2024
- Mitigation and Monitoring/Billing process
- Aviation and Maritime water management programs operate independently
- KUOW article in 2023, identified the Port as the second largest user of water in the Seattle area
- Three issues identified

Utilities Management – Port Wide

- Maritime consumption increased from commencement of Terminal Five Operations
- Aviation consumption decreased from water leak



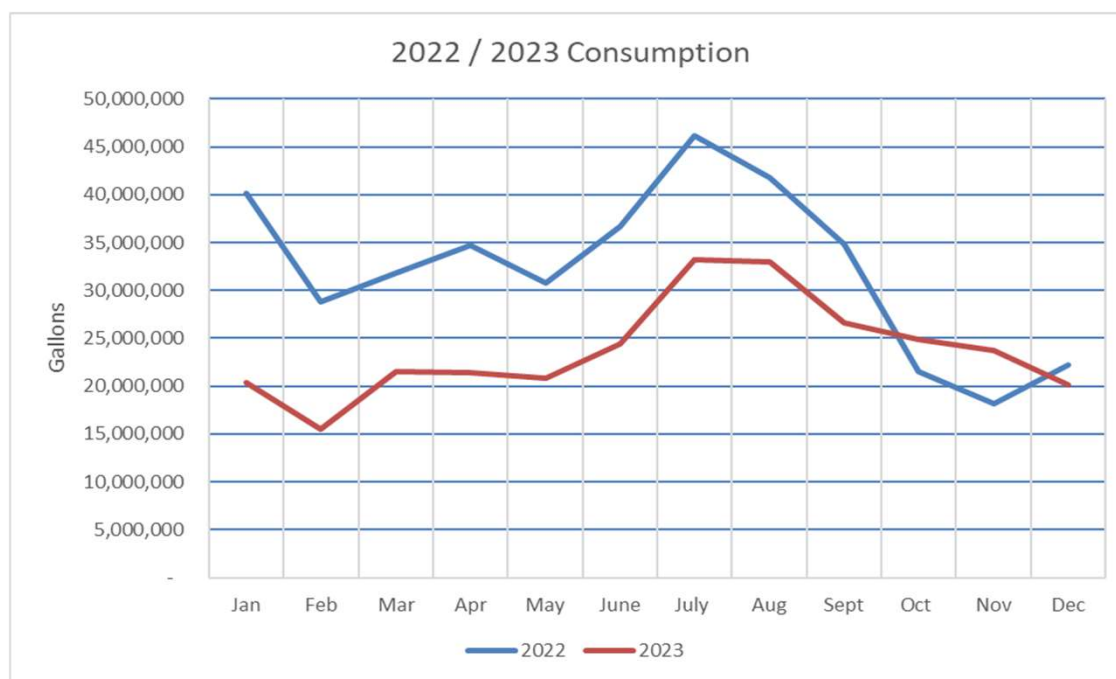
Source: Seattle Public Utilities

1) Rating: High**Aviation – SEA**

A leak detection monitoring system to identify and/or prevent water leaks from occurring does not exist. Since 2020, management identified 13 leaks, the most significant of which began in 2021, lasted 15 months, and leaked approximately 155 million gallons.

1) Rating: High

- Decrease in consumption in 2023 from 2022
- Return to more normal consumption in September 2022



Source: Seattle Public Utilities

2) Rating: Medium**Aviation - SEA**

In 2019, an Audit of Utilities concluded that some meters were not functioning correctly and either needed to be replaced or repaired. Of approximately 143 accounts, 12 remain broken and continue to be billed using estimates.

3) Rating: Medium**Maritime**

A leak detection monitoring system to identify and/or prevent water leaks from occurring does not exist. Unique to Maritime, some infrastructure is positioned underwater, creating a greater challenge to identify and repair leaks.

Management Response – Issue 1

- Additional water meters are identified on Aviation Utility Master Plan Vision projects. The vision project scope is to install meters at strategic locations to monitor the water system to conduct a water audit.
- Aviation – Facilities & Infrastructure has started a Leak Detection pilot program prior to this audit to find the most suited technology for Airport conditions.
- Majority of the leaks are from aging infrastructure composed of Steel and Cast-Iron materials from the 1940s to 1960s. The Utility Master Plan had identified projects to renew or replace Steel and Cast-iron infrastructure.

DUE DATE: 6/30/2025

Management will discuss in detail. (Full response in Audit Report No. 2024-10)

Management Response – Issue 2

- Management agrees with the finding that the identification and repair/replacement of inoperable tenant water meters needs process improvement.
- A water meter repair project was initiated June 5th, 2024, and it is in development with Capital Programs. That project included some but not all of meters noted in the audit results. F&I will update that project scope to include all known inoperable meters.
- Going forward, F&I utilities will flag any meter malfunction, seeking determination of the failure and then address the problem either through Aviation Maintenance, Port Construction Services, or PMG as the scope requires.

DUE DATE: 6/30/2025

Management will discuss in detail. (Full response in Audit Report No. 2024-10)

Management Response – Issue 3

- Maritime Division agrees with the Audit findings and proposed recommendations. Marine Maintenance, in coordination with Portfolio Asset Management (PAM) and Maritime Operations, will evaluate if a water leak detection service should be implemented to identify leaks from failing infrastructure.

DUE DATE: 6/30/2025

Management will discuss in detail. (Full response in Audit Report No. 2024-10)

Delegation of Authority

- Resolution 3810: Delegation of Authority and Responsibility (DORA), effective April 3, 2023, raised the Executive Director's (ED) authority from \$300K to \$2MM.
- Resolution required an Audit of the DORA Policy Directive's effectiveness and compliance.
- Addressed a citizen's complaint about non-compliance with the Delegation Process.

Our audit concluded that the Port was in compliance with Resolution 3810.

Time Savings

Metric	Time/Value
Estimated time for full Commission Process	8 weeks
Estimated time for ED Approval Process (3810)	2 weeks
Estimated time Savings	6 weeks

Total Approved Requests during Audit Period	112
Estimated time taken to create a presentation for the Commission Agenda	10-13 hours
Estimated Time Taken Through ED Delegation Process	1-2 hours
Estimated Time Savings per Request	10 hours
Estimated Total Time Savings	1,120 hours

T-117 Sites 23-25 Restoration Project GC/CM Closeout

- **1937-1993:** Asphalt production caused soil and sediment contamination
- **1999:** Port of Seattle acquired the site, designated as a Superfund Early Action Area
- **Two-phase cleanup (2015-2016):** Removed 60K tons of soil and sediment
- **Stormwater improvements:** Installed rain gardens, storm drainage, public art, and signage
- **2020:** Port began developing Duwamish River People's Park, restoring 14 acres
- **Final contract:** Project completed under budget at \$13.6MM

We found that the Port's process during the closeout of this Project was effective and met industry standards. We do not have any reportable issues.

Full details in Audit Report No. 2024-18

Seattle Chocolate Company, LLC

- Women-owned Company
- Period audited July 2023 to December 2023
- Scope expanded to January 2022 through July 2024
- 2022 and 2023 Gross Sales and Percentage Fees:

Year	Gross Sales	Percentage Fee
2022	\$2,041,876	\$245,025
2023	2,293,684	279,242
Total	\$4,335,560	\$524,267

1) Rating: Medium

Discounts were incorrectly deducted, and two reporting errors resulted in under-reported revenue of approximately \$81,850 and an additional \$9,822 in concession fees.

Reporting Errors:

Revenues from the prior year were erroneously entered into current year sales figures.

Year	Month	Reporting Error	Concession Fee
2022	November	\$21,296.04	\$2,555.52
2024	July	13,352.31	1,602.28
Total		\$34,648.35	\$4,157.80

1) Rating: Medium**Discounts**

- Per Section 1.18 of the Agreement, sales discounts are generally not allowable deductions.
- Testing identified differences between the Point of Sales Journal and what had previously been reported to the Port.

Year	Month	Discount	Concession Fee
2022	January	\$1,598.15	\$191.78
	February	2,235.76	268.29
	March	2,544.36	305.32
	October	2,645.07	317.41
2023	March	2,634.06	316.09
	June	6,612.76	793.53
	September	3,097.30	371.68
2024	January	3,332.22	399.87
	February	15,655.39	1,878.65
	March	3,860.30	463.24
	April	2,986.85	358.42
Total		\$47,202.22	\$5,664.27

Management Response

- Aviation Commercial Management (AVCM) staff agrees with the findings and recommendations of the audit.
- AVCM staff will follow-up with Seattle Chocolate Company to ensure the amounts identified in the audit are paid and that an additional person reviews and signs certifications.

Questions/Committee Comments



Appendix

A – Aging of Outstanding Issues as of November 18, 2024

Appendix A – Aging of Outstanding Issues as of November 18, 2024

Performance, Capital, and Limited Contract Compliance Audits

Audit Type	Audit Title	Rating	Target Date	Report Date	Days Outstanding (from Report Date)	Days Outstanding (from Target Date)	Issue Owner	Report Finding	Current Status from Management as of 11/18/2024
Performance	Time Approval Controls	High	3/31/2025	6/4/2024	167	-133	Director, Aviation Maintenance	No Formal Review Process - There is no formal review and approval process performed over employees' timesheets assuring the accuracy of hours submitted every pay period.	Agreed upon target date is 03/31/2025.
Performance	Time Approval Controls	High	12/31/2024	6/4/2024	167	-43	Director, Aviation Maintenance	No Overtime Policy - A policy limit to control the amount of overtime employees work has not been established. Without a limit, the likelihood of accidents could increase, and employee well-being could decline due to individuals who work excessive hours.	Agreed upon target date is 12/31/2024.
Performance	Airport Parking Garage	High	12/31/2024	11/30/2023	354	-43	Director, Airport Operations	Complimentary Parking – The Port needed to enhance controls relating to retrieving and shutting off complimentary parking cards for employees who leave the Port. By looking at the 1,397 active employee parking cards, we identified 99 active cards that were assigned to employees who were no longer employed by the Port, 16 of which continued to use their cards after separation from the Port.	The Transportation Access Program Manager is project managing each recommendation to ensure the right staff are working on the appropriate issue in a timely fashion and documenting progress for management. All three recommended items are being worked on towards individual, target completion dates. One item related to Employee ID number in the parking system is complete as the data field's existence. Agreed upon target date is 12/31/2024.
Capital	Concourse A Building Expansion for Lounges - Delta TRA	High	12/18/2024	3/13/2024	250	-30	Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Risk Management Director Aviation & Business Properties	An implicit agreement between Hensel Phelps and the Port's Risk Management Department settled on \$10 Million in Commercial General Liability Insurance (GLI) at an estimated cost of \$559,500. Hensel Phelps subsequently materially overbilled the Port for \$100 Million in GLI, at a cost of \$1,120,784.	Agreed upon target date is 12/18/2024. In progress.
Capital	Concourse A Building Expansion for Lounges - Delta TRA	Medium	9/24/2025	3/13/2024	250	-310	Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Aviation & Business Properties	Hensel Phelps' request for Reimbursement Submittal (RSS) for General Requirements did not include adequate supporting documentation.	Agreed upon target date is 09/24/2025.

Appendix A – Aging of Outstanding Issues as of November 18, 2024

Performance, Capital, and Limited Contract Compliance Audits

Audit Type	Audit Title	Rating	Target Date	Report Date	Days Outstanding (from Report Date)	Days Outstanding (from Target Date)	Issue Owner	Report Finding	Current Status from Management as of 11/18/2024
Capital	Concourse A Building Expansion for Lounges - Delta TRA	Medium	12/18/2024	3/13/2024	250	-30	Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Aviation & Business Properties	The Port has an opportunity to revise its procedures on future TRA projects in order to decrease the potential of reimbursing unallowable or duplicate costs within General Conditions.	Agreed upon target date is 12/18/2024. In progress.
Performance	Aqueous Film Forming Foam (AFFF) Transition	Medium	3/31/2025	9/6/2024	73	-133	Fire Chief, Fire Department Director Aviation Environment Services	ARFF vehicle valves were actuated and were found to operate as intended with the new F3 foam, however, the POSFD had not yet decided, if and when, to test the valves on ARFF vehicles on an ongoing basis. Failure to test valves can pose a risk of valves malfunctioning due to prolonged inactivity.	Management confirmed that testing is still in progress, and no decisions have been made based on the results. Agreed upon target date is 03/31/2025.
Performance	Aqueous Film Forming Foam (AFFF) Transition	Medium	9/25/2024	9/6/2024	73	54	Fire Chief, Fire Department Director Aviation Environment Services	Internal Audit identified challenges in the maintenance of AFFF Fire Suppression Systems at tenant locations. Additionally, the audit revealed potential operational safety risks associated with delayed transitions to PFAS-free foam alternatives.	On November 13, 2024, Management confirmed that a formal request for the transition plan status has not yet been sent to tenants. They will inform Internal Audit once this has been completed.
Performance	Aqueous Film Forming Foam (AFFF) Transition	Medium	12/31/2024	9/6/2024	73	-43	Fire Chief, Fire Department Director Aviation Environment Services	Internal Audit identified areas for Improvement in AFFF Management Policies, Compliance, and Training Documentation.	Management confirmed that the policy update has been completed, and the SPCC/SWPPP documents have been reviewed. However, edits will not be incorporated until the documents enter their review cycle, and no action will be taken at this time. Agreed upon target date is 12/31/2024.

