Internal Audit Report

Limited Operational Audit

Code of Conduct and Ethics Program

April 1, 2010 - March 18, 2013

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Code of Conduct and Ethics Program.

We examined information from April 1, 2010, through March 18, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the Workplace Responsibility Officer, the management and staff of the Legal Department, Human Resources and Development Department, and Labor Relations Department for their assistance and cooperation during the audit.

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Director, Internal Audit

Executive Summary

Audit Scope and Objectives We examined the Code of Conduct and Ethics Program for the period from April 1, 2010, through March 18, 2013.

The purpose of the audit was to:

1. Determine whether management controls are adequate to ensure:

    a. Awareness/visibility of Helpline/Hotline.
    b. Training in Code of Conduct is provided timely to all new employees.
    c. Training is reinforced with employees and management.
    d. Code of Conduct policies are enforced Port wide.
    e. Investigations are conducted timely and properly.
    f. Access to the SharePoint site that houses reports (WRITS) is controlled.
    g. Information in WRITS is maintained confidential.
    h. Management reporting is timely and accurate.
    i. State Auditor's reports, in accordance with RCW 43.09.185, under the purview of the Workplace Responsibility Officer, are complete, timely, and accurate.

2. Develop maturity models for:

    a. Training.
    b. Investigation.

3. Benchmark organizational structure against similar entities.

Background In 2010, Senior Port leaders led the development of the Port's Code of Conduct Handbook (Handbook), which is composed of Policies CC-1, through CC-14; a team of Port employees developed the Port's Statement of Values. (Appendix A)

The Port created Workplace Responsibility, to provide overall leadership and coordination of the Port's ethics and compliance program, and hired its first Workplace Responsibility Officer (WRO) in February 2010.

The WRO guides, supports, and reinforces the Port of Seattle's efforts to advance the Port's mission, while upholding the highest standards of business ethics and workplace behavior.

In May 2010, the Workplace Responsibility Officer distributed the Handbook Port wide, and all Port employees were asked to certify that they had read and were familiar with it. All new employees are asked to certify that they have read and are familiar with the Handbook within a short time after their hire date.

Audit Result Summary Given the relative youth of this program, it is operating at a reasonable level of maturity (Appendix C), and management controls are adequate. Organizational placement of Workplace Responsibility is comparable to the majority of similar entities (Appendix B).

Background

In 2010, Senior Port leaders led the development of the Port's Code of Conduct Handbook (Handbook), which is composed of Policies CC-1, through CC-14; a team of Port employees developed the Port's Statement of Values. (Appendix A). The Workplace Responsibility Officer, in May 2010, distributed the Handbook Port wide, and all Port employees were asked to certify that they had read and were familiar with it. All new employees are asked to certify that they have read and are familiar with the Handbook within a short time after their hire date.

The Port created Workplace Responsibility, to provide overall leadership and coordination of the Port's ethics and compliance program, and hired its first Workplace Responsibility Officer (WRO) in February 2010. The WRO guides, supports, and reinforces the Port of Seattle's efforts to advance the Port's mission, while upholding the highest standards of business ethics and workplace behavior. The WRO:

- Strives to clarify the Code of Conduct policies and conduct regular training to achieve Port-wide understanding of the requirements of the Code and its application to all departments.
- Guides and supports daily decisions by providing advice and coaching to help employees implement ethical business and workplace practices, make sound decisions and manage conflicting interests and values.
- Fosters a high-trust culture, by working with executives, managers, and employees to develop a high-trust environment that inspires exceptional performance and morale, customer loyalty, and public confidence.
- Ensures responsiveness, fairness, and accountability by:
    - Documenting and promptly reviewing reported concerns and potential Code violations.
    - Determining appropriate follow-up and coordination of investigations.
   - Reinforcing fair and consistent accountability Port wide.

To ensure contact types are tracked, the WRO uses the Workplace Responsibility Information Tracking System (WRITS). This system allows the WRO to monitor activities related to the Code of Conduct policies and provide reports to management. For the period January 1, 2011, through December 31, 2012, the following contact types were tracked.

