


PORT OF SEATTLE
MEMORANDUM

DATE: August 8, 2016
TO: Audit Committee
FROM: Joyce Kirangi, Internal Audit Director 
SUBJECT: Capital Projects Audit Engagement Update

The Audit Committee oversees the Internal Audit Department’s annual budget and staffing level. The 2016 Internal Audit budget approved by the Commission earlier this year had funding for only one capital project audit, the completion of the runway 16C/34C reconstruction project. The interim audit report on the 2015 construction was submitted in May.

We propose to add the following continuous audits to the Internal Audit schedule, which would cover approximately 68% of the budgeted capital projects.

Proposed Aviation Project	Reasoning	Est. Audit Duration
Completion of the runway 16C-34C Reconstruction	<ul style="list-style-type: none"> Impacts all airlines 	Through 2017
International arrivals facility (IAF)	<ul style="list-style-type: none"> Impacts all international airlines 	Through 2020 or beyond
NorthSTAR (NSAT) (includes the expansion of the north satellite)	<ul style="list-style-type: none"> Impacts aviation largest customer 	To be determined
Baggage optimization/replacement	<ul style="list-style-type: none"> Impacts all airlines 	To be determined

There are approximately 90 capital construction projects underway as of December 31st 2015, with the bulk of the projects being in Aviation. The current 2016 - 2020 aviation capital program totals over \$2 billion.

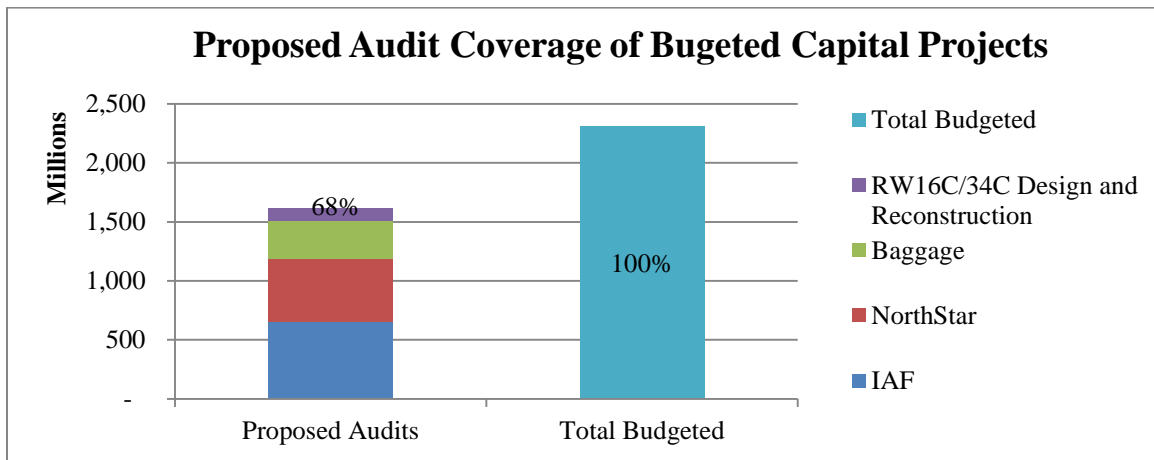
Aviation Division Capital Budget (in millions)					
2016	2017	2018	2019	2020	Total
\$360	\$457	\$454	\$416	\$363	\$2,050

Source: 2016 Capital Budget

We have obtained a broad understanding of the Port capital program, which encompasses many capital activities and projects. Some of the capital program costs will be incurred internally by the Port, and other costs will be incurred by contractors, subcontractors, consultants, and vendors-. The complexity of this capital program presents inherent risk exposures related to efficiency, effectiveness, cost, and compliance. In order to mitigate

these risks, Internal Audit plans to implement a long-term audit program, which will allow us to proactively audit various aspects of the capital program. This will include auditing contractors/consultants for compliance and other outside parties as necessary. We will also audit the effectiveness of the Port processes over various aspects of this capital program.

We analyzed the 90 capital projects budgeted by applying a risk assessment methodology to date reported by the Capital Development Division. With this methodology, we rated the risk of each project. Out of the 90 projects analyzed, we proposed to audit 4 of the high risk projects that makes up 68% of the total capital projects budgeted. These projects all directly impact the airfield, ramps, baggage system, and/or gates.



Source: Capital Improvement Projects (CIP) 2nd quarter report 2016

For these projects, we will perform risk based audits that include procedures to evaluate:

- effectiveness of the Port’s processes and controls;
- compliance of contractors/consultants; and
- any other areas highlighted by detailed risk assessments.

Internal Audit is requesting additional staffing and an additional one-time budget item for the 2016 budget.

1. Additional Staffing

In prior years, the continuous capital program audits were not part of the Internal Audit universe and/or work plan. Therefore, additional capital program audits in 2016 and beyond will require additional FTEs.

These budgeted capital projects are long-term and mission critical for the Port. To effectively audit these projects proactively, we require additional full time employees as they move through the project life cycle. There will also be additional capital projects, as the Sustainable Airport Master Plan (SAMP) is executed.

The Internal Audit Department staffing level of six auditors has not changed for the last five years. We are requesting two senior auditors and one staff auditor. The annual cost of salary and benefits is about \$405,000. For the remaining months in 2016, the projected costs of salary, benefits, and specialized training is \$145,000 for these new position. Our 2016 operating budget for the department is approximately \$1.5 million. With this request for additional staffing level, our annual budget would be approximately \$1.9 million.

Consideration of Alternatives to FTEs

In addition to the requested FTEs, we considered the options of outsourcing these audit services or shifting FTEs from other projects. Please see the table below for a summary of the options examined. We believe it will be more effective to hire and retain the knowledge in-house.

Option	Annual Estimated Cost	Staffing	Pros	Cons	Option Viability
FTEs	\$405,000	2 Sr. Auditors & 1 Auditor	<ul style="list-style-type: none"> • Maintain knowledge and experience • Institutional knowledge retained 	<ul style="list-style-type: none"> • High learning curve 	Preferred
Contracting	\$800,000	2 Sr. Auditors & 1 Auditor	<ul style="list-style-type: none"> • Expertise 	<ul style="list-style-type: none"> • Lack of instructional knowledge retained 	Not preferred due to cost
Shifting FTEs	\$0	1 Sr. Auditor	<ul style="list-style-type: none"> • Maintain knowledge and experience 	<ul style="list-style-type: none"> • Understaffed • High learning curve • Less staff other audits 	Not viable

2. Additional One-Time Budget Request

At the request of CDD executive management, we are proposing a contract audit of the capital project management process. The audit will assess project management organizational maturity, develop a detailed roadmap, and assist the Port in the implementation of a plan to improve the efficiency of capital project management processes.

This audit intends to benchmark Sea-Tac’s capital project management processes to comparable US airports. We are requesting approval to add this to our 2016 Audit Plan. We anticipate the cost to not exceed \$83,000.