

INTERNAL AUDIT REPORT

Operational - Capital Audit
Maritime Innovation Center Project

November 2023 – April 2025



Source: Construction Management Team Photo

Issue Date: June 20, 2025
Report No. 2025-10

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Executive Summary

Internal Audit (IA) completed an audit of the Maritime Innovation Center Project for the period November 2023, through April 2025. The audit was conducted to systematically and independently examine the Project's completion, verify compliance with contractual obligations, assure full reconciliation of financial matters, assess the effective resolution of risks or issues, and identify lessons learned and opportunities for improvement that could benefit future projects.

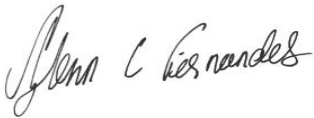
The Project was executed using a Design-Bid-Build delivery method. The Port of Seattle (Port) entered into a construction agreement with Forma Construction for a total original contract value of approximately \$20.5 million.

Security on the Project was originally managed by American Guard Services (AGS), with a budget of \$250,000 and a monthly cost of about \$13,000. Due to performance issues, including multiple break-ins, AGS was removed after the Port had paid approximately \$87,000 to AGS. A change order transferred security responsibilities to the general contractor, and a new security contract was implemented in May 2025.

Additionally, we determined that custom technical specifications were used at the beginning of the Project instead of the Port's standard templates. The specifications that are unique to this project were inadvertently superseded and some inapplicable aviation specifications were included. This led to omissions and some inconsistencies, resulting in three change orders totaling \$104,800. The Project team has committed to using standard specifications in the future, and Port leadership is working to improve guide documents across all capital projects.

In general, Port management's, monitoring, compliance, and internal controls aligned with established policies and procedures, particularly in the areas of timeliness of payments and documenting change order approvals. However, our audit identified an opportunity where internal controls could be enhanced or further developed. This opportunity is summarized below and discussed in greater detail beginning on page six of this report.

1. **(Low)** In most instances, the Port's internal controls over the review process for Pay Applications worked well. However, we identified instances in which Pay Applications were missing supporting documentation or billed incorrectly, resulting in a small overbilling of \$2,460.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

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Background

The Maritime Innovation Center is part of the Port of Seattle's plan to make Washington a leader in sustainable maritime and ocean industries. Located at Fishermen's Terminal, the Center will support innovation, job growth, and equity in the maritime sector. It also supports the state's Blue Economy strategy.

The project is in the process of renovating the historic Ship Supply building while preserving its original timber frame. The work includes removing hazardous materials, partial demolition, structural upgrades, a new core and shell, updated utilities, and improved site paving.

The Maritime Innovation Center is designed to achieve the standards of the Living Building Challenge (LBC), a green building certification overseen by the International Living Future Institute. To qualify, the building must achieve net-zero energy and water usage, incorporate non-toxic materials, and adhere to high standards for sustainability, equity, and design. Once construction is complete and 80 percent of the space is occupied, the building enters a one-year performance period, during which it must demonstrate compliance with LBC targets. Failure to meet these benchmarks may result in monetary penalties to meet the intended carbon offset, and maintain certification.

To meet these goals, the Port has contracted a consultant and is training Maritime staff to monitor and adjust building performance throughout the year. Certification is granted only after a successful review of the building's actual performance data.

Security on the Project was originally managed by American Guard Services (AGS), with a budget of \$250,000 and a monthly cost of about \$13,000. Due to performance issues, including multiple break-ins, AGS was removed after the Port had paid approximately \$87,000 to AGS. A change order transferred security responsibilities to the general contractor, and a new security contract was implemented in May 2025.

Additionally, we determined that custom technical specifications were used at the beginning of the Project instead of the Port's standard templates. The team converted these specifications to the Port's guide specifications so that the Division 0 and Division 1 references were properly and fully incorporated. During this conversion, the specifications that are unique to this project were inadvertently superseded by the guide specifications and some inapplicable aviation specifications were included. This led to omissions and some inconsistencies, resulting in three change orders totaling \$104,800. While starting the project with standard guide specifications and then modifying them to fit the project would have correctly factored in the changes, using custom specifications and then converting them to standard specifications may result in incorrect budgets and estimates and potential project delays when specifications are missing. The Project team has committed to using standard specifications in the future, and Port leadership is working to improve guide documents across all capital projects.