Workplace Responsibility Contact Types				
Contact Types	**Definition of Contact Types**	**2011**	**2012**	**Total**
Allegation	Asserted facts, if true, constitute a conduct violation	41	72	**113**
Concern	Asserted facts, if true, do not clearly constitute a potential conduct violation	71	47	**118**
Customer Service Issue	Asserted facts do not relate to Code of Conduct	17	19	**36**
Disclosure	Individuals self-disclose potential Conflicts of Interest and Gifts	22	24	**46**
Inquiry	A query for information and/or guidance regarding a Port value or conduct standard	143	135	**278**
Violation [1]	Individual admits facts that constitute a conduct violation	4	8	**12**
Other	Contact Type not entered into system		1	**1**
	Grand Total	**298**	**306**	**604**

Data Source: WRITS

[1] The WRO stopped tracking this contact type in 2012 and began classifying it as an allegation

A significant number of these contacts were inquiries (278), which are considered a leading indicator of compliance with the Code of Conduct. The Code of Conduct policies cited most frequently were:

- CC-1 - Employee Ethics and Conflicts of Interest.
- CC-4 - Gifts and Hospitality.
- CC-8 - Anti-harassment.

A significant number of contacts were reported allegations and concerns, which are also considered a leading indicator. *Chart 1* identifies the Code policies cited in reports to Workplace Responsibility in 2011 and 2012. The "Other" category consists of reports of potential misconduct that are not related to the Code of Conduct. These reports are captured in WRITS, but are referred to other departments for follow-up.

Chart 1: Policies Reported to Workplace Responsibility - 2011 and 2012

Data Source: WRITS.
Data Note: *"Other" category consists of reports of potential miscoduct that are not related to the Code of Conduct.
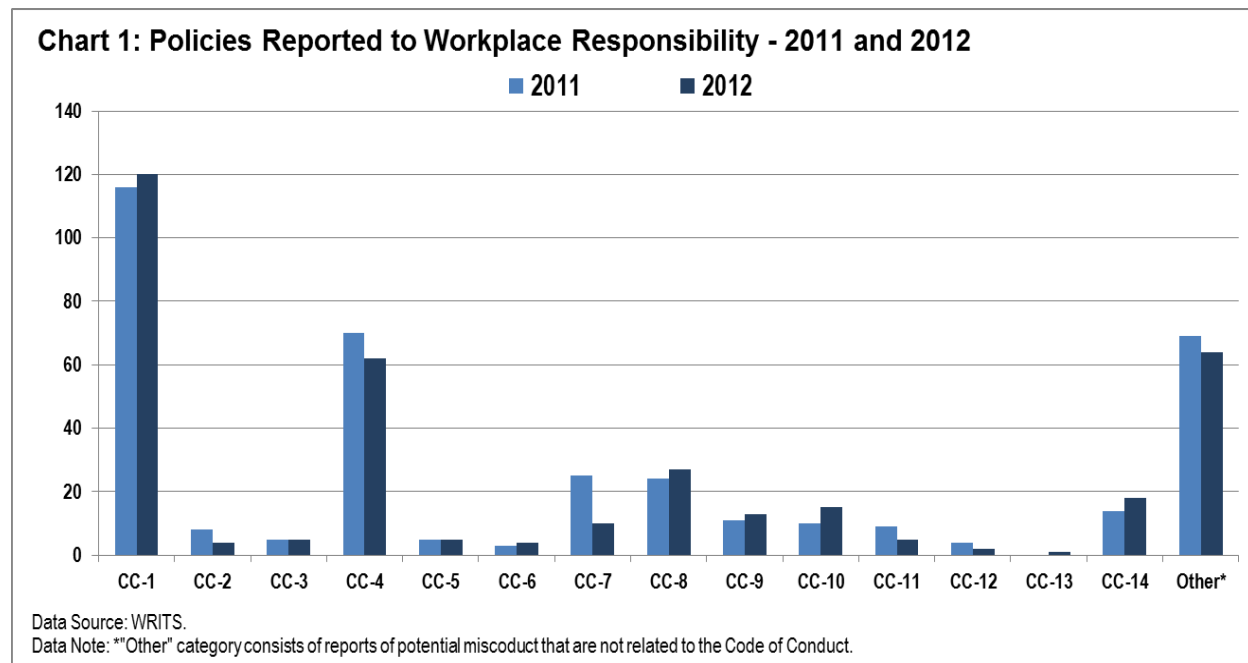
Port employees (currently 1,800) may make inquiries or report allegations or concerns through a telephone helpline within Workplace Responsibility, through email, in person, or by phone to the WRO. Additionally, the WRO maintains an electronic bulletin board, where employees may post their questions and receive quick responses. Employees may also make reports through the Legal and Human Resources & Development departments or through an anonymous hotline, which is administered by a third party. External parties may report issues through this hotline, which is posted on the Port's external web site.