Appendix B – Lease/Concession Risk Universe

High Revenue:

Contract	Name	2021	2022	YTD Actual as of 8/31/2023	Total
AIR001281	EAN HOLDINGS LLC	\$ 9,350,157	\$ 12,277,520	\$ 8,801,413	\$ 30,429,090
AIR001282	AVIS BUDGET CAR RENTAL	9,301,830	11,846,126	8,325,822	29,473,777
AIR001278	HERTZ CORPORATION	4,383,314	5,848,064	4,394,685	14,626,063
AIR002512	SKY CHEFS INC	3,581,139	5,319,940	4,675,048	13,576,127
AIR002224	IN-TER-SPACE SERVICES, INC	3,523,561	6,029,033	3,842,659	13,395,253
SEA002603	LOUIS DREYFUS COMPANY WASHINGTON LLC	5,320,348	5,044,615	1,590,019	11,954,982
AIR002579	RASIER LLC	4,558,640	5,749,954	-	10,308,594
AIR002733	SEATTLE AIR VENTURES JV	-	3,448,499	4,765,292	8,213,791
AIR000042	GATE GOURMET INT'L	1,712,065	3,042,842	2,759,546	7,514,453
AIR002578	LYFT	3,423,928	3,994,890	-	7,418,818
AIR001279	DTG OPERATIONS INC DBA THRIFTY CAR RENTA	2,236,182	3,028,325	2,103,206	7,367,713
AIR002732	SEATTLE AIR VENTURES JV	-	2,519,461	3,669,178	6,188,639
AIR002634	ALCLEAR LLC	1,183,847	2,417,682	2,459,812	6,061,342
AIR001280	CMC INVESTMENTS INC	1,615,818	2,395,181	1,382,419	5,393,417
AIR001285	FOX RENT A CAR INC	1,719,671	2,158,014	1,428,899	5,306,583
AIR001632	SIXT RENT A CAR LLC	1,364,508	1,947,045	1,714,716	5,026,269
AIR002018	AIRPORT MANAGEMENT SERVICES LLC	5,019,999	-	-	5,019,999
TOTAL		\$ 58,295,005	\$ 77,067,191	\$ 51,912,714	\$ 187,274,911

Appendix B – Lease/Concession Risk Universe (continued)

Medium Revenue:

Contract	Name	2021	2022	YTD Actuals as of 8/31/2023	Total
AIR002680	HSI BFF SEA FB LLC	\$ 659,126	\$ 2,277,123	\$ 1,980,434	\$ 4,916,683
AIR002729	DOUG FOX TRAVEL/ATZ	-	1,791,529	2,652,224	4,443,753
AIR002240	STELLAR BAMBUZA SEA LLC	1,607,043	1,519,258	1,046,246	4,172,547
AIR002017	AIRPORT MANAGEMENT SERVICES LLC	3,911,367	-	-	3,911,367
AIR001718	DOUG FOX TRAVEL/ATZ	2,779,141	1,093,325	-	3,872,466
AIR002366	SEATTLE AIR VENTURES JV	370,983	1,797,189	1,430,297	3,598,468
AIR000086	FLYING FOOD FARE INC	664,402	1,467,133	1,335,146	3,466,681
SEA000425	REPUBLIC PARKING NORTHWEST INC	890,826	1,362,652	1,144,146	3,397,623
AIR002238	SSP AMERICA SEA LLC	1,003,579	996,756	1,049,909	3,050,244
AIR002019	HOST INTERNATIONAL, INC	2,849,201	-	-	2,849,201
AIR002361	HOST LPI SEA FB LLC	880,251	735,246	1,169,766	2,785,263
AIR002237	SSP AMERICA SEA LLC	1,027,232	656,287	913,081	2,596,600
AIR002362	CONCOURSE CONCESSIONS LLC	1,055,619	854,423	614,669	2,524,711
AIR002096	QDOBA RESTAURANT CORPORATION	858,053	814,919	798,545	2,471,517
AIR001562	BEECHER'S HANDMADE CHEESE, LLC	800,375	1,001,152	643,616	2,445,143
AIR001513	SODEXO AMERICA LLC	758,835	891,711	755,458	2,406,004
AIR002365	BAMBUZA SEA-TAC VENTURES	842,295	669,118	666,125	2,177,538
AIR002427	SEATTLE FOOD PARTNERS LLC	-	121,092	1,906,922	2,028,014
TOTAL		\$ 20,958,327	\$ 18,048,914	\$ 18,106,583	\$ 57,113,824

Appendix B – Lease/Concession Risk Universe (continued)

Low Revenue:

Contract	Name	2021	2022	YTD Actuals as of 8/31/2023	Total
AIR002053	SEATAC BAR GROUP LLC	\$ 625,631	\$ 622,000	\$ 668,251	\$ 1,915,882
AIR001606	MCDONALD'S USA LLC	959,136	908,189	10,169	1,877,494
AIR002101	FIREWORKS	758,161	479,141	610,522	1,847,824
AIR002241	PALLINO SEATAC LLC	583,360	432,169	683,393	1,698,923
AIR002678	HOST INTERNATIONAL, INC	148,800	688,086	841,565	1,678,451
AIR002055	CONCOURSE CONCESSIONS LLC	723,072	420,945	520,596	1,664,613
AIR002265	1915 KCHOUSE CONCEPTS-SEATAC LLC	489,339	542,293	436,747	1,468,379
AIR002358	SSP AMERICA SEA LLC	400,331	408,484	605,534	1,414,349
AIR002370	SSP AMERICA SEA LLC	210,008	681,262	502,635	1,393,905
AIR002247	HOST INTERNATIONAL, INC	932,656	440,344	-	1,372,999
AIR002665	DUFY - SEATTLE JV	920,544	448,630	-	1,369,174
AIR002679	HOST INTERNATIONAL, INC	168,492	582,126	582,657	1,333,276
AIR002094	DILETTANTE CHOCOLATES INC	457,907	365,924	481,770	1,305,600
AIR002233	THE YARROW GROUP LLC	518,217	314,321	439,154	1,271,692
AIR001451	PAYLESS CAR RENTAL INC	333,638	543,982	365,325	1,242,945
AIR002624	CI CREWS SEA LLC	208,553	689,152	270,778	1,168,483
AIR002232	BF FOODS LLC	459,352	256,329	422,280	1,137,961
AIR002750	HSI HCL SEA FB LLC	-	84,770	946,894	1,031,664
SEA000043	MAD ANTHONY'S INC CHINOOK	355,755	368,673	259,596	984,024
AIR002063	FRUIT & FLOWER LLC DBA FLORET AUTHORITY	296,965	197,386	409,351	903,701
AIR002531	LATRELLE'S FLIGHT KITCHEN LP	-	299,834	567,041	866,875
AIR002468	WBB C.I. CREWS, LLC	345,273	361,640	-	706,913
AIR001505	US BANK	437,800	252,811	-	690,611

Appendix B – Lease/Concession Risk Universe (continued)

Low Revenue (continued):

Contract	Name	2021	2022	YTD Actuals as of 8/31/2023	Total
AIR002048	ALCLEAR LLC	\$ 686,056	\$ -	\$ -	\$ 686,056
AIR002364	MARMOT MOUNTAIN LLC DBA EXOFFICIO	181,969	301,444	172,873	656,286
SEA000294	MAD ANTHONY'S INC PIER 66	179,788	271,350	203,947	655,085
AIR002588	SMARTE CARTE INC	199,237	205,368	199,966	604,572
AIR002054	SUNS INC	121,433	197,748	200,255	519,436
AIR002533	SSP AMERICA SEA LLC	-	-	511,463	511,463
AIR002093	SEATTLE CHOCOLATES COMPANY LLC	201,976	127,190	179,432	508,598
AIR002486	LATRELLES EXPRESS INC	33,362	264,018	196,210	493,590
AIR002617	SSP AMERICA SEA LLC	-	158,846	326,556	485,402
AIR002103	INMOTION SEA LLC	189,233	78,992	177,414	445,639
AIR002628	TRAVEL CONTENT LLC	112,500	194,111	114,692	421,303
AIR002369	SSP AMERICA SEA LLC	177,071	169,761	71,665	418,497
AIR002355	SEATTLE AIR VENTURES JV	165,004	75,158	159,249	399,411
AIR002372	PLANEWEAR LLC	143,380	130,713	125,315	399,408
AIR002467	LADY YUM LLC	148,203	80,446	125,743	354,392
AIR002545	CONCOURSE CONCESSIONS LLC	95,584	144,793	103,897	344,273
AIR000435	HOST INTERNATIONAL, INC	332,842	-	-	332,842
SEA003383	GLACIER FISH COMPANY LLC	150,000	150,000	-	300,000
AIR001816	SUB POP RECORDS	108,222	74,791	115,232	298,245
AIR002703	SEATAC BAR GROUP LLC	-	55,073	228,097	283,170
AIR002696	WASHINGTON'S LOTTERY	-	127,126	131,166	258,291
AIR002363	BAMBUZA SEA-TAC VENTURES	-	3,111	251,939	255,051

Appendix B – Lease/Concession Risk Universe (continued)

Low Revenue (continued):

Contract	Name	2021	2022	YTD Actuals as of 8/31/2023	Total
AIR002532	THE MARSHALL RETAIL GROUP LLC	\$ -	\$ 103,665	\$ 129,055	\$ 232,720
SEA000016	BILL & NICK INCORPORATED	72,105	93,313	66,515	231,933
AIR002664	LENLYN LIMITED	41,494	38,150	150,977	230,621
AIR002537	THE MARSHALL RETAIL GROUP LLC	-	108,461	114,819	223,281
AIR002249	AIRPORT CONCESSIONS NW LLC	-	-	188,870	188,870
AIR002808	US BANK	-	-	174,102	174,102
AIR002430	AIRPORT MANAGEMENT SERVICES LLC	166,522	-	-	166,522
AIR002095	TERMINAL GETAWAY SPA SEATTLE, LLC	79,097	50,855	25,757	155,709
AIR001655	CLEAN ENERGY FUELS CORP	6,012	78,295	58,026	142,332
SEA002783	MSM CORPORATION	67,541	67,621	5,635	140,797
SEA003537	PUBLICANS INC	29,252	66,645	44,082	139,979
AIR002097	SMARTE CARTE INC	39,158	45,717	52,226	137,101
AIR002553	AMERICAN EXPRESS TRAVEL	-	-	124,043	124,043
SEA002355	SHILSHOLE BAY FUEL DOCK	38,706	38,592	25,728	103,025
AIR001439	E-Z RENT-A-CAR	-	-	91580.38	91,580
SEA003337	GUNWOO & JINAH INC	48,250	35,128	-	83,379
AIR002387	UNITED INDIANS OF ALL TRIBES FOUNDATION	39,729	21,403	20,700	81,833
AIR002270	CHALO LLC	29,790	18,836	19,857	68,483
AIR002756	BAMBUZA SEA-TAC VENTURES	-	43,426	13,630	57,056
AIR002309	DELTA AIR LINES INC	15,657	26,410	12,652	54,719
AIR000629	SMARTE CARTE INC	41,409	-	-	41,409
AIR002299	ALASKA AIRLINES INC	13,836	17,046	9,091	39,972

Appendix B – Lease/Concession Risk Universe (continued)

Low Revenue (continued):

