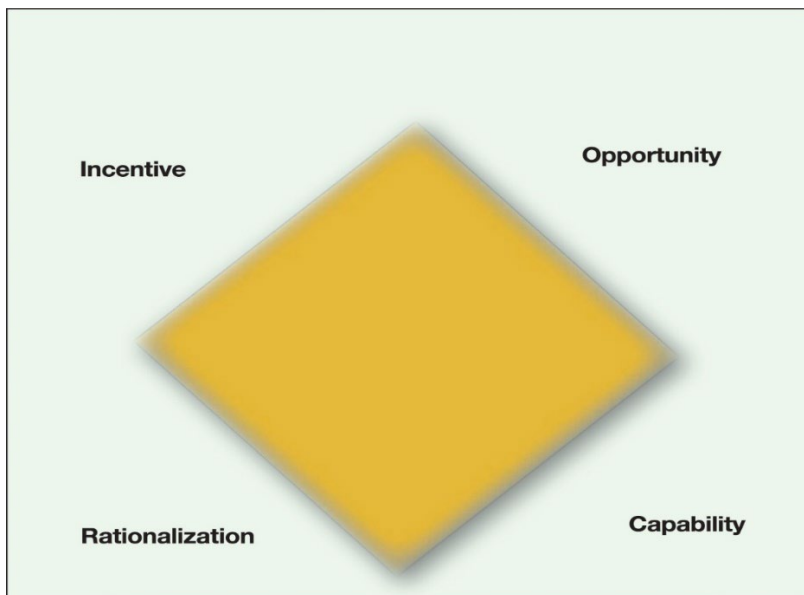


# INTERNAL AUDIT REPORT

## Operational Audit – Banking/Fraud Controls

January 2022 – December 2024



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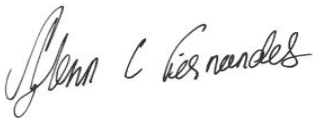
## Executive Summary

Internal Audit (IA) completed an audit of the Banking/Fraud Controls for the period January 2022 through December 2024. The purpose of the audit was to assess the effectiveness of internal controls related to banking, federal grant reimbursements, and subcontractor selection on federally funded projects.

Our review assessed whether the Port of Seattle has adequate safeguards to prevent unauthorized banking activity, detect any unauthorized bank accounts opened in the Port's name, ensure proper reimbursement of federal grants, and confirm that subcontractor selection by prime contractors remains independent and fair.

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

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  
Lisa Lam, Director Accounting and Financial Reporting  
Sofia Mayo, Director Central Procurement Office  
Dan Thomas, Chief Financial Officer

## Background

Our review found that the Port's internal controls over banking processes, federal grant reimbursements, and subcontractor selection for federally funded projects are functioning as intended. We did not identify any unauthorized transactions, compliance issues, or control weaknesses.

Banking controls include maintaining an authorized list of financial institutions, reviewing transaction activity, and ensuring that only approved accounts are used for fund transfers. To further validate the effectiveness of these controls, IA conducted independent verification with external entities. We contacted twenty-five financial institutions to verify that no unauthorized accounts had been opened in the Port's name. As of the report date, nine institutions responded, confirming that no unauthorized accounts were found.

The Port enforces strict access protocols for Delphi, the federal grant reimbursement system, to prevent unauthorized claims. Access is restricted to users with a Port-issued email address, and accounts are automatically deactivated if inactive for ninety days. Additionally, federal grant reimbursements are deposited into a single designated bank account to mitigate fund misdirection risks. To verify compliance, we contacted the Delphi helpdesk for access records; however, due to federal-level delays, we did not receive a response. As an alternative test, we internally reviewed reimbursement transactions by generating a system report and reconciling it with bank statements, confirming all funds were received in the authorized account.

In reviewing the subcontractor selection process, we interviewed prime contractors working on federally funded projects to understand how they choose subcontractors, including Disadvantaged Business Enterprises (DBEs). Contractors consistently reported that their selection process was independent and not influenced by the Port. These external confirmations reinforced our assessment of the Port's controls and helped verify that the subcontractor selection process was both independent and fair.

By combining internal control assessments with external verifications, this audit provided a comprehensive evaluation of the Port's financial safeguards, ensuring that banking security, federal funding compliance, and procurement integrity were maintained.

We are still awaiting responses from external agencies, including the financial institutions and the Delphi Helpdesk, and the timeline for their replies remains uncertain. In the unlikely event that any new relevant information comes to light impacting the conclusion of this audit report, we will promptly update both the Audit Committee and management accordingly.

## **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.

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 2022, through December 2024 and included the following procedures:

### Banking Controls

- Requested the list of the Port's authorized banks
- Reviewed the bank statements of all authorized banks to verify that all transfers were made to the correct authorized accounts
- Contacted multiple banks and credit unions to verify that no unauthorized accounts were opened in the Port's name for fraudulent purposes

### Federal Grants Reimbursement Control

- We evaluated how the Port seeks reimbursements for federally funded projects
- We obtained the current list of authorized users in Delphi to verify that only the appropriate individuals have access
- We requested the list of claims submitted during the audit period and the banks the funds were disbursed to
- We verified whether all federal reimbursement funds were directed to the correct bank accounts

### Contractor Management

- Selected all federally funded construction contracts during the audit period
- Interviewed five prime contractors on these contracts to understand their subcontractor selection process, including the process of selecting DBEs
- We confirmed with these Prime Contractors that the Port does not influence or mandate the selection of subcontractors

## 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 report.

Rating	Financial/ Operational Impact	Internal Controls	Compliance	Public	Commission/ Management
<b>High</b>	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
<b>Medium</b>	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
<b>Low</b>	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