A team of individual reviewers from Workplace Responsibility and the Legal, Human Resources & Development, and Labor Relations departments meets twice weekly to discuss reported concerns and allegations, to determine whether they warrant investigation or other follow-up. This determination is based on an objective standard -- if true, the facts constitute a potential Code violation.

Paramount considerations of the review team are:

- Confidentiality.
- No retaliation for reports made in good faith.
- Fair and consistent responses to reported concerns and allegations.
- Completion of investigations as swiftly as possible.

Over the last three years, the WRO has improved processes surrounding the Code of Conduct and Ethics Program. On January 16, 2013, the WRO and a 17-member cross-functional team began a formal process improvement effort of the Code of Conduct/whistleblower intake, review, and investigation process, in order to implement further program improvements, some of which are:

- Improved timeliness, efficiency, and quality.
- A more transparent and consistent process.
- Clear roles, protocols, and procedures.

Throughout the start-up period, the WRO has emphasized outreach to management and individual work groups and Port-wide forums to publicize values and expectations. In 2011, the WRO used the services of the Ethics Resource Center to conduct a Port-wide survey, to establish a baseline for program and leader performance benchmarks. The survey provided feedback on:

- Staff's awareness of the Code of Conduct.
- Staff's perspectives on how well the program was functioning.
- Adequacy of training efforts.
- The Port's program compared to national survey results.

Some of the significant results of this survey, which was distributed to all Port employees in August 2011, are provided below:

Workplace Responsibility Program Strengths

Awareness of Conduct Standards and Reporting Mechanisms

- ➤ Almost nine in ten Port employees know about the Code of Conduct, the Read and Sign requirement, the Helpline, and the availability of a resource for anonymous reporting.
- ➤ Over 90% are confident in their ability to recognize ethics issues.

Employee Utilization & Perceived Effectiveness of Resources

- ➤ Three-quarters of employees refer to a resource at least sometimes when they face an uncertain legal or ethics situation.
- ➤ Over two-thirds perceive the Code of Conduct to be an effective resource for guiding decisions and conduct at work.

Workplace Responsibility Program Areas for Improvement

Training

- About 46% of employees say their current work environment poses situations that could lead to Code of Conduct or other legal/policy violations.
- Two-thirds feel prepared to handle situations that could lead to a Code of Conduct or other legal/policy violation.

Response to Reports of Misconduct

- On average, a little more than half of employees who say they observed violations in the past year found their supervisor or other organizational resources helpful when deciding what to do about the misconduct they observed.
- About 30% of employees who reported misconduct say there were satisfied with the Port's response to their report.

Visible encouragement of ethical behavior and visible discouragement of unethical conduct and compliance violations

- One-third of employees say that top leadership and middle management give positive feedback for ethical behavior, and half say their supervisor provides positive feedback.
- About one-third of employees say they are evaluated on their ethical conduct as part of their performance reviews; 38% say they don't know whether they are evaluated on ethical conduct.
- Less than half agree with the statement that the Port does not reward employees who get good results by using questionable means.
- Two-thirds say they are aware that the Port has a formal system to discipline employees who violate the Code of Conduct; 26% say they don't know about a formal discipline system.
- Three-quarters of those who did not report observed misconduct say it was because they did not believe corrective action would be taken. About half who did not report say it was because they feared retaliation from management.

Data Source: 2011 Ethics and Resource Center – Survey of Port of Seattle Employees.

Highlights and Accomplishments

- During 2011, the Ethics Resource Center conducted a Port-wide survey to benchmark the Port's programs against national results and to establish a benchmark for measuring the Port's progress in building an effective program. The survey results were distributed by the CEO to all Port employees.
- The WRO plans for the Ethics Resource Center to conduct a follow-up survey in 2015.
- During the first quarter of 2013, the WRO and 17 Port employees began a review of the Code of Conduct/whistleblower intake, review, and investigation process to identify process improvements.
- In March 2013, the WRO produced the first Code of Conduct management reports for 2011 and 2012, and provided 2012 data to the Executive Team in May 2013.

- In April 2013, the WRO prepared a three-year work plan, through 2015. The timelines for some of the planned tasks are:
  o Orient managers on Code duties in fall 2013.
  o Publish revised Code of Conduct in January 2014.
  o Require annual signed Conflict of Interest Disclosure Certification (beginning in January 2014).
  o Publish Ethics and Compliance Annual Report in June 2013 and thereafter.