Contract	Name	2021	2022	YTD Actuals as of 8/31/2023	Total
AIR002445	AIRPORT CHANNEL	\$ 37,500	\$ -	\$ -	\$ 37,500
AIR002625	CERTIFIED FOLDER DISPLAY SERVICE INC	9,858	6,691	18,801	35,350
AIR002330	SHARA LLC DBA SHOW PONY	15,026	4,697	14,079	33,801
SEA002494	PUBLICANS INC	28,607	-	-	28,607
AIR002773	SEATTLE AIR VENTURES JV	-	4,014	21,464	25,478
AIR002786	HEIGH CONNECTS LLC	-	-	22,006	22,006
AIR002469	TRICOPIAN DBA FUELROD	6,371	7,431	7,076	20,879
AIR002751	GLASS EYE STUDIO	-	7,336	10,268	17,604
AIR002632	GLOBAL CONCESSIONS GROUP LLC	9,820	7,624	-	17,444
AIR001877	AMERICAN EXPRESS TRAVEL	5,407	9,578	525	15,510
AIR002687	MAG US LOUNGE MANAGEMENT LLC	-	6,112	7,815	13,927
AIR002812	BETTER SCIENCE LLC	-	-	13,424	13,424
AIR002437	SECURITY POINT MEDIA, LLC	-	5,760	6,840	12,600
AIR002529	AIRPORT MANAGEMENT SERVICES LLC	2,668	6,500	3,048	12,216
AIR002466	LUCKY SHOE SHINE LLC	6,301	2,191	866	9,358
SEA000424	REPUBLIC PARKING NORTHWEST INC	3,118	3,332	1,893	8,343
AIR002580	WINGZ, INC	3,078	4,588	-	7,667
AIR002501	PLANEWEAR LLC	2,591	2,420	1,427	6,439
SEA003645	GUNWOO & JINAH INC	-	-	6,134	6,134
AIR002731	AFRICA'S BEST LLC	-	3,055	2,692	5,748
AIR002327	UNITED AIRLINES	455	3,129	1,902	5,487
AIR001641	CERTIFIED FOLDER DISPLAY SERVICE INC	4,000	-	-	4,000
SEA001479	MAC-GRAY SERVICES	103	239	314	656
AIR002702	BABY FOODIE LLC	-	214	189	403
AIR002572	FLY BABY LLC DBA LIGHTLY	33	35	-	69
TOTAL		\$ 14,422,346	\$ 14,137,041	\$ 14,687,480	\$ 43,246,868

Appendix C – Information Technology Audit Universe

#	IT General Controls Audits	Inherent Risk	Residual Risk
1	CIS - Inventory and Control of Enterprise Assets - V8	HIGH	MED
2	CIS - Inventory and Control of Software Assets - V8	HIGH	MED
3	CIS - Data Protection - V8	HIGH	
4	CIS - Secure Configuration of Enterprise Assets and Software - V8	HIGH	MED
5	CIS - Account Management - ICT - V8	HIGH	LOW
5	CIS - Account Management - Aviation Maintenance - V8	HIGH	LOW
6	CIS - Access Control Management - V8	HIGH	
7	CIS - Continuous Vulnerability Management - V8	HIGH	HIGH
8	CIS - Audit Log Management - ICT - V8	HIGH	LOW
8	CIS - Audit Log Management - Aviation Maintenance - V8	HIGH	MED
9	CIS - Email and Web Browser Protections (ICT and Aviation Maintenance) - V8	HIGH	MED
10	CIS - Malware Defenses - V8	HIGH	LOW
11	CIS - Data Recovery - V8	HIGH	LOW
12	CIS - Network Infrastructure Management - ICT - V8	HIGH	
12	CIS - Network Infrastructure Management - Aviation Maintenance - V8	HIGH	MED
13	CIS - Network Monitoring and Defense - V8	HIGH	
14	CIS - Security Awareness and Skills Training - V8	HIGH	HIGH
15	CIS - Service Provider Management - V8	HIGH	
16	CIS - Application Software Security - V8	HIGH	MED
17	CIS - Incident Response Management - ICT/Aviation Maintenance - V8	HIGH	LOW
18	CIS - Penetration Testing - V8	HIGH	
19	Annual Review of PCI Compliance	HIGH	LOW
20	Password Management	HIGH	MED
21	Parking Revenue Control System Upgrade (T2 FLEX)	HIGH	LOW
22	Change Management	HIGH	LOW
23	Datacenter Operations	HIGH	HIGH
24	Disaster Recovery Program	HIGH	LOW
25	HIPAA Privacy Compliance	HIGH	LOW

Completed Audits

On the 2025 Audit Plan

#	IT General Controls Audits	Inherent Risk	Residual Risk
26	HIPAA Security Compliance	HIGH	LOW
27	Industrial Control System Security	HIGH	HIGH
28	IT Governance	HIGH	
29	IT Risk Management	HIGH	
30	Periodic User Access Reviews	HIGH	
31	Physical & Environmental Security	HIGH	
32	Portable Media Security	HIGH	
33	Project Management	HIGH	
34	Security Program	HIGH	
35	System and Software Development	HIGH	
36	Transmission Protection	HIGH	
37	Triennial WA State Patrol Audit of Criminal Justice Information Services (CJIS) Compliance	HIGH	
38	Third Party Vendor Management	HIGH	
39	800 MHZ Communication System	HIGH	
40	TSA Cybersecurity	HIGH	
41	Cyber Insurance Review	HIGH	
42	Text Messaging Compliance with RCW	HIGH	
43	Generative AI	HIGH	
44	Cloud Computing		
45	Mobile Devices		
46	Baggage Conveyor System (ICS Network)	HIGH	
47	Satellite Train System (STS) (ICS Network)	HIGH	
48	Internal Waste Treatment Plant (IWTP)		
49	Auxiliary Utility Facility (AUF)		
50	Terminal Wide Voice Paging (TWVP)		
51	Building Automation System (BAS)		
52	Airfield Lighting Control and Monitoring System (ACLMS)		
53	Power Monitoring (ICS Network)		
54	Customs and Border Protection, includes Access Control & Video Mgt for CBP		
55	Debra Davis/Motorola (RADIO network)/ 800 MHZ Comm. System		
56	FIMS/FIDS, CUSE/CUSS, BAX, VMS, SafeDock, etc. (OPSLAN Network)		
57	Disaster Recovery & Business Continuity Plans		
58	New IT Environment – Information Technology General Controls (ITGC)	HIGH	

INTERNAL AUDIT REPORT

Operational Audit
Partner in Employment

April 2022 – July 2024



Issue Date: October 21, 2024
Report No. 2024-17

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INTERNAL AUDIT

Executive Summary

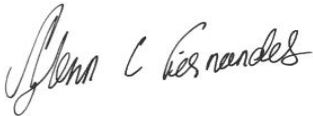
Internal Audit (IA) completed an audit of the Partner in Employment (PIE) program for the period April 2022 through July 2024. The objective of this audit was to verify that PIE delivered the services outlined in its contract with the Port of Seattle (Port) and correctly reflected those services provided, in reports submitted to the Port. The audit was initiated in response to a PIE employee's email raising concerns about the organization's fund usage. The email alleged that \$250,000 designated for Arrived Refugee and Immigrants had been either missing or misappropriated.

PIE is a non-profit organization dedicated to addressing employment challenges faced by refugees and immigrant communities in Washington State. The Port is currently running three programs with PIE, for which it has granted approximately \$509,000. These programs aim to provide job placement assistance, vocational training, educational workshops, and webinars with a focus on industries such as airport operations, green jobs, aerospace manufacturing, and forest restoration.

IA reviewed ongoing contracts with PIE by interviewing Port Program Managers to better understand the contract deliverables and the monitoring process in place prior to invoice payments. Additionally, IA interviewed PIE staff and their Executive Director. We also conducted walkthroughs to assess documentation, reporting procedures, and activities undertaken to meet contract deliverables.

Our audit concluded that certain PIE reports provided to the Port of Seattle, did not accurately reflect the services provided by PIE. This is discussed more detail beginning on page six of this report.

- 1. (High) The figures, reported by PIE, did not accurately reflect the actual number of clients served and were materially inflated. Furthermore, PIE failed to maintain sufficient supporting documentation to substantiate the numbers reported to the Port, for clients served and related expenses.**
- 2. (High) There was no formal procedure in place to verify the accuracy of reports and invoices submitted to the Port.**



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Bookda Gheisar, Sr. Director Equity, Diversity & Inclusion
Dan Thomas, Chief Financial Officer

Background

On June 19, 2024, the Port was notified of a potential misappropriation of approximately \$250,000, by a staff member at PIE. We later confirmed the misappropriation through an interview with PIE's Executive Director (ED). The misappropriation occurred between March and May 2024 and per PIE's ED, was discovered during a routine spot check in late May 2024. There were also suspicious transactions identified in the prior year, but these were pending further investigation. Following the complaint to the Port, PIE reported the fraud to the King County Sheriff's department. On July 1, 2024, PIE executives formally reported the same issue via email to the Port. The criminal investigation is ongoing and was expected to conclude in late September of 2024. According to PIE's ED, all relevant funders of PIE were notified of the fraud after the whistleblower complaint.

PIE offers a range of services in the State of Washington to support immigrants and refugees in achieving economic stability and integration. These include employment assistance (which helps clients secure high-paying jobs through case management), job training, and cultural guidance. PIE also provides homelessness prevention services, offering financial aid and counseling to low-income families at risk of losing their homes. Their youth programs equip immigrant and refugee youth with skills training and education to enhance employment opportunities. To further reduce barriers to employment, PIE offers social services such as rental and transportation assistance. English language support is provided through their ESL classes, helping refugees and immigrants adapt to life in the U.S.

PIE's ED stated that the fraud did not affect the organization's operational funds, as the stolen money came from their reserves. However, PIE operates with a single primary checking account where all funds from different funders are deposited, along with a separate reserve account. Due to this setup, it is not possible to determine specifically whose funds were stolen.

Given PIE's status as a non-profit organization, the IA department expressed concern that the significant loss could impact the organization's operations. To assure that PIE continues to meet its contractual obligations, IA reviewed all ongoing contracts between PIE and the Port. Currently, the Port has three active contracts with PIE, as outlined in the table below:

Contract No.	Amount	Date Executed	Term	Nature of Deliverables
P-00321145	\$250,000	07/25/2022	Base year plus 2 additional optional years	Training and Job Search assistance in: a) Aerospace Manufacturing b) Forest Restoration/Salmon Habitat Restoration
P-00321150	\$199,000	09/23/2022	2 years, plus 1 additional optional year (Management does not plan to extend after 2 years)	Job assistance at the SEA Employee Center
P-00320892	Up to \$20,000 per year	04/15/2022	Base year plus 2 additional optional years	a) Restoration of public parks in Burien, Tukwila, and Seatac b) Youth skill development and introduction to nature based opportunities

Audit Scope and Methodology

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

In some instances, we used judgmental sampling methods to determine the samples selected for our audit test work. In those cases, the results of the work cannot be projected to the entire population.

The period audited was April 2022 through July 2024 and included the following procedures:

Interviews and Process Walkthroughs

- Conducted interviews and process walkthroughs with Port Program Managers and PIE Program Managers for the three active contracts. The objective was to understand:
 - Contract deliverables, including the review and approval processes.
 - Related controls in place.
 - Opportunities for improvement.

Document Review

- Reviewed key documents, including:
 - Active and past contracts with PIE, along with contract amendments.
 - Progress Reports submitted by PIE, along with supporting documentation.
 - Physical case files maintained at the PIE office.

Validation

- P-00321145
 - Requested monthly, semi-annual, and annual reports.
 - Selected March 2024 – July 2024 for review, as this period included the primary months when the fraud occurred, and requested supporting documentation for the numbers reported to the Port.
 - Conducted a site visit to review case files of clients placed in airport jobs.
 - Reviewed data for clients who attended trainings, workshops, and webinars.
- P-00321150
 - Requested monthly reports to verify services provided according to the contract deliverables.
 - Selected April 2024 – June 2024 as a sample and requested supporting documentation for the numbers reported.
 - Reviewed sign-in sheets provided for one of the deliverables and selected a sample of 30 clients each month. The total for the three months was approximately 900 clients. Contacted clients to gather feedback on services received from PIE.
 - Conducted a site visit to review support for other deliverables.
- P-00320892
 - Requested all invoices and supporting documentation.
 - Compared the amounts paid with the invoices.
 - Reviewed the provided supporting documentation.

Schedule of Observations and Recommendations

1) Rating: High

The figures, reported by PIE, did not accurately reflect the actual number of clients served and were materially inflated. Furthermore, PIE failed to maintain sufficient supporting documentation to substantiate the numbers reported to the Port, for clients served and related expenses.

P-00321145

This contract focused on Aerospace Manufacturing and Forest Restoration jobs and trainings.

We met with two PIE program managers responsible for contract reporting, who walked us through the numbers reported in the monthly reports. They informed us that the figures submitted to the Port were significantly higher than the actual numbers, as they included organization-wide data rather than limiting data to contract-specific information.

The program managers also noted that most case managers are funded by other programs, and their primary focus was on those areas. The contract required a dedicated case manager which is outlined in the scope of work section. Accordingly, this requirement of the contract was not being met. The reported job placement numbers were materially incorrect and mostly included the numbers from other programs. Additionally, they disclosed that their Executive Director instructed them to follow a script when speaking with Internal Audit, which they believed to be misleading and improper.

They provided an Excel report with the actual numbers they believed were in accordance with the contract terms. Below is a comparison of the reported versus actual figures submitted to the Port over a three-month period. However, it is important to note that the supporting documentation for the actual numbers was also insufficient. Therefore, we cannot verify the accuracy of the adjusted figures provided.

