

PORT OF SEATTLE
MEMORANDUM

DATE: October 21, 2014
TO: Audit Committee
FROM: Joyce Kirangi, Internal Audit Director
SUBJECT: Capital Projects Audit Engagement Update

Over the next several years, the Port of Seattle plans to spend over \$1 billion for a capital construction program at Seattle-Tacoma International Airport. In accordance with our 2014 Audit Committee Work Plan, Internal Audit has started familiarizing itself with this major capital program.

We have obtained a broad understanding of critical activities of this capital program, which encompasses many capital improvement projects. Costs will be incurred internally within the Port. In addition, the Port will incur costs for work performed by contractors, subcontractors, consultants, and vendors. The complexity of this program presents inherent risk exposures related to efficiency, effectiveness, cost, and compliance. In order to mitigate those risks, Internal Audit plans to implement a long-term audit program, which will allow us to proactively examine various aspects of the high-risk areas annually. We will conduct compliance audits of the outside parties when appropriate. We will also examine the effectiveness of Port processes over various aspects of this capital program.

The areas we select to audit and include in the Audit Committee work plan will be based on the auditor's judgment and risk assessment. The auditor's judgment is informed by various analyses and discussions with the Audit Committee, stakeholders, and Port leadership. As we move forward with developing a long-term audit approach for the Port's capital program, we will continue to seek your input. Your feedback is encouraged and appreciated.

Areas under consideration for detailed review include, but are not limited to:

- Contract Terms and Conditions
- Cost Allocation
- Commission Reporting
- Project Planning and Risk Assessment
- Project Cost and Schedule Estimation
- Project Authorization
- Project Design and Review
- Small Business Participation
- Construction Contract Methods and Procurement
- Construction Management Controls
- Contractors' Compliance with Agreement Terms and Conditions
- Change Order Management
- Project Close-out