Audit Scope and Methodology

The scope of the audit covered the period from inception of Workplace Responsibility in 2010, through March 18, 2013. We utilized a risk-based audit approach. We interviewed management and staff. We reviewed the Code of Conduct Handbook. We observed the deliberations of the review team. We analyzed the information in WRITS. We assessed significant risks and identified controls to mitigate those risks. We evaluated and tested whether the controls were functioning as intended.

We conducted the following procedures to address our audit objectives:

Objective 1

Helpline/Hotline

We determined the visibility of these reporting vehicles on the Port's internal and external web sites. We compared the visibility of the Port's internet hotline to other public and private web sites.

Code of Conduct Training

We identified the 2012 new hires (176) and selected a representative sample of 74. As part of our control work, we determined whether training in the Code of Conduct was in compliance with the prescribed timeline of 60 days for permanent staff and 14 days for interns. We determined whether training in the Code was being refreshed at regular intervals.

Applicability of Code Port Wide

We gained an understanding of the applicability of the Code. We reviewed the Memorandum of Understanding (MOU) signed by represented work groups, wherein they acknowledged that they must report Code issues to the Workplace Responsibility office, and determined whether all represented work groups had signed the MOU.

Intake/Investigations/Recommendations

We gained an understanding of the processes and tested the controls affecting timeliness of intake, review, and investigations.

We evaluated the timelines of investigations from open date to outcome date, to determine whether investigations were completed within a reasonable period of time.

Workplace Responsibility Information Tracking System (WRITS)

We determined how access to the system is controlled, how management ensures information is kept confidential, and whether system reports are accurate and provided timely to management.

We obtained a report of access levels and determined whether appropriate to ensure confidentiality.

We determined whether the 2011 and 2012 reports produced from WRITS by management were accurate and timely.

Fraud Reporting

We identified the issues in WRITS that could warrant reporting to the State Auditor's Office (SAO) and determined whether they were reported completely, accurately, and timely to SAO in the multi-owner extranet system, in accordance with RCW 43.09.185.

Objective 2

We developed maturity models (Appendix C) based on the SEI Carnegie-Mellon Capability Maturity Model for the following aspects of the Code of Conduct:

- Training.
- Investigation.

Objective 3

We conducted a survey (Appendix B) of members of the Association of Airport Internal Auditors (AAIA) to compare the Port's organizational placement of Workplace Responsibility with similar entities.

Conclusion

Given the relative youth of this program, it is operating at a reasonable level of maturity (Appendix C) and management controls are adequate. Organizational placement of Workplace Responsibility is comparable to the majority of similar entities (Appendix B).

APPENDIX A – CODE OF CONDUCT POLICIES AND STATEMENT OF VALUES

The Code of Conduct Handbook includes the following policies:

- Employee Ethics and Conflicts of Interest, CC-1
- Consultant Ethics and Conflicts of Interest, CC-2
- Former Employee Ethics and Conflicts of Interest, CC-3
- Gifts and Hospitality, CC-4
- Fraud Awareness and Prevention, CC-5
- Loss Prevention, CC-6
- Electronic Systems, CC-7
- Anti-Harassment, CC-8
- Equal Opportunity, CC-9
- Violence in the Workplace, CC-10
- Substance Abuse, CC-11
- Employment of Relatives, CC-12
- Political Activities, CC-13
- Reporting Concerns or Violations, CC-14

The Handbook also includes the Port's Statement of Values:

We conduct business with the highest ethical standards.
Our business practices reflect integrity, accountability, honesty, fairness, and respect at all levels.

We honor our commitments to one another, the Community and our customers.
We provide outstanding service and value to each other, our customers, the citizens of King County and the region we serve.

We are capable, high-performing people who appreciate the privilege of public service.
We practice open communication, innovation, collaboration and transparency in all interactions.

We embrace the richness of a diverse workplace and support employee development.
We encourage a healthy and diverse organization that enhances our contributions locally and globally.

We are responsible stewards of community resources and the environment.
We exercise care and wisdom in the use of both financial and natural resources.

APPENDIX B – ORGANIZATIONAL PLACEMENT

Workplace Responsibility at the Port of Seattle is located in the Port's Legal Department. In order to benchmark this organizational placement, we asked the following questions of members of the Association of Airport Internal Auditors:

1. Does your organization have a department or group focused on workplace responsibility, compliance, or ethics?
2. If "yes," where is this department located in your organization, and to whom does the head of this department report?