Month Report Data	April 2024		May 2024		June 2024	
	Reported	Actual	Reported	Actual	Reported	Actual
Number of Clients/participants served	45	10	68	10	71	10
Number of clients participating in training sessions	10	10	10	10	18	10
Number of Job Placements	21	0	18	1	18	0
Number of participants recruited	0	0	0	0	15	0
Number Retained in Employment	15	5	73	0	55	1
Number of Webinars or Workshops offered	10	10	26	3	11	5

Additional deliverables included detailed monthly allocations, providing a cost breakdown for all work related to wraparound services, such as support for work-related transportation and clothing needs, as determined by the case manager. It also covered adult stipend allocations, paid aerospace manufacturing training in partnership with the Machinist Institute, and forest/salmon habitat restoration efforts in collaboration with the City of Burien, SeaTac, Tukwila, and Seattle Parks and Recreation Departments. However, we found no supporting documentation for these efforts and were unable to verify the extent of the work completed in these areas.

P-00321150

This contract focused on outreach related to SEA airport jobs and providing training to support those roles. PIE submitted sign-in sheets as evidence for the clients they served in-person. We sampled 30 clients each month from April 2024 to June 2024 and contacted them for feedback on the services they received. We encountered multiple phone numbers that were disconnected or went straight to voicemail.

For the clients who responded, the following details were recorded:

Month	Total	Sample	Answered				Total Answered	No Answer
			Confirmed Received Services	Confirmed No Services Received	Translation Issues	Other*		
April	360	30	5	3	6	3	17	13
May	342	30	3	2	2	5	12	18
June	334	30	6	6	9	0	21	9
Total		90	14	11	17	8	50	40

* Included people who did not wish to participate.

The results of the review showed that the sign-in sheets included everyone who visited their office, not just those seeking assistance with SEA airport jobs and training. The program manager confirmed this and acknowledged that there is no process to distinguish between the different services. Additionally, the reported numbers in the monthly reports did not match the sign-in sheets, and the program manager was unable to explain the discrepancy. The other deliverables also lacked adequate supporting documentation. The program managers noted that the contract's goals were set too high and were proving difficult to achieve.

P-00320892

This contract focused on training immigrant and refugee youth in technical skills to complete environmental restoration projects in airport community parks. PIE engaged volunteers to work on park improvements at Hilltop Park in Burien. While payment for youth hours was made in 2022, PIE provided an Excel report detailing youth hours, dates, and payment amounts. However, we were unable to validate this information due to missing supporting documentation.

In conclusion, the primary issue identified across all three contracts is the significant discrepancy between the reported figures and the actual work performed, compounded by a lack of sufficient and appropriate supporting documentation to validate the reported outcomes. In several instances, the reports included inflated data by incorporating clients and services from unrelated programs, which misrepresented the true impact of these contracts. Furthermore, key contractual requirements, such as the provision of a dedicated case manager and accurate reporting of job placements, were not met. The inability to verify essential deliverables, raises concerns about the reliability of the data submitted. These issues highlight a need for improved transparency, clearer reporting processes, and stronger oversight to assure future contracts fulfill their intended objectives.

Management Response/Action Plan:

Bookda Gheisar, Sr Director of Office of Equity and Anna Pavlik, Director of Workforce Development to hold an in-person meeting with the Executive Director of PIE, Hien Kieu on Thursday Oct 17, 2024. We will review the issues we are concerned about, go over the highlights of the findings of the audit, and ask for a very careful review of their reports and numbers before they are submitted again. In the future, we see a need to strengthen our systems and process improvement and clarification of deliverables with all organizations.

2) Rating: High

There was no formal procedure in place to verify the accuracy of reports and invoices submitted to the Port.

For the three active contracts with PIE, interviews with the Port's program managers indicated that there was no formal process in place to validate the reports submitted by PIE. As a result, the Port relied primarily on trust in PIE's reporting, and disbursed funds according to the timeline outlined in the contract. While the program managers noted that they occasionally conducted site visits and attended workshops to observe the work, there was no active, ongoing monitoring in place. All managers recognized that similar issues were present in other contracts with comparable organizations and concurred on the need for a formal oversight process for PIE and similar contractors.

Recommendations:

1. Establish a formal process for reviewing reports and approving invoices from PIE and similar contractors, incorporating both desk monitoring and site visits.
2. Provide training and guidance to PIE on deliverables, this may include regular check-ins.
3. Include clear language in future contracts, specifying the required documentation to support invoices and defining deliverables more explicitly.

Management Response/Action Plan:

SKCF and WFD is planning to develop the following for all organizations we work with:

- Standardized report template (underway)
- Invoice templates (underway)
- Report and invoice review procedures (i.e. desk monitoring) (underway)
- Site visit procedures, checklists and communication templates (underway)
- Contract performance evaluation template
- Consultant onboarding plans and materials to review contract expectations
- Recommendations for consequences if monitoring results in non-compliance findings
- Recommendations for solicitation and personal services contract language updates to better articulate deliverables, reporting expectations, supporting documentation and contract monitoring plans
- Expectations for all monitoring and enforcement to be done with an equity-informed, community-minded strengths-based approach

This will be carried out in phases, with completion anticipated between January and December 2025.

DUE DATE: 12/31/2025

Appendix A: Risk Ratings

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

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

INTERNAL AUDIT REPORT

Operational Audit
Equity Policy Directive Compliance

April 2023 – October 2024



Issue Date: November 13, 2024
Report No. 2024-16

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INTERNAL AUDIT

Executive Summary

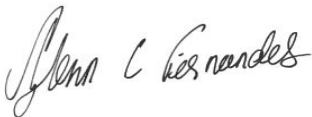
Internal Audit (IA) completed an audit of the Equity Policy Directive (Directive) for the period April 2023 through October 2024. The audit was performed to comply with Section 6, Item 3 of the directive, which states that “Internal Audit shall conduct an audit of the outcomes of the policy requirements outlined in this directive on a periodic basis.”

In its efforts to become a national and regional leader in achieving equity and social justice, the Port of Seattle (Port) created the Office of Equity, Diversity, and Inclusion (OEDI) in 2019. From this initiative, certain milestones were developed throughout the years, with one of them being the Directive. The Directive was formally adopted in April 2023 by the Port Commission to serve as an overall guide for the Port’s direction.

Internal Audit selected significant clauses within the Directive, performed testing, and used the results to assess compliance. In general, Port management’s compliance aligned with most policies and procedures included in the Directive, such as establishing a permanent internal Change Team at the Port, setting annual departmental Equity, Diversity, and Inclusion (EDI) goals, utilizing an equity in budgeting toolkit, working with external stakeholders to further advance equity initiatives, etc. However, our audit identified opportunities where internal controls could be enhanced or developed. These opportunities are listed below and discussed in more detail beginning on page six of this report.

- 1. (High) Port-wide compliance with the annual mandatory racial equity training stated within the Equity Policy Directive is not being enforced. In 2023, only roughly 453 employees, representing 19.6% of the Port, completed the mandatory Equity, Diversity, and Inclusion (EDI) training requirement for the year.**
- 2. (High) The Human Resources (HR) report used by OEDI in their analysis of employees’ training progress for the year is not complete and accurate. The data generated from the Port’s Learning Management System (LMS) cannot be fully relied upon due to discrepancies noted during testing.**

We extend our appreciation to Port management and staff for their assistance and cooperation during this audit.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Bookda Gheisar, Sr. Director Equity, Diversity, & Inclusion
Katie Gerard, Sr. Director HR

Background

In 2019, the Port committed to being a leader in regional and national efforts to achieve equity and social justice. As part of the Port's comprehensive Century Agenda Strategic Plan, the Port created and established the first-ever OEDI for a U.S. port authority. From the 2023 OEDI Annual Report Presentation, the main goal of OEDI is to transform the Port into an organization that "embeds equity and justice into all operations, and to create an organization where all people have opportunities for success." Since 2018, the Port has made numerous advances towards equity and social justice, with OEDI playing a pivotal role and taking the lead on these initiatives and programs as seen in the graphic below.



Source: OEDI Annual Report Presentation

In April of 2023, the Port Commission formally adopted the Equity Policy Directive. Its main purpose is to "guide the integration of equity, diversity, inclusion, and belonging into the Port's practices and policies, and to move our work beyond compliance and mandates towards long-term commitment and sustainable systems change." The Directive serves as a broad guidebook for the Port's overall strategy and vision related to Equity, Diversity, and Inclusion. It encompasses various policies including structural, operational, external-facing, and environmental justice.

To evaluate the effectiveness of the Directive, a report to the Commission is presented annually, detailing the following: each department's equity goals and progress made towards achieving these goals, the most significant barriers that employees face in fairly accessing Port resources and opportunities, and continuous process improvement opportunities. Results from annual surveys and assessments are shared and made public. Additionally, IA is tasked to conduct an audit of the outcomes of the policy requirements outlined in the Directive on a periodic basis.

Audit Scope and Methodology

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

In some instances, we used judgmental sampling methods to determine the samples selected for our audit test work. In those cases, the results of the work cannot be projected to the entire population.

The period audited was April 2023 through October 2024 and included the following procedures:

Document Review

In addition to the Equity Policy Directive itself, IA reviewed various key documents and reports, such as:

- 2023 OEDI Annual Report Presentation
- 2023 Belonging and Inclusion Survey Results
- Equity in Budgeting Playbook
- EDI Assessment Report
- Port of Seattle Equity Index Memo
- Port of Seattle Women of Color (WOC) Assessment Results
- Language Access Assessment Presentation, including Language Access Flyers

Inquiries

Interviewed employees in key roles within OEDI to gain a better understanding of:

- The overall directive
- Related and existing detective controls in place
- Opportunities for improvement
- Mandatory training requirements, including overall compliance and challenges experienced

Testing

Compliance with Annual Equity Training:

- Obtained and reviewed reports from the Port's Learning Portal, also commonly known as the Port's Learning Management System (LMS)
- Performed Port-wide testing to assess whether the mandatory annual equity requirement is being met by all Port employees. The requirements are: five (5) hours for all employees with no direct reports and six (6) hours for employees in a supervisory/managerial role.
 - Randomly selected 10 employees from different departments across the Port
 - Obtained each employee's LMS Transcript, to review training courses attended for the year 2023 and 2024
 - Cross referenced information from the LMS transcripts against the LMS reports provided by OEDI and HR, to determine accuracy and completeness
 - Investigated any variances and differences

Schedule of Observations and Recommendations

1) Rating: High

Port-wide compliance with the annual mandatory racial equity training stated within the Equity Policy Directive is not being enforced. In 2023, only roughly 453 employees, representing 19.6% of the Port, completed the mandatory Equity, Diversity, and Inclusion (EDI) training requirement for the year.

The Port of Seattle's Century Agenda includes the goal of becoming a model for equity, diversity, inclusion, and belonging. According to the Equity Policy Directive, the training is designed to support the growth of equity culture and practice among Port employees, to deepen employee understanding and awareness of systemic, institutional, and anti-Black racism.

The Directive lists two training requirements:

1. These trainings shall consist, at a minimum, of a mandatory annual racial equity training for all Port employees.
2. Individuals in leadership or supervisory roles shall undertake at least one training, orientation, or other learning opportunity to advance a culture of belonging and inclusion per year in addition to the mandatory annual equity training requirement.

OEDI determined that mandatory training would be five hours annually, with individuals in leadership or supervisory roles completing six hours. In the testing performed, IA noted that compliance with this mandatory requirement is lacking. As of December 31, 2023, only 453 out of a total of 2,314 employees, or 19.6%, successfully completed the training requirement. See table below for a detailed breakdown by department and position:

2023 Completion Status of EDI Training Requirement

Department	Manager	Non-Manager	Total
Aviation	53	195	248
Central Services	63	82	145
Economic Development	3	6	9
Maritime	24	27	51
Grand Total	143	310	453

Additionally, from the detailed testing we performed, IA noted that for 2023, zero out of the 10 sampled employees were compliant. Meanwhile, as of October 2024, only two out of the 10 sampled employees were compliant. Based on discussions with OEDI, they are aware that overall participation has been low. However, mandatory training is challenging to enforce since there are no repercussions if an employee does not meet the minimum requirement. Furthermore, the burden is primarily placed on each employee and the employee's manager to ensure that the training requirements are being met annually.

Recommendations:

1. Continue building and developing the "EDI Training Requirement Dashboard" that the department is currently in process of developing to support tracking. This would ensure that training requirements are being tracked and monitored annually by OEDI to track compliance. Once it has been tested and validated, consider sharing with employees Port-wide so they are also able to track and monitor their overall progress throughout the year.

2. Collaborate with HR to explore the possibility of correlating the successful completion of EDI training with employees' annual performance ratings. While EDI goals can be pre-populated into employees' annual goals in Performance Link, the current system relies heavily on each individual to self-report accurately and for managers to validate the accuracy of the data.
3. Due to the low completion rate Port-wide, OEDI should determine the reasons for low participation. Whilst there is a mandatory training requirement within the Directive, the five- and six-hour requirement for employees and supervisors/managers, respectively, was dictated and decided upon by OEDI. By reducing mandatory hours, the Port may see an increase in overall compliance.

