

Internal Audit Work Plan

2017 Proposed Flexible Work Plan

INTERNAL AUDIT

March 24, 2017



INTERNAL AUDIT

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Working cross functionally to achieve the Port's Goals

Internal Audit

Vision

Promote operational excellence at the Port

Mission

The Internal Audit Department conducts risk-based operational/performance audits. Our frequent reviews of Port operations and activities provide value-added audit services that result in:

- Stronger accountability for meeting or exceeding strategic and operational performance expectations
- Fiscal integrity including detection and deterrence of fraud, waste, and abuse
- Greater transparency in governance and decision making
- Improved investment of public resources to advance trade and commerce, promote industrial growth, stimulate economic development, and create jobs

Through independent and objective audits, we provide the Port Commission with assurance and opportunities for enhanced efficiency and effectiveness of management practices in Governance, Risk Assessment, Controls, and Compliance.

Audit Standards

Audit Work Guided by Professional Standards – Government Auditing Standards (issued by the Comptroller General of US) and by International Professional Practices Framework (issued by The Institute of Internal Auditors)

Striving for excellence

Risk Assessment & Methodology

Best Practice Framework

Internal Audit Strategy

We perform a risk assessment over Port operations annually to drive our Flexible Work Plan. The plan is established based on:

- IA department's institutional knowledge
- Discussions with key Port leadership
- Data analytics
- Prior audit history

It is developed and designed to align our audit strategy with Port goals and objectives.

For simplification we group risks into 6 auditable units:

Strategic / Governance Risk

Risk of inconsistent guidance and/or oversight, and poor strategic direction that do not achieve Port objectives and/or Century Agenda Goals.

Reporting Risk

Risk of misreporting financial and other non-financial information from Port operation results.

Operational Risk

Risk of ineffective and inefficient Port operations, including lack of accountability due to inappropriate process and management.

Information Technology (IT) Risk

Risk of significant negative impact to Port operations due to unmitigated IT vulnerabilities.

Accountability / Transparency Risk

Risk of not meeting Public expectations. Diminishing Port's reputation and loss of public trust.

Compliance Risk

Risk of noncompliance or lack of adherence to applicable laws and regulations (federal, state, local laws and Port policies, procedures and agreements).

Internal Audit identifies key risks using the best practice framework to optimize

Risk Scoring Methodology

Each auditable unit is assessed and rated on a scale of 1 to 5 for impact and likelihood

We start by compiling an Audit Universe. The Port's Audit Universe includes:

- Business units
- Departments
- Lease Agreements
- Information Technology
- Port Governance and Policies
- Port Specific Programs/ Initiatives

Note: This is an example for illustration purposes only.

Risk drivers / attributes are defined for the impact and likelihood of each auditable unit.

We evaluate each auditable unit for impact and likelihood for all items within the Port's Audit Universe.

a-fraud/misuse/abuse re	a- tone at the top	a-mission critical function	a- tone at the top	a- receipting location	a- tone at the top
b-efficiency/effectivene	b-complexity/sophistic	b- operation size (fte)	b-complexity	b- small and attractive asset	b-staffing
c-management concerns	c-effective communica	c-revenue	c-new operations/man	c-high risk expense types (c	c-recently audited/)
	d-recently (3 years) au	d-expenses	d-recently (3 years) au	d-high risk expense types (a	d-management con
		e-other rev/xpenses		e-management concerns/requests	

	Final Score	Overall Risk		Strategic/Governance Risk		Operational Risk		Accountability/Transparency Risk	
		Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood
Audit Universe									
Program #1	20.16	4.80	4.20	4	2	5	5	5	5
Program #2	11.16	3.60	3.10	4	4	4	2	4	4
Program #3	20.24	4.60	4.40	4	4	5	4	5	5
Program #4	13.32	3.70	3.60	2	2	5	4	4	4
Program #5	2.56	1.60	1.60	2	2	2	2	2	2

Overall Impact and Likelihood ratings are multiplied to derive a final quantitative determinant.

