

INTERNAL AUDIT REPORT

Operational Audit
Consultants/Contractor Management

January 2023 – December 2024

Issue Date: March 5, 2025
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Executive Summary

Internal Audit (IA) completed an audit of Consultants/Contractor Management, for the period January 2023, through December 2024. The audit was performed to assess general compliance to Port Policy EX-10 Contracted Worker Guidance and to evaluate the Port of Seattle's (Port) onboarding and offboarding processes.

Port Policy EX-10 states "Contracted workers are hired under a contractual relationship, not an employee-employer relationship. Misclassification occurs when contracted workers are treated and/or regarded as if they are employees." The Internal Revenue Service (IRS) has three criteria to evaluate their classification. Those criteria are: behavioral control, financial control, and type of relationship. These criteria are discussed further in the Background section of this report.

Our testing, which included discussions with management, did not identify significant exceptions to EX-10.

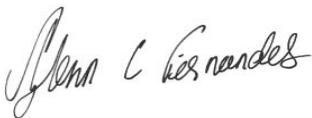
Our assessment of on-and-offboarding, however, identified opportunities to improve. Our conclusions are limited because data and information came from disparate sources and was sometimes based on manager assertions.

Onboarding and offboarding of consultants and contractors are important, as these individuals are also provided access to a variety of Port systems, facilities, and assets. When not onboarded in a consistent and accurate manner, it becomes more difficult to know what access and assets the individuals have at their departure.

Described below, is a brief description of the issue and is discussed in more detail beginning on page six of this report.

- 1. (Medium) The Port does not have a centralized way to track and monitor when equipment, keys, parking permits, and badges are issued and collected. As a result, on-and-offboarding procedures between departments are inconsistent and are not well understood.**

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

Karen Goon, Deputy Executive Director

Background

Port Policy EX-10 (Contracted Worker Guidance) states that contracted workers are hired under a contractual relationship, not an employer-employee relationship. Misclassification occurs when contracted worker are treated and/or regarded as if they were employees.

The IRS has criteria to determine whether individuals providing services are employees or contractors. Generally, the greater the behavioral and financial control, and the more permanent the relationship, the more likely the individual would be considered an employee. Below are the three IRS criteria:

- 1) **Behavioral control:** The payer has the right to control or direct only the result of the work and not what will be done or how it will be done.
- 2) **Financial control:** The nature of how the individual is paid, e.g., weekly or hourly versus a flat fee.
- 3) **Type of relationship:** How permanent and how the organization and individual views the relationship.

Port Policy EX-10 outlines the essence of IRS guidance by referencing that contractors are hired under a contractual relationship and not an employee-employer relationship and that misclassification occurs when contracted workers are treated and/or regarded as if they were employees. The Policy provides general guidelines to follow, such as making sure they don't attend employee recognition events, staff meetings, or employee orientation. Between January 2023 and December 2024, the Port activated 386 independent contractor accounts. Listed below are the distributions by operating division:

| Aviation | Number of Contractors |
|--|------------------------------|
| Maintenance | 83 |
| Capital Program Management | 34 |
| Operations | 26 |
| Customer Experience | 23 |
| Facilities | 12 |
| Commercial Management | 11 |
| Security, Finance & Budget, Innovation | 14 |
| Total | 203 |

| Maritime | Number of Contractors |
|---------------------------------|------------------------------|
| Security | 59 |
| Facilities and Capital Programs | 3 |
| Cruise, Fishing, Marinas | 7 |
| Project Management | 1 |
| Total | 70 |

| Support Services | Number of Contractors |
|--|------------------------------|
| ICT | 47 |
| Engineering | 37 |
| Accounting & Financial Reporting | 14 |
| Environment and Sustainability | 10 |
| Internal Audit, HR, Equity, Commission, External Relations | 5 |
| Total | 113 |

Audit Scope and Methodology

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the Global Internal Audit Standards. 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.

Not included in the scope was an assessment of how IT assets are used, as outlined in Third Party User Access Policy for Access to Port of Seattle Technology Information Systems & Services (CC-7a).

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 December 2024 and included the following procedures:

Document Review

- Reviewed Port of Seattle Policy and Procedural documents
- Obtained contractor data for the period beginning January 1, 2023, through December 1, 2024
- Categorized this data into operating groups

Inquiries

- Discussed on-and-offboarding experiences with Port managers based on the number of contractors overseen by that individual
- Inquired whether a checklist or other procedural tool are used by the manager.

Testing

- Compared the date the account was disabled to the parking permit status (active or returned)
 - Identified accounts that were disabled but continued to have an active status
 - Confirmed with Landside Management that the permit was still active and obtained the date that the parking permit was last used
 - Inquired with the Port manager to assess if they had additional details regarding the status of the parking permit
 - Identified parking permits that reflected returned and confirmed the status with Landside Management

Port Policy EX-10 Compliance

- Selected 20 individual contractors, who had active directory accounts beginning January 2023, through November 2024 and performed the following tests:
 - Determined if the individual attended staff meetings or employee recognition events
 - Validated that the Central Procurement Office and Executive Leadership Team (ELT) member approval was obtained, if parking privileges were provided
 - Validated that only safety or technology training was provided if necessary to perform their work
 - Obtained the reason that a laptop or cell phone was issued to the individual, if applicable

Schedule of Observations and Recommendations

1) Rating: Medium

The Port does not have a centralized way to track and monitor when equipment, keys, parking permits, and badges are issued and collected. As a result, on-and-offboarding procedures between departments are inconsistent and are not well understood.

Tracking and monitoring the issuance of keys, parking permits, badges, and equipment is the responsibility of the Port project manager and hinges on their ability to accurately account for and collect these, when a contractor's relationship with the Port ends. Without being able to accurately account for this information, assessing the effectiveness of offboarding was difficult. The following are some examples that make it difficult to determine how well the process is working:

- We obtained contractors that were awarded a contract between January 2023 and November 2024 and the date that their active directory account was disabled. However, based on our discussions with Port project managers, some contractors were still working at the Port, therefore we could not rely on the disabled date.
- To validate if parking permits, keys, and/or badges were issued and collected, we had to either rely on the managers verbal assertion or contact a different department. From an auditing perspective, this approach doesn't lend itself to conclusively determine what the contractor was issued and whether it was returned. For example, 9 of the 273 contractors whose active directory account reflected disabled, still had an active parking permit. When we spoke to the Port project manager, they confirmed that the contractor was still working at the Port.

Recommendations:

The Port should establish a cross functional team that is tasked with creating a uniform methodology and designing a uniform system, that tracks contractor start and end dates, the issuance and return of keys, parking permits, badges, equipment, and other assets. In developing this system, a standard on/offboarding checklist should be created, so that information can be captured in a consistent manner across the organization.

The cross functional team should consist of representatives from key departments, including ICT, Maritime Security, Engineering, and Aviation Maintenance, with an Executive Sponsor(s). These groups account for more than 50% of contractors onboarded between January 2023 and December 2024.

Management Response/Action Plan:

Thank you for sharing the audit analysis and recommendation. We will look for an opportunity to develop a standardized, automated on-and-offboarding check list for contractors with the goal of completing this work by the end of 1st quarter, 2026

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 |