Management Response/Action Plan:

Accurate tracking and reporting of the annual EDI training requirement has been a challenge since the requirement was implemented. Most of this challenge derives from complications with LMS. However, OEDI and HR have been working closely together to generate completion reports and a corresponding dashboard, as referenced in the first recommendation. We will continue to refine this tool, and once we can ensure its accuracy, we will make this tool accessible with both supervisors and employees. We believe it will be an effective way for individual employees to track their hours and for supervisors to hold their teams accountable. Our goal is to have this completed by the end of Q1 2025.

We also agree with the observations and issues identified related to the second recommendation. While this is a requirement, as per the Equity Policy Directive, there is no consequence, per se, for failing to meet the requirement. This does not seem to be specific to the EDI training requirement but seems to be an issue related to all required training. Doing more to incentivize the completion of this requirement could create a positive impact. OEDI will partner with HR to explore what is possible, including the suggestion of correlating this requirement to an employee's annual performance rating. We will also connect with our regional and national partners to see if any best practices and/or policies may be helpful with this issue of enforcement and accountability. Our goal is to have a new policy in place in time for 2026.

Finally, regarding the third recommendation, OEDI is in the process of evaluating the most effective ways to engage employees while also assuring that our organization is deepening its understanding of and ability to practice racial equity. We will examine the hours requirement and experiment with some models in the coming year. Our goal is to roll out any adjustments by Q1 2025.

DUE DATE: Multiple Dates

2) Rating: High

The HR report used by OEDI in their analysis of employees' training progress for the year is not complete and accurate. The data generated from the Port's Learning Management System (LMS) cannot be fully relied upon due to discrepancies noted during testing.

Throughout the year, OEDI offers various opportunities, such as In-Person Workshops, Online Classes, Lunch and Learns, and Virtual Learning Courses, for all employees to be able to meet the mandatory annual EDI training requirement. Employees register for these opportunities online through LMS for tracking and recordkeeping purposes.

As part of our testing, IA randomly sampled 10 employees from various departments within the Port and reviewed their 2023 and 2024 LMS transcripts to determine what EDI courses they registered for and completed each year. For 2023, we noted that three of our 10 samples had discrepancies between their transcripts and the HR report. More courses were listed on the employees' transcripts versus the HR report. For 2024, we noted that one of our 10 samples had discrepancies between the individual's transcript and the HR report. Like 2023, more courses were listed on the employee's transcript than what was listed on the HR report. As a result, the HR report undercounted and underreported the hours completed by the affected employees. Consequently, the total hours reflected in the report were incorrect and misleading.

According to OEDI, the report from LMS is run by HR on OEDI's behalf. Essentially, the report is a data download of individual records showing all the different courses and workshops completed by Port employees, the respective completion date, number of credit hours awarded, and other employee specific information (such as division, job title, employee ID, etc.). All changes made to this report are done manually and are a collaborative effort between both HR and OEDI. From this report, OEDI then analyzes the information and creates a dashboard with filters to track all employees' progress. Below is a redacted screenshot of the dashboard (employees' names have been redacted for privacy):

2024 EDI Training Requirement Dashboard				
Make Sure to CLEAR Filters				
<div>Division</div> <div>CentralSvc</div> <div>Aviation</div> <div>Econ Dev</div> <div>Maritime</div>	Total Participating Employees		11	
	Total Complete		2	
<div>Org Description</div> <div>HR HS Intern Program</div> <div>Human Resources</div> <div>ICT Enterprise Infrastrutr Svc</div> <div>ICT Product Engineering</div> <div>ICT Technology Delivery</div> <div>Information Security</div> <div>Internal Audit</div>	Employee Name	Manager Statu	2024HoursCompleted	2024CompletionStatus
		2	3.60	INCOMPLETE
		2	2.10	INCOMPLETE
		1	4.100000001	INCOMPLETE
		1	2.60	INCOMPLETE
		2	6.30	COMPLETE
		2	2.10	INCOMPLETE
		2	2.10	INCOMPLETE
		2	2.10	INCOMPLETE
		2	2.10	INCOMPLETE
		2	1.100000001	INCOMPLETE
		1	7.60	COMPLETE

This reporting tool is extremely new and still a work-in-progress. As such, OEDI has not had a chance to fully validate and test the accuracy of the information. Based on our testing and conversations we have had with OEDI, IA determined that the information from LMS is inaccurate and cannot be relied

upon. Overall, this is problematic as employees, as well as OEDI, do not have a reliable tool on hand to ensure that employees are on track with training requirements.

Recommendations:

1. The discrepancies in LMS need to be identified and resolved. OEDI should consider working with various departments like ICT and HR to pinpoint the root cause(s) of these differences. Once remediated, this will result in accurate analysis and dashboard reports.
2. OEDI should collaborate with HR to learn how to fully utilize LMS so that OEDI can generate their own reports, eliminating the need to rely on HR. This will also eventually reduce HR's workload related to OEDI-specific requests.

Management Response/Action Plan:

As discussed in our response to the first issue, we are in the process of working closely with HR to identify the discrepancies so that we can generate accurate reports and therefore accurate dashboards. Again, we hope to share this dashboard widely and believe it will be a useful tool for both individual employees and supervisors in tracking and accounting for their hours accurately. It will also be a useful tool for OEDI and leadership, displaying the aggregate/big-picture view of this training requirement across the organization, every division, and every department.

HR is currently working with and training two members of the OEDI team to utilize LMS more effectively, which includes being able to generate these reports. HR is doing this with other departments as well, and they are creating tools and resources to assist in this process. By the end of Q1 2025, we hope to be generating these reports on our own without the assistance of HR.

DUE DATE: 4/30/2025

Appendix A: Risk Ratings

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

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

INTERNAL AUDIT REPORT

Operational Audit
Utilities Management – Port-wide

January 2023 – June 2024

Issue Date: October 16, 2024
Report No. 2024-10

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INTERNAL AUDIT

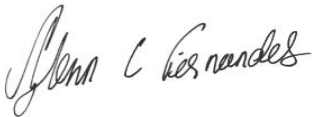
Executive Summary

Internal Audit (IA) completed an audit of Utilities Management – Port-wide for the period January 2023 through June 2024. The audit focused on water consumption and was performed to assess mitigation and monitoring efforts and internal controls of billing processes. The audit scope was determined based on our risk assessment procedures, as well as our preliminary interviews with various Port managers. We also referenced the article, "Seattle got dark and rainy again. Do we still need to conserve water?" published by KUOW on November 22, 2023. According to the author, Seattle Public Utilities identified the Port of Seattle (Port) as the city's second largest user of water between September 2022 and August 2023, consuming 435 million gallons (see Appendix B). Had the study included consumption data from January through December 2022, the Port would have most likely been reflected as the top user.

The Port bifurcates the water management program between the aviation and maritime divisions. Our audit identified several opportunities to improve internal processes. Issues one and two relate to Seattle Tacoma International Airport (SEA) while issue three relates to Maritime. All issues are explained in greater detail beginning on page six of this report.

- 1. (High) A leak detection monitoring system to identify and/or prevent water leaks from occurring does not exist. Since 2020, management identified 13 leaks, the most significant of which began in 2021, lasted 15 months, and leaked approximately 155 million gallons.**
- 2. (Medium) In 2019, an Internal Audit of Utilities concluded that some meters were not functioning correctly and either needed to be replaced or repaired. Of approximately 143 accounts, 12 remain broken and continue to be billed using estimates.**
- 3. (Medium) A leak detection monitoring system to identify and/or prevent water leaks from occurring does not exist. Unique to Maritime, some infrastructure is positioned underwater, creating a greater challenge to identify and repair leaks.**

We extend our appreciation to Port management and staff for their assistance and cooperation during this audit.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Stephanie Jones-Stebbins, Managing Director, Maritime
Lance Lyttle, Managing Director, Aviation
Jennifer Maietta, Director Real Estate Management
Keri Stephens, Director Facilities and Capital Programs, Aviation
John Wellons, Chief Development Officer, Aviation

Background

Water is measured in centum cubic feet (CCF) and gallons. One CCF equals 100 cubic feet (CF) or 748 gallons. The graph below represents water consumption for Aviation and Non-aviation divisions, for the period January 2022 to April 2024 measured in CCF. Between January 2023 and May 2024, approximately \$700,000 was billed to tenants for water consumption.

Aviation (Seattle Tacoma International Airport – SEA)

SEA's water distribution system is a public water system regulated by the Washington State Department of Health. SEA's system has over 28.5 miles of piping, ranging from 6" to 24" in diameter with a design between 50 to 70 years old. The age of the pipe ranges from as early as 1947 to the present, with the majority built in the 1970s. The system includes a cooling tower, fire suppression system, and drinking water for domestic use.

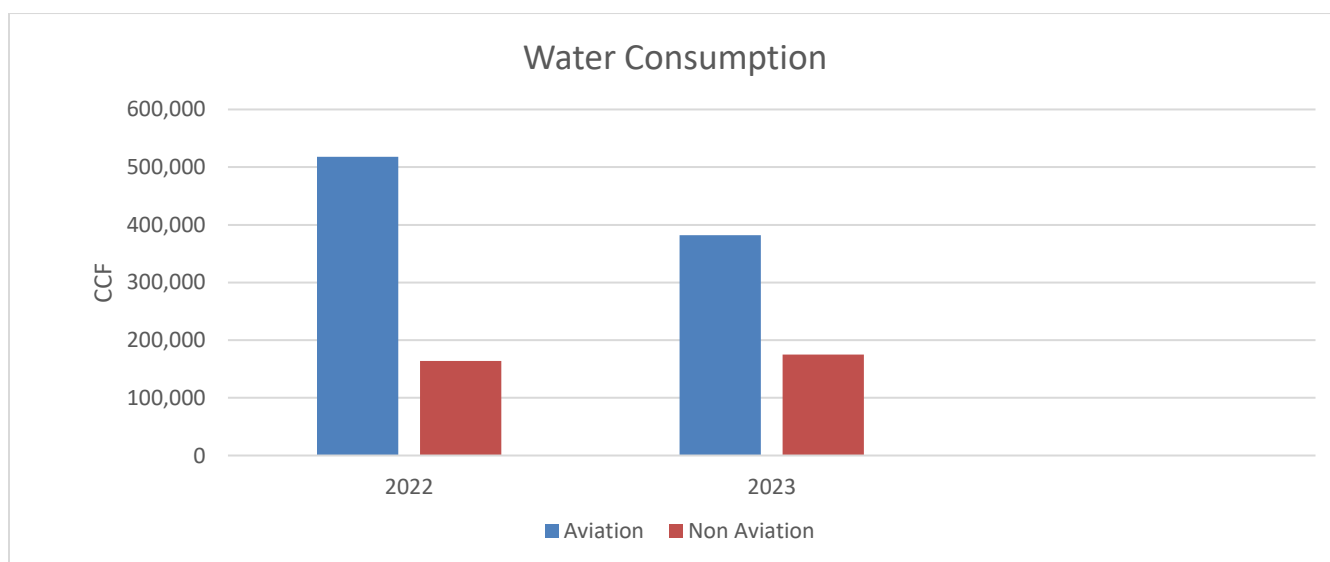
Consumption varies depending on temperature and passenger volumes, but averages about 20 million gallons monthly at a total cost of \$175,000. All water is purchased from Seattle Public Utilities, who provides drinking water to 1.5 million people in the greater Seattle area.

Maritime (Non-Aviation)

Portfolio Asset Management moved from the Economic Development Division to the Maritime Division in August of 2024. Portfolio Asset Management's responsibilities include: obtaining consumption data, applying a utility rate, and billing tenants for their usage.

Water is supplied by Seattle Public Utilities, while sub-meter readings are manually obtained by Port staff. Utility invoices and utility charges for sub-meter readings are processed through PROPworks® and then through PeopleSoft for billing purposes.

Maritime water consumption increased slightly from 2022 to 2023, primarily driven by increased usage from the commencement of Terminal Five operations. The Aviation division experienced a significant decrease in water consumption from 2022 to 2023. This was due from a water leak in July 2021 that was identified and not repaired until September 2022. After the leak was fixed, consumption returned to normal levels in 2023.



*Source: Seattle Public Utilities

Audit Scope and Methodology

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

In some instances, we used judgmental sampling methods to determine the samples selected for our audit test work. In those cases, the results of the work cannot be projected to the population as a whole.

The period audited was January 2023 through April 2024 and included the following procedures:

Data Analysis

- Prepared trending analysis from consumption data, obtained directly from Seattle Public Utilities, for the period beginning January 1, 2022 to April 30, 2024.
- Compared annual water usage, year-over-year to identify trends.
- Determined who the primary water users at the Port were (i.e. concessionaires, cruise, terminal, and other users).