We received six responses:

City	State	Organization	Separate	Department
Orlando	Florida	Greater Orlando Aviation Authority	No	GOAA Chairman, Legal, or Florida Commission on Ethics
Washington	Virginia	Metropolitan Washington Airports Authority	Yes	Ethics Officer (Autonomous)
Reno	Nevada	Reno-Tahoe Airport Authority	No	Human Resources Department
Austin	Texas	City of Austin Department of Aviation	No	Legal Department
Minneapolis	Minnesota	Metropolitan Airports Commission	No	Human Resources Department
Buffalo	New York	Niagara-Frontier Transportation Authority	No	Legal Department

Based on the above, the organizational placement of Workplace Responsibility at the Port of Seattle comports with three of the six respondents, summarized as follows:

Organizational Placement Results:

Department	No.
Legal Department	3
Human Resources Department	2
Autonomous	1

APPENDIX C - MATURITY MODEL

CONTINUUM	CHARACTERISTICS OF CAPABILITY	METHOD OF ACHIEVEMENT	EVOLUTION	OUTCOMES
OPTIMIZING	OPTIMIZING FEEDBACK Issue management a source of competitive advantage	• Issue resolution strategy • Increased emphasis on taking and exploiting opportunities	Increased quality and productivity	Potential for increased costs is accepted to ensure process consistency and quality
MANAGED	QUANTITATIVE Issue measured/managed quantitatively and aggregated enterprise-wide	• Rigorous management • Methodologies/analysis • Intensive debate on trade-off issues		
DEFINED	QUALITATIVE/QUANTITATIVE Policies, process and standards defined and institutionalized	• Uniform process • Remaining components of infrastructure • Rigorous methodologies		Typical target zone: Cost and performance management are effectively balanced
REPEATABLE	INTUITIVE Process repeatable, but dependent on individuals	• Common language • Qualified people assigned • Defined tasks • Initial infrastructure	Increased risk and variability	Likelihood of increased costs due to process issues and inconsistency
INITIAL	AD HOC/CHAOTIC Dependent on heroics, institutional capability lacking	• Undefined tasks • Relies on initiative • "Just do it" • Reliance on key people		

APPENDIX C- MATURITY MODEL-TRAINING

TRAINING AND OUTREACH	What Are the Strategies and Policies?	What are the Business and Risk Management Processes and Controls?	How Do the People & Organization Respond?	What Management Reports Are Produced?	What Methods Are Used?	What Are the Systems Used & Data Maintained?	
OPTIMIZING	Close alignment of CC training and CC outreach with Port-wide strategies.	WRO monitors CC training, to ensure it is occurring timely. WRO establishes and requires participation in a regular cycle of CC outreach events.	Managers emphasize importance of CC in all aspects of work. Employees keep CC top of mind in every aspect of their jobs.	WRO externally publishes comprehensive Port-wide metrics of CC training compliance and attendance at outreach programs. Less than 2% noncompliance.	WRO keeps CC front-of-mind with annual refresh of all CC policies. WRO recognizes departments and staff for achievements related to CC. Breaches of CC publicized. CC compliance/breaches included in performance evaluations.	The training system is sufficiently integrated with the CC system to correlate adequacy of training with reported CC issues.	POTENTIAL FOR INCREASED COSTS ACCEPTED TO ENSURE PROCESS CONSISTENCY AND QUALITY
MANAGED	CC training and CC outreach ingrained in Port-wide culture.	To augment training, WRO maintains a web site, which answers questions and provides timely guidance on ethics and CC.	Managers include CC discussions as part of regular agenda at staff meetings. WRO conducts a regular schedule of Port-wide outreach.	WRO internally publishes comprehensive Port-wide metrics of CC training compliance and attendance at CC outreach programs.	WRO uses Ethics Resource Center to benchmark employee awareness of CC against national results. The CEO circulates benchmarking results Port-wide. Survey by Ethics Resource Center helps WRO establish frequency and areas of training.	The training system provides entity level overview of CC training and CC outreach completed.	
DEFINED	A separate policy defines timelines for the CC training and the planned schedule of CC outreach events.	Workplace Responsibility Office (WRO) and HR require CC training for all new staff and interns. CC-8 (Workplace Harassment) refreshed annually.	Managers employ similar methods for ensuring training is completed timely. Managers share with employees leadership outreach training.	WRO and HR publish metrics by department for timeliness of CC training. WRO and HR circulate results of leadership outreach Port wide.	HR sends automated email alerts of training exceptions to managers.	Training status (completed or delinquent) is systematically collected within LMS. Employee and managers can access information at any time.	TARGET MATURITY
REPEATABLE	Code of Conduct (CC) training part of new-hire expectations. CC outreach conducted ad hoc.	Human Resources (HR) conducts orientation and introduces training requirements.	Each employee assumes primary responsibility for completing the required CC training. WRO plans outreach for leaders and other staff.	HR alerts employees and managers when CC training not completed on schedule. WRO posts outreach summaries on its web site (e.g., Integrity Awareness Week)	HR monitors status of new-hire training. Managers employ disparate methods for ensuring CC training completed timely.	The Learning Management System (LMS) is the repository for all required Port training. It is a "self-service" database.	INCREASED COSTS DUE TO PROCESS INCONSISTENCY
INITIAL	Port-wide training was required related to ethics, whistleblower and other policies under HR and EX at time of hire.	Each department has its own processes for enforcing training on policies.	Different work groups handle training differently. Reliance on HR to ensure compliance with training requirements.	Oral and ad hoc written communications address training requirements.	HR periodically emphasizes an issue and requires additional training.	HR retains evidence of training in HR personnel files. Managers maintain informal employee files.	