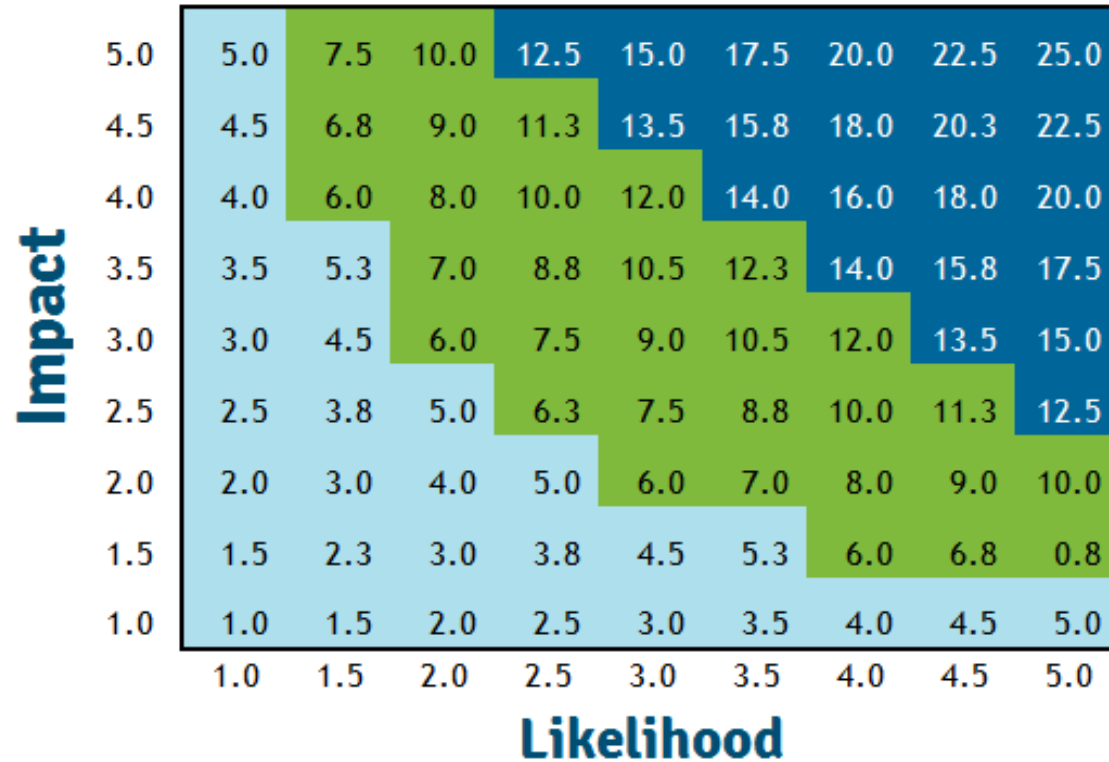
Average Overall Risk rating used in Final Risk Score.

Risk based assurance to help management meet its objectives

Risk Scoring Methodology (continued)

The final risk determinant translates to the following qualitative risk ratings of low, medium, and high.

- Low Risk = 1-5
- Medium Risk = 6-12
- High Risk = 13-25



High risk focus creates value

Risk Rating Summary

Proposed 2017 Work Plan

Internal Audit risk assessment and scoring resulted in the following proposed audits by category

Audit Type	Count	Est. Hours	
		Hours	%
Central Accounting Processing Systems	1	600	7%
Comprehensive Operational /Department	7	2,950	33%
3rd Party Management Agreement	0	0	0%
Limited Operational – Port-wide Programs	6	1,950	22%
Information Technology	2	400	4%
Consulting Services and Contingency		540	6%
Lease & Concession Agreements	7	2,500	28%

**Non-Lease Audit Coverage
72%**

Fiscal integrity including detection and deterrence of fraud, waste, and abuse

Recommended Projects In 2017

Audits Suggested for 2017

Central Accounting Processing System	1	Disbursements/Accounts Payable Cycle -- Management controls, including controls over vendor master file
Departments/Comprehensive Operational Programs	1 2 3 4 5 6 7	1 Airport Parking Garage & Employee/Tenant Parking 2 Maritime StormWater Utility 3 SeaTac - Utilities 4 Maritime Maintenance Shop 5 Terminal 91 Dockage 6 Fishermen's Terminal 7 AV Commercial Management (AV Business Development)
3rd Party Management		None Proposed in 2017
Limited Operational	1 2 3 4 5 6	1 Promotional Hosting and Trade Business & Community Expense - Review Program Governance, Compliance & Management Controls 2 Capital Program 3 Port/Private Partnership - P-66 Norwegian Cruise Line Partnership Tenant/Improvement - \$15 million Port reimbursements. 4 Aviation Tenant/Improvement Reimbursements - Delta Lounge \$13 million Port Contribution 5 On/Off Boarding of Port Consultants/Contractors - (Review Physical & System Application Access Controls of Port consultants/contractors) 6 Port Travel Expenses - Corporate Travel Card Program
Information Technology (IT)	1 2	1 IT Change Management Diagnostic 2 Business Continuity/Disaster Recovery Review

Cont'd

Greater transparency through assurance and accountability

Recommended Projects In 2017 (Cont'd)

Audits Suggested for 2017

<p>Concession Agreements</p>	<ol style="list-style-type: none"> 1 Avis/ Budget Car Rental LLC 2 Hertz Rent -A- Car 3 Doug Fox Parking/ATZ 4 Eastside for Hire - New 2016 Airport Agreement 5 Host International, Inc. 6 Dufry-Seattle JV (Duty Free Shop) 7 Bell Street P-66 Parking Revenue
<p>Consulting Services and Contingency</p>	<ol style="list-style-type: none"> 1 Implementation of a Port-wide moorage system to ensure effective controls and PCI compliance 2 Seaport Alliance 3 Transportation Network Companies (TNCs, i.e. Uber, Lyft & Wingz) - currently the Port has a Pilot Program 4 2017 Work Plan-Risk Assessment 5 Aviation Janitorial Program 6 etc.