Interviews & Process Walkthroughs

- Interviewed and performed process walkthroughs with employees from both Aviation and Economic Development, to obtain an understanding of billing processes.
- Discussed monitoring programs with management within Aviation Facility and Infrastructure.
- Reviewed documents, including leak incident reports, consumption data, and a Leak Detection Monitoring presentation.
- Assessed the design of processes, including the existence of internal controls.

Site Observation

- Performed site visits of Maritime, Economic Development (now Maritime), and The Northwest Seaport Alliance (NWSA) properties, including Jack Block Park, Terminals 90 and 91, and Terminal 5.
- Performed site visits of Aviation properties, including the South Runway Protection Zone, cooling towers, pump rooms, and the water tower.

Validation of PROPworks® and PeopleSoft (Maritime)

- Randomly selected 25 metered and billed transactions.
- Obtained current and prior months' reading from the photo image and calculated the net difference. When necessary, consumption was converted from CF to CCF.
- Observed current and prior months consumption, reflected in PROPworks®, and calculated the net monthly consumption.
- Validated that consumption, using the photo image, agreed to PROPworks®.
- Multiplied the tenant utility rate by consumption, to compute monthly amount billed, and validated that it agreed to PROPworks®.
- Validated that PROPworks® agreed to the invoice generated from PeopleSoft.
- If any variances were identified, they were discussed with management and resolved.

Schedule of Observations and Recommendations

1) Rating: High

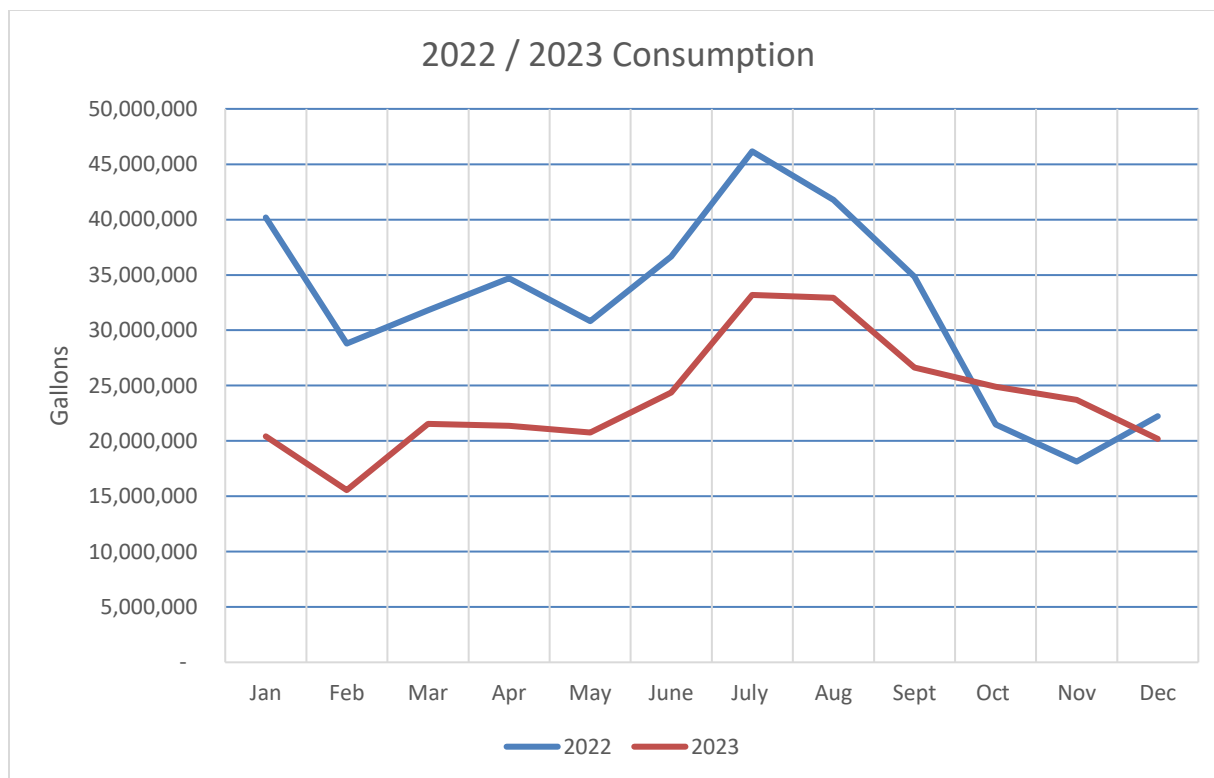
Aviation - SEA

(High) A leak detection monitoring system to identify and/or prevent water leaks from occurring does not exist. Since 2020, management identified 13 leaks, the most significant of which began in 2021, lasted 15 months, and leaked approximately 155 million gallons.

In July 2021, water consumption increased dramatically at an average of an additional 14 million gallons monthly. SEA averages approximately 20 million gallons monthly. Approximately 15 months later, five leaks were located, with the primary leak identified in the South Runway Protection Zone in a six-inch pipe running between the isolation valve and a fire hydrant.

Management concluded that the cause of the leak was because of where the pipe was located. In 2004, the pipe was routed through a wooded wetland area during the Des Moines Detention System Project. The pipe was reported to be laid at grade and over time, decomposed vegetation most likely caused the ground to settle and the pipe to separate and leak.

The leak caused an average loss of 155 million gallons of water at estimated cost of \$1.3 million. Below is consumption data, obtained by Internal Audit from Seattle Public Utilities. It reflects a decrease in consumption in 2023, when compared to 2022, and a return to more normal consumption in September 2023.



Environmental stewardship is fundamental to the Port’s mission. The Mission Statement includes “Stewardship of the Environment”, and the Century Agenda references a desire to be the “Greenest and most energy-efficient port in North America”. Port values also include Stewardship: “we honor and care for the resources entrusted to us for the benefit of future generations.”

Leak detection is limited to physical observation or areal analysis. This method proves ineffective since some leaks are found in areas, such as a storm pond where water is expected or leaks that occur underground. Since 2020, management identified a total of 13 leaks. With aging infrastructure, coupled with an increase in passenger growth, water demands will only increase, further stressing the infrastructure and highlighting the need for a leak detection system to mitigate future incidents.

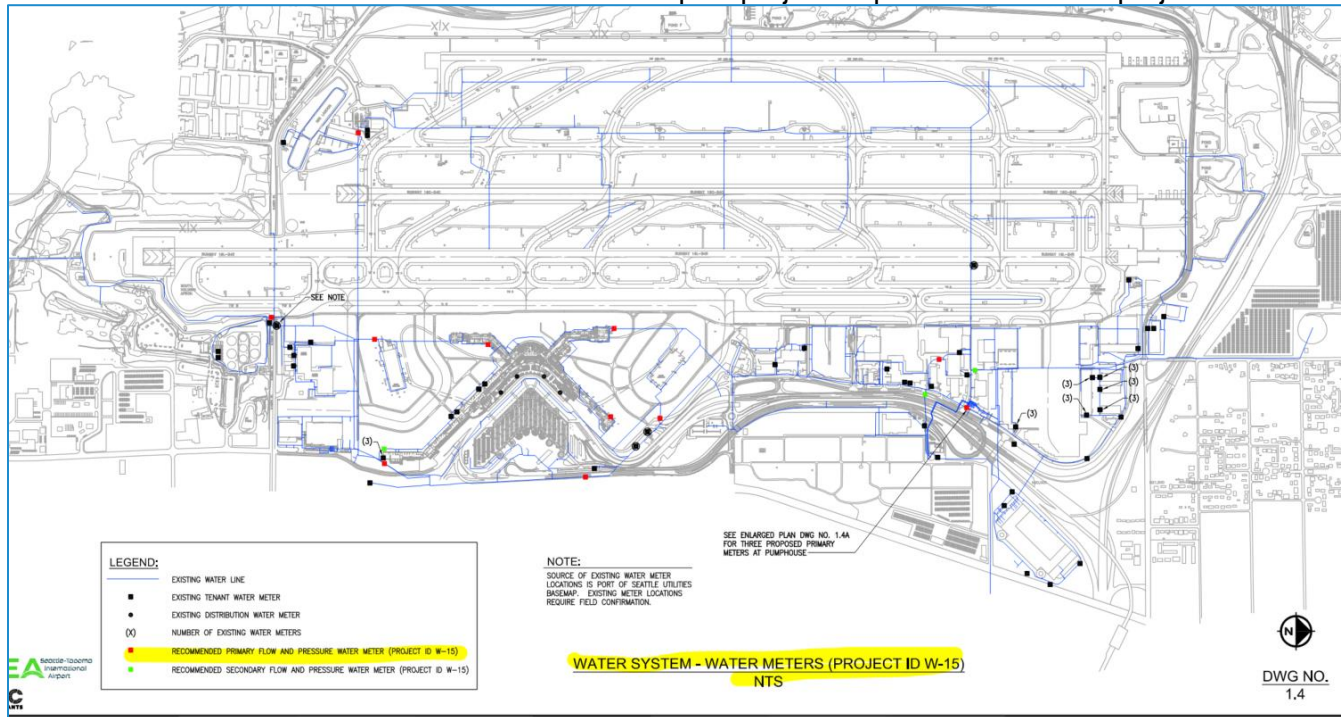
Recommendations:

Installing additional water meters in specific areas of the system to better pinpoint water losses and to conduct water audits.

Additionally, a water leak detection program should be developed and implemented to identify leaks and potential failing infrastructure.


Management Response/Action Plan:

Additional water meters are identified on Aviation Utility Master Plan Vision projects. The vision project scope is to install meters at strategic locations to monitor the water system to conduct a water audit. Aviation Facilities and Infrastructure will submit a capital project request for the vision project.




Utility Master Plan Vision Project (Water Meters)


Leak Detection technology is evolving, Aviation – Facilities & Infrastructure has started a Leak Detection pilot program prior to this audit to find the most suited technology for Airport conditions. When the program does find a reliable technology, a capital project will be submitted for a fully integrated leak detection system.



Attach the sensor to existing pressurized access points in the water network



Detect, pinpoint, and monitor existing and new leaks, as they emerge on the network



Increase your water network's resilience and mitigate risk of catastrophic failure

The compact EchoShore-TX is comprised a hydrophone sensor that is connected to the water column, an electronic module and communications equipment. Sensors are installed at preselected locations along the mains to be monitored as shown in Figure 2.

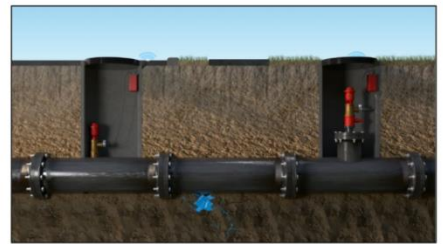



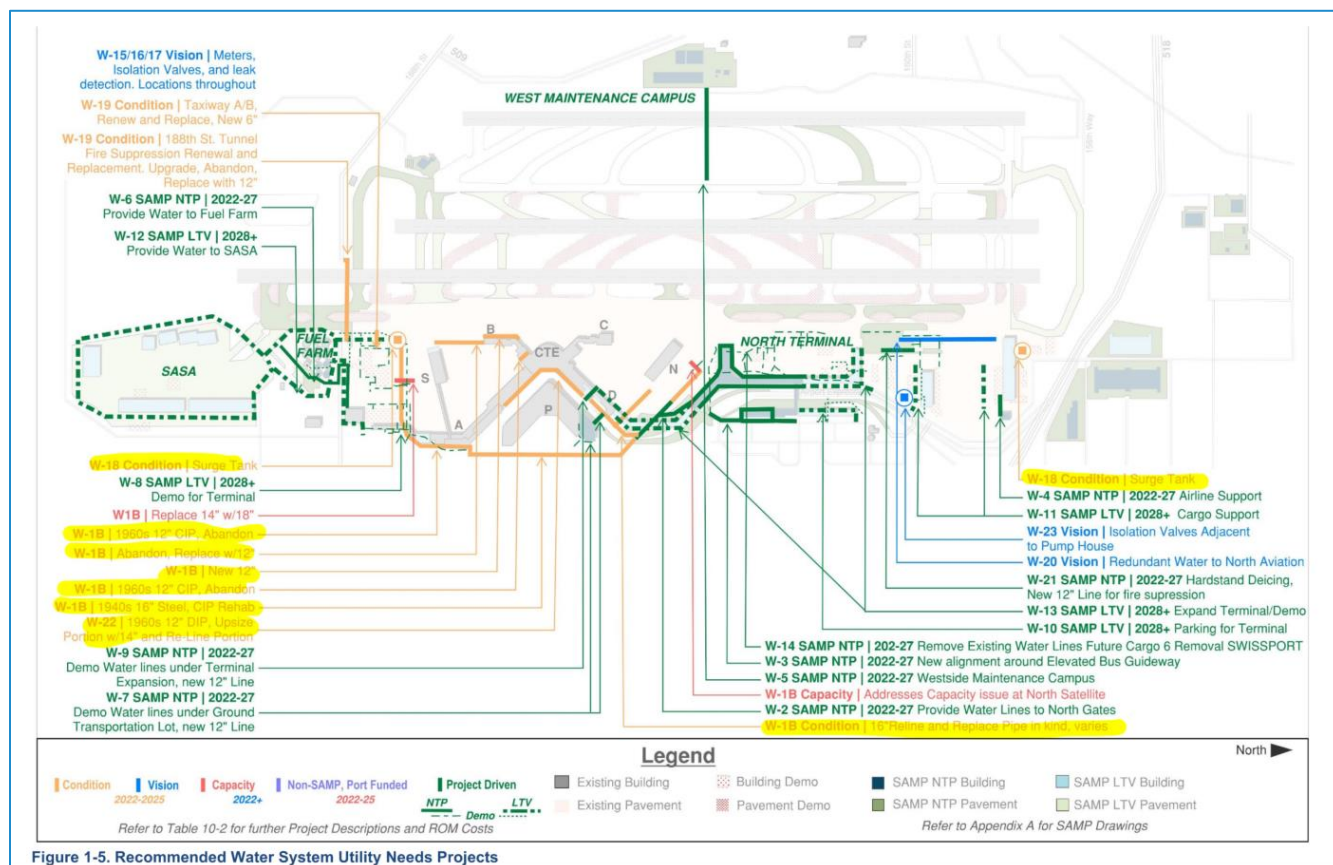
Figure 2: EchoShore®-TX Sensors: Designed for installation in existing chambers



• MUELLER brand

Pilot Program

Majority of the leaks are from aging infrastructure composed of Steel and Cast-Iron materials from the 1940s to 1960s. The Utility Master Plan had identified projects to renew or replace Steel and Cast-Iron infrastructure. Majority of the projects have been implemented or on the capital program.



