



Washington State Auditor's Office

Pat McCarthy

Port of Seattle

Accountability Audit

Exit Conference

February 7, 2017

SAO Audit Team



Kelly Collins, CPA, Director of Local Audit – Kelly has been with the Washington State Auditor’s Office since 1992. In her role she oversees the audit teams which perform the audits for over 2,200 local governments. She serves on the Washington Finance Officers Association Board and is a member of the Washington Society of Certified Public Accountants’ Government Auditing and Accounting Committee.



Mark Rapozo, CPA, Assistant Director of Local Audit – Mark has been with the Washington State Auditor’s Office since 1983. In his role as Assistant Director he assists with the statewide oversight and management of all the audits for local government.



Joe Simmons, CPA, Audit Manager – Joe has been with the State Auditor’s Office since 1987 and became Audit Manager of Team Central King County in November of 2015. In his prior role as Assistant Audit Manager on two different teams he worked on audits of state and local governments throughout Pierce, Kitsap, Mason, Clallam, and Jefferson counties.



Elizabeth Pyatt, Assistant Audit Manager – Elizabeth has been with the State Auditor’s Office since 2013. During her time with the Office, she has conducted financial statement, federal grant compliance, and accountability audits for state and local governments throughout the Seattle area.



Melia Lucero, CPA; Audit Lead – Melia holds a Master of Accounting degree and has been with the State Auditor’s Office since 2014. In her role as Assistant State Auditor, Melia has worked on two different teams covering state and local governments throughout King County, which include the larger audits of King County, the University of Washington, the Port of Seattle, and Harborview Medical Center.

Audits

Entity	Audit Type	Audit Scope
Port of Seattle	Accountability	January 1 through December 31, 2015
Port of Seattle Industrial Development Corporation	Assessment	Fiscal year ends: <ul style="list-style-type: none">• 2013• 2014• 2015

Accountability

Determined if controls are in place to protect public resources and if the Port is in compliance with laws and regulations relating to financial matters.

Assessment

Risk-based, limited-scope review of small local governments usually identified as having less than \$300,000 in annual revenues.

Assessment Audit Summary

Port of Seattle Industrial Development Corporation Assessment Audit Report

Conducted in conjunction with the Port's accountability audit

Limited audit procedures

“Based on the work performed, nothing came to our attention in the areas we reviewed that caused us to believe the Corporation was not in substantial compliance with applicable state laws, regulations, and its own policies, or had significant weaknesses in controls over the safeguarding of public resources.”

AUDIT SUMMARY

Results in brief

Based on the procedures performed, nothing came to our attention in the areas we reviewed that caused us to believe the Corporation was not in substantial compliance with applicable state laws, regulations, and its own policies, or had significant weaknesses in controls over the safeguarding of public resources. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

About the assessment audit

This report contains the results of our independent audit of the Port of Seattle Industrial Development Corporation from January 1, 2013 through December 31, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives. Local governments are also required by state law (RCW 43.09.230) to prepare and submit certified annual reports to our Office summarizing such things as revenues received, collections made, amounts receivable or payable, expenditures made, and debt owed.

This assessment audit was conducted under the authority of RCW 43.09.260, which requires the State Auditor's Office to examine the financial affairs of all local governments at least once every three years. Assessment audits are risk-based, limited-scope reviews of small local governments with less than \$300,000 in annual revenues. To help minimize audit costs, our work for this engagement was conducted in conjunction with the Port of Seattle's annual accountability audit.

This assessment audit was limited to the following:

- Reviewing meeting minutes for compliance with the Open Public Meetings Act.
- Inquiring as to internal controls over assets, revenues, and disbursements.
- Verifying that annual reports submitted to our Office were complete and filed timely in compliance with state law.
- Reviewing the Corporation's annual revenues and expenditures for unusual transactions or trends.
- Reviewing expenditures for indications of unusual activities, excessive Board of Commissioners compensation, conflicts of interest, or procurement requirements.

Accountability Audit Summary

f Seattle Accountability Report

“In most areas we audited, Port operations complied with applicable requirements and provided adequate safeguarding of public resources. The Port also complied with state laws and regulations and its own policies and procedures in most areas we examined.”

“However, we identified areas in which the Port could make improvements.”

Reportable Condition (Finding)

AUDIT SUMMARY

Results in brief

In most areas we audited, Port operations complied with applicable requirements and provided adequate safeguarding of public resources. The Port also complied with state laws and regulations and its own policies and procedures in most areas we examined.

However, we identified areas in which the Port could make improvements.