The original construction contract was \$20.5 million. With approved change orders, the current estimate is \$21.3 million. Substantial completion is scheduled for October 17, 2025, and final completion is expected by December 16, 2025.

Audit Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and The Institute of Internal Auditors' Global Internal Audit Standards. Due to a 2024 cyber event at the Port of Seattle, the required GAGAS triennial peer review has been delayed; however, we believe this had no impact on the engagement or the assurance provided. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides such a basis.

The period audited was November 2023, through April 2025 and included the following procedures:

Trip Tickets

- Examined the trip tickets for line items with the unit of measure "TON"
- Verified material quantities billed on the pay estimates were accurately supported by trip tickets
- Reviewed documentation to determine whether there were missing trip tickets

Timeliness of Payments

- Compared the pay estimates with the payment dates to verify payments were issued timely

Living Building Challenge

- Obtained an understanding of the International Living Future Institute requirements
- Obtained an understanding of the controls in place to meet the International Living Future Institute requirements

Change Orders

- Obtained an understanding of management's Change Order review process
- Verified approvals by required personnel
- Confirmed the approved change order amounts tied to the Change Order Log

Accurate and Relevant Project Specifications

- Discussed with the project team and general contractor to assess the accuracy and relevance of the project specifications and evaluated the impact of any incorrect or irrelevant details

Bidder Evaluation

- Reviewed the RFP for Maritime Security #24-98 to understand the evaluation criteria and interviewed stakeholders to gain insight into their considerations during the evaluation

Schedule of Observations and Recommendations

1) Rating: Low

In most instances, the Port's internal controls over the review process for Pay Applications worked well. However, we identified instances in which Pay Applications were missing supporting documentation or billed incorrectly, resulting in a small overbilling of \$2,460.

The contractor billed 3,500 tons of soil disposal through three pay applications for a total cost of approximately \$200,000. Our testing determined there is a review process in place to verify that Pay Applications are supported. Documentation was readily available for the audit and there were receipts supporting the Pay Applications. We observed written notes on the Pay Applications and corrections that were made by the reviewer, prior to making payments. We did, however, find instances in which supporting documentation could not be located, as listed in Table 1. The two instances totaling \$2,460 represent approximately 1 percent of the total population reviewed. This figure reflects testing of 100 percent of the pay applications, as no sampling was used in our analysis. The Construction Management (CM) team took immediate action and contacted the contractor to obtain supporting documentation and performed reconciliation to receive a credit on the next Pay Application.

Table 1: Unit Price Work Items Lacking Supporting Documentation

Pay Application	Reason	Variance
7	Inadequate Documentation	\$23.75
9	Inadequate Documentation	\$2,460

Following this observation and prior to the issuance of our report, the Construction Management team reconciled the pay applications and applied a credit on a future pay application. Supporting unit price items, such as daily trip tickets, requires substantial documentation. While minor variances exist, overall, Construction Management has implemented a robust review process.

Recommendations:

Approvers should verify that all billed amounts include adequate supporting documentation during the pay application review process, in accordance with Standard Operating Procedure 40.07 *Unit Price Bid Item Management*. As construction management received a credit for the overcharges, no follow up is needed.

Management Response/Action Plan:

We concur with the Auditor's recommendations. While we attempt to document each pay item as accurately as possible as work progresses, we also have a very robust close-out process where the documentation for all pay items are independently verified to ensure proper compensation to the Contractor. This is outlined in CM Standard Operating Procedure 90.05 Construction Closeout. We are confident that this discrepancy would have been corrected prior to the final payment for this work, however, due to Audit's early discovery of this issue, this issue was remedied in the May 2025 progress payment.

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