Utility Master Plan (Yellow Indicates current Capital Projects)

2) Rating: Medium**Aviation - SEA**

(Medium) In 2019, an Audit of Utilities concluded that some meters were not functioning correctly and either needed to be replaced or repaired. Of approximately 143 accounts, 12 remain broken and continue to be billed using estimates.

Management, in response to the 2019 audit, pointed out that an informal process was in place but agreed that a more formal process was needed to improve communication between departments, namely, Utilities/Facilities Infrastructure and Aviation Maintenance. A more formal process was intended to align coordination among departments since multiple departments have different responsibilities (i.e. identification, billing, repair/maintenance).

The table below reflects broken meters, and the date that it went out of service.

Meter #	Customer Name	Date Broken
SSATBAR	HOST INTERNATIONAL	June 2010
9314E	Multiple Customers	August 2018
0967S	SKY CHEFS	February 2016
0967S-LF	SKY CHEFS	December 2016
1413	ALASKA AIRLINES	June 2019
1414	SKY CHEFS	May 2016
144B	FLYING FOOD SERVICE	September 2016
9291	AMB/AFCO CARGO SEA LLC	August 2018
9314W	UNITED AIRLINES	January 2013
9623W	SWISSPORT CARGO SERVICES	February 2016
9811S	ALASKA AIRLINES	March 2014
9811N	ALASKA AIRLINES	March 2014

Recommendations:

Develop a process to identify and repair or replace meters so that they are fixed within one year.

Management Response/Action Plan:

Management agrees with the finding that the identification and repair/replacement of inoperable tenant water meters needs process improvement. A water meter repair project was initiated June 5th, 2024, and it is in development with Capital Programs. That project included some but not all of meters noted in the audit results. F&I will update that project scope to include all known inoperable meters. Going forward, F&I utilities will flag any meter malfunction, seeking determination of the failure and then address the problem either through Aviation Maintenance, Port Construction Services, or PMG as the scope requires.

3) Rating: Medium**Maritime**

(Medium) A leak detection monitoring system to identify and/or prevent water leaks from occurring does not exist. Unique to Maritime, some infrastructure is positioned underwater, creating a greater challenge to identify and repair leaks.

Like SEA, Maritime has aging infrastructure, making it prone to leaks. One-way leaks are currently detected by using billing and consumption data provided by Seattle Public Utilities, which is generally every 30 days. Another way is comparing consumption data, month-over-month, when meter readings are manually obtained. These approaches are reactive and might not always be effective if consumption is nominally higher.

The Maritime footprint is expansive, spanning 19 miles, with over 1,543 acres of waterfront land and neighboring properties, including over 500 acres of terminal facilities. Maritime water consumption exceeds 150 million gallons annually. Like SEA, a leak detection system for failing infrastructure to proactively remedy broken pipes is important for responsible stewardship of natural resources.

Recommendations:

Evaluate if a water leak detection system should be implemented to identify leaks from failing infrastructure. The evaluation system should include a financial cost benefit analysis. If management determines not to implement a system, alternative monitoring programs, such as a month-over-month analysis should be performed and formalized through procedural documents.

We also recommend leveraging efforts with the Aviation Division, if possible, so that efforts aren't duplicated.

Management Response/Action Plan:

Maritime Division agrees with the Audit findings and proposed recommendations. Marine Maintenance, in coordination with Portfolio Asset Management (PAM) and Maritime Operations, will evaluate if a water leak detection service should be implemented to identify leaks from failing infrastructure. The current process for locating and determining leaks is through visual inspection. Maritime Operations and Marine Maintenance team members regularly inspect the property at each facility. Additionally, E-Condition Survey is scheduled every three-year at each facility and Under-Dock Surveys are conducted annually. Facilities Maintenance Managers and Marine Maintenance Crafts will review monitoring technology and make recommendations where early detection by a water leak detection service would be helpful. The PAM utility specialist will continue to review and identify water usage anomalies on monthly utility invoices and request inspections for the affected location(s).

Appendix A: Risk Ratings

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

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Moderate probability for external audit issues and / or negative public perception	Requires attention
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Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient.				

Appendix B: Seattle’s Top 10 Water Users

Big gulpers: Seattle's top 10 water users

Water consumption (in millions of gallons), Sept. 2022 - Aug. 2023

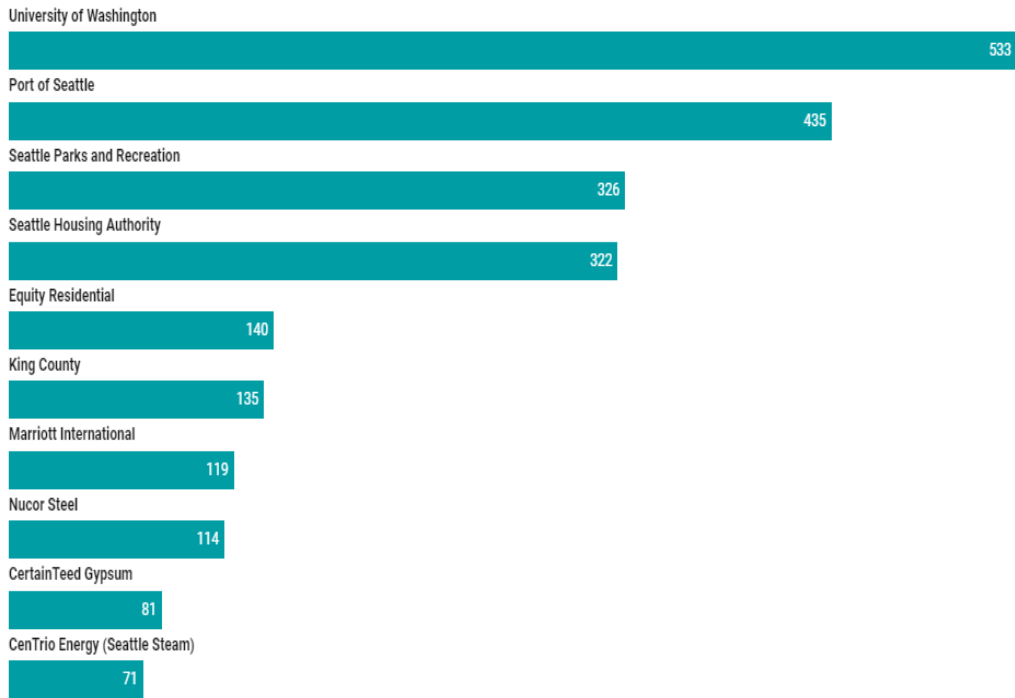


Chart: KUOW/Teo Popescu • Source: [Seattle Public Utilities](#) • Created with [Datawrapper](#)

INTERNAL AUDIT REPORT

Operational Audit - Delegation of Authority

January 2023 – October 2024



Issue Date: November 18, 2024

Report No. 2024-19

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

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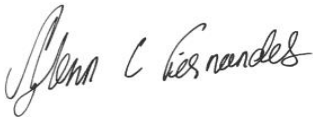
Executive Summary

Internal Audit (IA) completed an audit of the Delegation of Authority for the period January 2023 through October 2024. The purpose of the audit was to assess the effectiveness and compliance of the Delegation of Authority and Responsibility (DORA) Policy Directive in achieving its intended goals.

On January 24, 2023, Resolution No. 3810 was adopted, repealing all prior resolutions related to the Commission's Delegation of Authority and Responsibility to the Executive Director (ED). This resolution increased the ED's signatory authority from \$300K to \$2 million, with certain exceptions, and took effect on April 3, 2023.

Section 3 of Resolution No. 3810 stated *"The Internal Audit Department shall review the effectiveness and adherence to the DORA Policy Directive and as part of that review, shall interview Commissioners about their understanding and functioning of the Delegation of Authority, and shall provide this audit report to the Commission within four years of the passage of this resolution."*

In general, we concluded that Port management's internal controls were operating effectively. We did not identify any issues that warranted reporting.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Steve Metruck, Executive Director

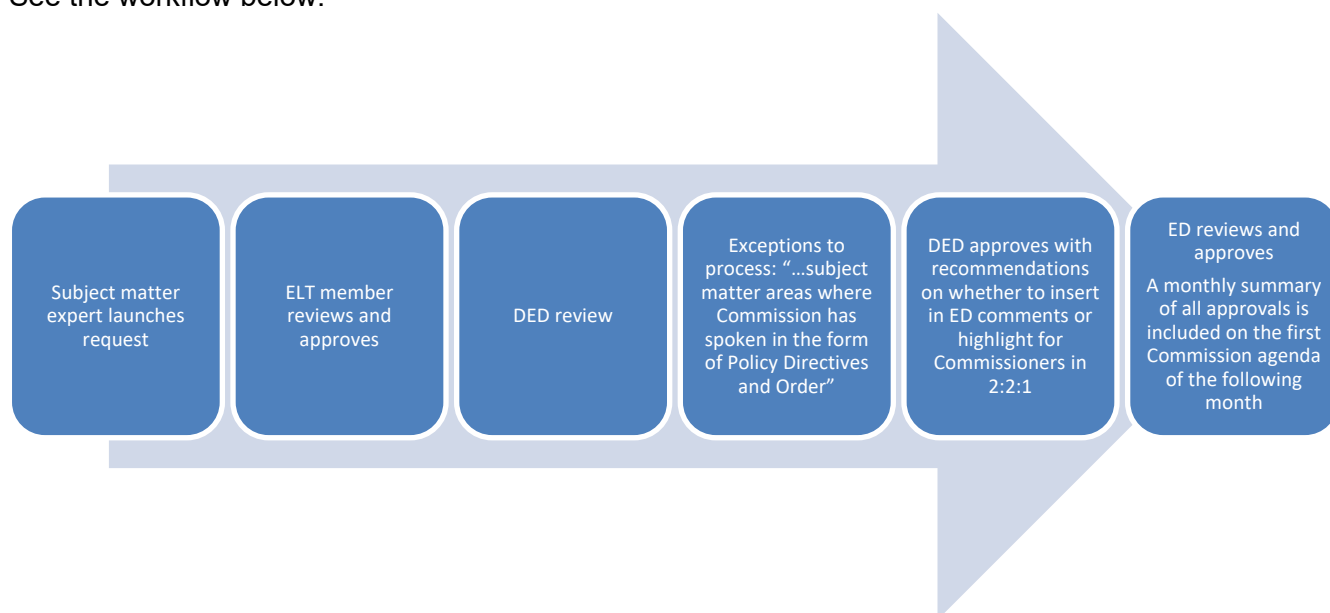
Karen Goon, Deputy Executive Director

Background

The Port's DORA Policy Directive, adopted on January 24, 2023, and effective April 3, 2023, repealed prior resolutions and established new delegations from the Commission to the Executive Director (ED). This directive increased the ED's signatory authority from \$300,000 to \$2 million, with some exceptions.

The DORA review process is managed through SharePoint and Microsoft Power Automate, where staff submit standardized request forms and documentation to the sponsoring Executive Leadership Team (ELT) member. The ELT member reviewed, approved, and forwarded requests to the Deputy Executive Director (DED), who then consulted with the Commission Chief of Staff, Executive Chief of Staff, Finance, and Legal departments, as needed. For specific cases, Central Procurement was also notified. The DED then submitted the request, along with any additional clarifications, to the ED for approval. Items that might have drawn Commissioner interest were flagged in "Look Ahead" and "Agenda Review" meetings with the Commission President, where decisions were made on whether to place the item on the consent agenda or highlight it in the weekly briefing. A monthly report of approvals was submitted at the first Commission meeting each month, and contracts resulting from the ED's delegation process were accessible on the Port's contracts webpage.