APPENDIX C- MATURITY MODEL- INVESTIGATIONS

PRESENT-DAY MATURITY	PARTIAL DEMONSTRATION	TARGET MATURITY

INVESTI-GATIONS	What Are the Strategies and Policies?	What are the Business and Risk Management Processes and Controls?	How Do the People & Organization Respond?	What Management Reports Are Produced?	What Methods Are Used?	What Are the Systems Used & Data Maintained?	
OPTIMIZING	Executives use CC results to *strengthen a high integrity, continuous improvement culture.*	CC results are analyzed by department to identify high-performing and low-performing and causes therefor.	Investigation outcomes and recommendations are applied consistently across positions and departments.	Recognition of CC investigation results and costs embedded in Port's Annual Report.	Executive provides Port-wide annual message on Code of Conduct outcomes and metrics.	Software produces standard reports (easily, timely, and accurately), which provide meaningful analysis of CC issues.	POTENTIAL FOR INCREASED COSTS ACCEPTED TO ENSURE PROCESS CONSISTENCY AND QUALITY
MANAGED	Port managers use CC investigation results to help manage and incentivize employees.	WRO revisits detailed procedures regularly and refines to ensure working as intended across all work groups.	Management shares investigation results with work groups and brainstorms prevention.	Management reports are well defined in relation to meaningful metrics and are produced timely and accurately.	WRO conducts post-investigation assessments to ensure quality of investigations.	Data capture includes relevant information to help analyze and resolve issues in relation to factors that may contribute to CC issues.	
DEFINED	CC investigations are incorporated into Port's overall strategy for achieving excellence.	Detailed procedures guide the investigation process across work groups. Procedures vary depending on work group's own processes.	Management and staff support investigations and know what to expect during investigations.	Annual (currently biennial) reports of CC statistics produced for executive team. Possibility of broader distribution.	Review team uses a formal checklist and decision tree to guide investigations and to determine whether investigation to be conducted internally or externally.	Commercial software provides secure and confidential repository of all issues. Access can be assigned as low as read-only at the document level.	TARGET MATURITY
REPEATABLE	Code of Conduct (CC) policies are applicable Port wide, but managers and staff apply the policies differently.	CC-1 thru CC-13 provides CC expectations. CC-14 provides framework for reporting/investigating.	Capable staff conducts investigations and coordinates with work groups. Oral briefings provided throughout investigation process.	Investigation results recorded in WRITS and shared with appropriate managers and review team.	Cross-functional review team guides investigations.	Workplace Responsibility Information Tracking System (WRITS - a SharePoint file) contains event details. Hard copy files continue to be maintained – some in a WRO and some in Legal.	INCREASED COSTS DUE TO PROCESS INCONSISTENCY
INITIAL	As issues arose, they were addressed.	Anti-harassment, drug-free work place and whistleblower policies preceded Code of Conduct.	In addition to primary duties, staff in legal and HR conducted investigations.	Investigation results shared with parties involved.	HR and/or Legal guided investigations.	Only hard copy investigation files maintained.	