We recommended the Port establish policies to ensure extra compensation payments are based on performance standards or goals, as required by the state Constitution and conduct additional legal review to determine if any further actions, such as repayment, are necessary or required by state law.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Port of Seattle from January 1, 2015 through December 31, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Port's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:



- One-time payment to exempt workforce
- Cash receipting at the Bell Harbor and Shilshole Bay Marinas
- Fleet fuel and maintenance card program
- Promotional hosting expenditures
- Procurement (bidding/prevaling wage/change orders)
- Police department overtime



Accountability Audit Areas

Promotional hosting expenditures

- ❑ Reviewed internal controls and selected transactions
- ❑ Compliance with state law (RCW 53.36.120-150)
- ❑ Audit result: no issues

Procurement of public works contracts

- ❑ Reviewed internal controls and selected transactions
- ❑ Compliance with procurement, prevailing wage, and change order requirements
- ❑ Audit results: no issues

Police Department overtime

- ❑ Reviewed internal controls
- ❑ Selected transactions to test for adequate support
- ❑ Audit results: no issues

Accountability Audit Areas

Jet fuel and maintenance card program

- Reviewed internal controls and selected fuel cards
- Audit result: Recommendations were provided to the Departments

Cash receipting at the Bell Harbor and Shilshole Bay Marinas

- Reviewed internal controls and compliance with state law over timely deposits
- Performed unannounced cash counts
- Audit result: Recommendations were provided to the Marina

***Audit highlight:** We appreciated the Port's effort to take corrective action to address our departmental audit recommendations before our audit was complete. Immediate initiative was taken by the Accounting and Financial Reporting Department to work directly with the Marine Maintenance Department and the Shilshole Bay Marina to address their control deficiencies.*

Accountability Audit Areas

One-time special payment made to the non-represented salaried employees

- Gained an understanding of the payment
- Determined if the payment was allowable under state law
- Determined if individuals were eligible based upon stated criteria
- Audit result: finding

Audit Finding Background

One-time Payment to non-represented Salaried Employees

- 642 non-represented salaried Port employees received a one-time special payment for a total expense to the Port of \$4,782,796.
- The payment was authorized by the Port Commission at the December 8, 2015 open public meeting under Resolution 3712.
- The one-time payment was not contingent on rendering future services, not based upon past hours worked, not tied to job performance, and was not a salary increase. Also, employees were not obligated to return the one-time payment upon termination of employment.
- The payment was made in order to improve employee morale and to support a high-performing organization that enables the Port to attract and retain the most qualified high-performing employees in response to the newly adopted 40 hour work week.

Audit Finding

“The Port paid extra compensation to employees that did not comply with the state Constitution”

- \$4,782,796 payment does not comply with the state Constitution
 - Article II, section 25
 - Article VIII, section 7
- \$227,029 was paid to 26 employees already working a 40 hour work week
- Retroactive increase in annual pay
 - Total overpayment amount = \$1,120
- Ineligible employees
 - Total payment amount = \$16,570

was made to improve employee morale and to support a high-performing organization that enabled the Port to attract and retain the most qualified high-performing employees in response to the newly adopted 40-hour work week.

Change to 40-hour work week: Resolution Number 3712 shifted the Port to a standard 40-hour work week. However, employees who were already working a 40-hour work week were eligible to receive the payment; we found that 26 employees were already working a 40-hour work week prior to the change and received a total one-time payment of \$227,029.

Retroactive increase in annual pay: The calculation of the one-time payment for each salaried non-represented employee was based on the employee’s annual compensation as of December 13, 2015. We found that after the one-time payment was made to employees on December 31, 2015, the annual compensation amounts for six employees were retroactively increased in January 2016 as a result of promotions, completion of probation or other pay increase reasons, and their one-time payment amounts were recalculated. The retroactive increases in annual compensation were not in line with the procedures set forth to determine payment amounts to employees, which resulted in each of them receiving an amount above what was originally determined by a total of \$1,120. During the audit, the Port was seeking repayment from the six employees.

Ineligible employees: Port employees who resigned or retired before December 31, 2015, were ineligible to receive the one-time payment. We found two employees whose last day worked occurred on October 30, 2015, and December 11, 2015, respectively, which made them ineligible to receive the payment. The total one-time payment to the two former employees was \$16,570. During the audit, the Port was seeking repayment from the two former employees.

Cause of Condition

The method in which the Port executed this one-time payment constitutes extra compensation not allowed by the state Constitution. The Port did not establish performance standards or goals that exceeded normal employment requirements prior to the payment of the extra compensation as required by the state Constitution.

Audit Finding Causes and Recommendations

Causes of Condition

- The method in which the Port executed this one-time payment constitutes extra compensation not allowed by the state Constitution.
- The Port did not establish performance standards or goals that exceeded normal employment requirements prior to the payment of the extra compensation as required by the state Constitution.

Audit Recommendations

- We recommend the Port establish policies to ensure extra compensation payments are based on performance standards or goals as required by the state Constitution.
- We also recommend the Port conduct additional legal review to determine if any further actions, such as repayment, are necessary or required by state law.

Concluding Remarks

We would like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the audit.

Debbi Browning and Rudy Caluza provided valuable assistance during our accountability audit, as our main points of contact. We appreciate their availability and willingness to address our questions timely.

Report Publication

The Accountability audit report will be released and published on February 7, 2017. You can view it at: www.sao.wa.gov

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Contact Information

Pat McCarthy, State Auditor (360) 902-0360

Pat.McCarthy@sao.wa.gov

Kelly Collins, Director of Local Audit

(360) 902-0091 Kelly.Collins@sao.wa.gov

Kathleen Cooper, Assistant Director for

Communication (360) 902-0470

Kathleen.Cooper@sao.wa.gov

Mark Rapozo, Assistant Director of Local Audit

(360) 902-0471 Mark.Rapozo@sao.wa.gov