See the workflow below:



Source: DORA one year update to Commissioners

We interviewed management and staff who frequently used the DORA process to gather feedback on their understanding of the new process and on any perceived benefits or challenges compared to the previous approach. Under the former process, items requiring Commission approval often took up to eight weeks for authorization. According to users, the new process significantly reduced this timeline, with approvals typically granted within a few weeks. Some delays exist at the ELT member approval level, often due to demanding schedules or periods of leave.

From April 2023 to August 2024, 112 requests were approved. The tables below present estimated time savings based on our discussions with management:

Metric	Time/Value
Estimated Time for full Commission Process	8 weeks
Estimated Time for ED Approval Process (3810)	2 weeks
Estimated Time Savings	6 weeks

Total Approved Requests during Audit Period	112
Estimated Time Taken to create a Presentation for the Commission Agenda	10-13 hours
Estimated Time Taken through ED Delegation Process	1-2 hours
Estimated Time Savings per Request	10 hours
Estimated Total Time Savings	1120 hours

The audit also reviewed a citizen's concerns about the Port's issuance of 2024 tariffs under a potentially outdated delegation of authority and a delay in implementing re-delegations after the adoption of Resolution 3810. After the citizen raised this concern, a typo was identified in a Maritime memo, which was not a legal document and did not affect the delegated authority. Maritime subsequently corrected it, confirming that the governing authority was Resolution 3810, and the re-delegation policy was EX-2A, Part III.E. Aside from this initial error, the Port was in compliance with current policy requirements.

Audit Scope and Methodology

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

In some instances, we used judgmental sampling methods to determine the samples selected for our audit test work. In those cases, the results of the work cannot be projected to the entire population.

The period audited was January 2023 through October 2024 and included the following procedures:

Policy and Procedure Review

- Reviewed foundational documents, including the Port's Delegation of Responsibility and Authority to the Executive Director, as amended January 01, 2023, Policies EX-2 and EX-2A, and Schedule EX-2A
- Reviewed communication, training, and monitoring processes

Management and Staff Interviews

- Conducted interviews with management and staff from various departments, to gain anecdotal evidence of the time and resources required to compile material and to present to the Commission, when seeking authorization
- Gauged staff's general understanding of the delegation schedules, monitoring and ratification processes, and training opportunities
- Elicited feedback, using open-ended questions, to identify opportunities that may improve the limits and delegation process

Commission Interviews

- Obtained feedback from Commissioners on time savings and areas for potential improvement in the delegation process

Substantive Tests

- Selected contracts approved within the new ED delegation limits to verify compliance with schedule limits and directive requirements
- Reviewed the ratification log and supporting documentation for compliance and corrective action as necessary

Appendix A: Risk Ratings

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

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

INTERNAL AUDIT REPORT

Operational Audit – Capital
Terminal 117 Sites 23 – 25 Restoration Project Closeout



January 2020 – August 2024

Issue Date: November 12, 2024

Report No. 2024-18

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

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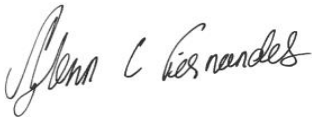
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Executive Summary

Internal Audit (IA) completed an audit of the Terminal 117 Sites 23 – 25 Restoration Project Closeout (Project) for the period January 2020 through August 2024. The audit was performed to provide an independent assessment of performance, with the purpose of determining how goals and objectives were achieved and to determine if there were opportunities for improvement in future projects.

This Project was executed as a Heavy Civil General Contractor/Construction Manager (GC/CM) delivery method. The Port of Seattle (Port) entered into an Agreement with Scarsella Brothers Inc. with a Maximum Allowable Construction Cost (MACC) contract in the amount of \$14.2 million. Upon completion of the Project, the Port performed a final cost reconciliation and resolved open change orders resulting in the final contract being reduced to \$13.6 million. We noted the Port's Construction Management Department's Standard Operating Procedures (SOPs) are thorough and address the highest risks usually seen in the closeout phase of construction projects.

We found that the Port's process during the closeout of this Project was effective and met industry standards. We do not have any reportable issues.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Karen Goon, Deputy Executive Director
Sofia Mayo, Acting Director of Central Procurement Office
Brian Sweet, Director of Engineering – Construction Management
Janice Zahn, Chief Engineer

Background

Between 1937 and 1993, the Duwamish Manufacturing Company and Malarkey Asphalt Company used the site for asphalt shingle manufacturing which left the site with contaminated soil and sediments. The Port acquired the land in 1999, which was designated as an Early Action Area (EAA), as part of the Lower Duwamish Waterway Superfund site by the U.S. Environmental Protection Agency (EPA). The Port and the City of Seattle worked together to conduct multiple large-scale cleanups with EPA oversight.

The large-scale cleanups were done in two phases. The first phase was for the uplands and sediments cleanup, which included the removal of pavement, derelict structures, and about 60,000 tons of soil and sediment. Following that, another round of cleanup was done for streets and stormwater. This work included storm drainage pipes under the streets, sidewalks, environmentally friendly landscaping, installation of art, signage, and rain gardens which will improve the stormwater quality. These two phases were completed in 2015 and 2016, respectively.

Beginning in 2020, the Port broke ground on the Duwamish River People's Park, with the purpose of restoring 14 acres of habitat and shoreline access on the west bank of the Lower Duwamish Waterway in South Park, Seattle. This Project contributes to salmon recovery in the region, which can also support the endangered Southern Resident Orca population. This area along the river is also used by tribal fishers to harvest chinook, coho, pink, chum, and steelhead salmon as they practice their Treaty Fishing Rights during salmon migration season.

This Project was unique in that it established the Port's first "habitat credit bank", which enabled third parties to invest in habitat projects, as mitigation credits to comply with the Clean Water Act and the Endangered Species Act. Any revenue generated by the Port will help fund additional habitat restoration projects in the Green-Duwamish Watershed and Elliott Bay. In addition, the site serves as a learning lab for environmentalists seeking skills training and hands-on experience with careers in habitat restoration and marine wildlife conservation.

Some of the park's features include:

- Pathway and bridge to 275-foot-long pier
- Gathering area, seating, and entrance to shoreline pathways and viewpoints
- Public art and interpretive features
- Interpretive trail to half acre restored marsh and riparian area
- Marsh platform and steppingstone pathway
- Hand-carried boat launch
- Five and a half acres of restored marsh and native riparian shoreline
- Seven hundred and fifty feet of lighted pathway to viewpoints and interpretive information
- Access stairway to 35-foot-high waterway and habitat viewing platform

The Port contracted with Scarsella Brothers Inc. as the GC/CM of the project in August of 2020. The original contract amount was \$14.2 million. The final contract amount was \$13.6 million, including the executed change orders and the closing of open change order trends.

Source: [Duwamish River People's Park | Port of Seattle \(portseattle.org\)](https://portseattle.org/duwamish-river-people-s-park)

Audit Scope and Methodology

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

The period audited was January 2020 through August 2024 and included the following procedures:

Process Review

- Obtained and reviewed the audit report written by Branch, Richards & Co., P.S.
- Obtained an understanding of the closeout process through interviews with the Construction Management team
- Reviewed closeout process Standard Operating Procedures
- Verified that the Port performed a cost reconciliation
- Reviewed and compared the GC/CM job cost ledger with the final pay application
- Reviewed self-performed work items for risks associated with lump sum self-performed work
- Reviewed Water Treatment bid calculation details

Appendix A: Risk Ratings

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

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

INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
Seattle Chocolate Company

July 2023 – December 2023

Issue Date: November 14, 2024
Report No. 2024-09

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

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Executive Summary

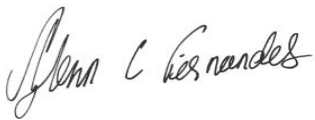
Internal Audit (IA) completed a limited scope audit of the Lease and Concession Agreement (Agreement) between Seattle Chocolate Company and the Port of Seattle (Port). The original period audited was July 1, 2023, through December 31, 2023. After finding discrepancies during our initial testing, we broadened our scope to January 2022 through July 2024.

The audit was performed to determine whether concession fees were complete, properly calculated, and remitted timely to the Port.

We concluded that Seattle Chocolate Company under-reported revenue and owes additional monies to the Port. This issue is described below with further detail on page six.

1. (Medium) Discounts were incorrectly deducted, and two reporting errors resulted in under-reported revenue of \$81,850.57 and an additional \$9,822.07 in concession fees.

We extend our appreciation to management and staff of the Airport Dining and Retail, and the Accounting & Financial Reporting Departments for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Lisa Lam, Director, Accounting and Financial Reporting
Khalia Moore, Senior Manager, Airport Dining and Retail
Jeff Wolf, Director, Aviation Commercial Management

Background

On August 17th, 2016, the Port entered into a lease agreement (AIR002093) with Seattle Chocolate Company.

Seattle Chocolate Company operates a retail store selling chocolate, truffles, and jcoco by Gate C1 in the airport. Seattle Chocolate Company makes their products in Washington with ethically sourced ingredients. The company is woman-owned, rainforest alliance certified, and carbon neutral.

Percentage fees were due in arrears, to the extent the percentage fees are higher than the monthly MAG (Minimum Annual Guarantee) which is paid in advance. Effective January 1, 2023, only the percentage fee payments are made, since the MAG was not considered until the end of the lease year.

The table below reflects 2022 and 2023 Gross Sales and Percentage Fees:

Year	Gross Sales	Percentage Fee
2022	\$2,041,876	\$245,025
2023	2,293,684	279,242
Total	\$4,335,560	\$524,267

Audit Scope and Methodology

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

In some instances, we used judgmental sampling methods to determine the samples selected for our audit test work. In those cases, the results of the work cannot be projected to the entire population.

The period audited was July 2023 through December 2023 and included the following procedures below. Limited procedures were performed for the periods outside of the original scope and were determined to be tested as necessary.

- Validated that the percentage fees were calculated correctly and in accordance with the lease revenue thresholds
- Agreed Concessionaire's monthly general ledger sales data to what was provided to the Accounting & Financial Reporting Department
- Agreed point of sale summary reports to the general ledger
- Obtained the Annual Gross Sales Report from the Seattle Chocolate Company, and compared the report to year-end gross sales data reported to AFR
- Reviewed the Profit & Loss statements for variances
- Reviewed a random sample of invoices to determine if they were paid on time and for the full amount charged
- Validated that the concessionaire was not certified through the Office of Minority and Women's Business Enterprises and confirmed with management that they were not reflected as such on the Airport Concession Disadvantaged Business Enterprise (ACDBE) participation report submitted to the Federal Aviation Administration (FAA)

Schedule of Observations and Recommendations

1) Rating: Medium

Discounts were incorrectly deducted, and two reporting errors resulted in under-reported revenue of \$81,850.57 and an additional \$9,822.07 in concession fees.

According to section 1.18 of the Agreement, sales discounts are generally not allowable deductions. However, our testing identified differences between the point of sales journal and what had previously been reported to the Port. As a result, \$47,202.22 was incorrectly deducted from gross revenue. The table below represents discounts and resulting concession fees due.

Year	Month	Discount	Concession Fee
2022	January	\$1,598.15	\$191.78
	February	2,235.76	268.29
	March	2,544.36	305.32
	October	2,645.07	317.41
2023	March	2,634.06	316.09
	June	6,612.76	793.53
	September	3,097.30	371.68
2024	January	3,332.22	399.87
	February	15,655.39	1,878.65
	March	3,860.30	463.24
	April	2,986.85	358.42
Total		\$47,202.22	\$5,664.27

We also identified reporting errors of \$34,648.35. The errors occurred because revenues from the prior year was erroneously entered into current year sales figures. The table below represents incorrect gross sales reported from the prior year.

Year	Month	Reporting Error	Concession Fee
2022	November	\$21,296.04	\$2,555.52
2024	July	13,352.31	1,602.28
Total		\$34,648.35	\$4,157.80

We observed that the VP of Finance who prepares the revenue reports was also the person who certified to the accuracy of the concessionaire's books and records in the annual report.

Recommendations:

Collect monies owed, excluding any monies already paid because of the audit.

We also suggest an additional person, the CEO or an external auditor, review the prior year's books and records and sign the annual certification with the VP of Finance. Doing so will align with segregation of duties.

Management Response:

Aviation Commercial Management (AVCM) staff agrees with the findings and recommendations of the audit. AVCM staff will follow-up with Seattle Chocolates Company to ensure the amounts identified in the audit are paid and that an additional person reviews and signs certifications.

Appendix A: Risk Ratings

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

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
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