Greater transparency through assurance and accountability

2016 Carryover Audits

Proposed 2017 Work Plan

2016 Work Plan Audits in Progress

3rd Party Management

Bell Harbor International
Conference/
WTC Center

The Club at SEA Lounges
(Airport Lounges)

A flexible risk based approach maximizes benefits to the Port

Port of Seattle Revenues & Other Resources by Category

Significant Revenue/Other Resources by Category

Key Risks

- Strategic/Governance risk
- Operational
- Accountability / Transparency
- Reporting
- Compliance

The majority of Port revenues are derived from airlines rental and landing fees; and PFC

Significant Revenue/Other Resources by Category (\$ in 000's)	\$ Amount
Airlines Rental & Landing Fees per SLOA Agreements	253,452
Passenger Facility Charge (PFC)	81,462
Space Rental	74,745
Airport Parking (parking garage & employees/tenants)	73,090
Tax Levy	71,678
Car Rental	33,703
Customer Facility Charge (CFC)	34,374
Retail, Food & Beverage (concession fees)	51,310
Maritime Berthage & Moorage/Dockage	14,765
Others	38,566
Total	<u>\$727,146</u>

Greater transparency through assurance and accountability

*financial data used in this presentation is for planning purposes only and may not tie/agree with the Port year-end financial statements.

Source: PeopleSoft & PropWorks as of December 07, 2016.

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Port-wide Expenditures by Category

Significant Expenditures by Category

Key Risks

- Strategic/Governance risk
- Operational
- Accountability / Transparency
- Reporting
- Compliance

The majority of Port expenditure are salaries, wages and benefits; outside services (personal & professional); and major constructions.

Significant Expenditures by Category (\$ in 000's)	\$ Amount
Salaries, Wages & Benefits	194,631
Outside Services	61,153
General Expense	20,477
Utilities	20,297
Travel	2,364
Others	<u>20,024</u>
Total	<u>\$ 318,947</u>
Via Duct Contribution	\$ 147,700
Construction work in progress spent	169,195

Greater transparency through assurance and accountability

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Source: PeopleSoft & PropWorks as of December 07, 2016.

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Central Accounting Processing System Audits

Port of Seattle Central Accounting Processing Systems:

➔ **Asset Management**
Last Audit – No Significant Issues

➔ **Payroll**
Last Audit – No Significant Issues

➔ **Disbursements/Accounts Payable**
Last Audit – No Significant Issues

➔ **General Ledger**
Last Audit – No Significant Issues

➔ **Accounts Receivable/Revenue**
Last Audit – No Significant Issues

Proposed 2017 Work Plan:

- **Disbursements/Accounts Payable -- Management controls, including controls over vendor master file**

Note: Central Accounting Systems are a Focus of External Financial auditor.

Focused and logical actions driving Century Agenda Strategies and Objectives

Department Audits

Our focus is on efficiency and effectiveness of department programs, including compliance, accountability, and reporting.

Commission directives and Port objectives are carried out in the Port departments.

Key Risks

- Strategic / Governance
- Operational
- Accountability / Transparency
- Reporting – Financial and non-financial
- Information Technology
- Compliance

At the Port, there are approximately 75 Business Units with 171 departments.

Proposed 2017 Work Plan

- Airport Parking Garage & Employee/Tenant Parking
- Maritime Stormwater Utility
- SeaTac - Utilities
- Maritime Maintenance Shop
- Terminal 91 Dockage - Change of Management
- Fisherman Terminal
- AV Commercial Management (AV Business Development)

Departmental Audit-- 5-Year History Coverage



Note: Departments not audited have been subject to Cross Functional Program Audits such as: P-card, Travel, Payroll, Inventory etc.

Greater transparency through assurance and accountability

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3rd Party Management Agreements

Port 3rd party operations are Port activities that are run and operated by a third-party on behalf of the Port. The third-party operator is paid a management fee.

These operations are risky because the Port is accountable for all operation costs, but does not run the day-to-day operation. Note – the Port owns the facilities that house these operations.

Key Risks

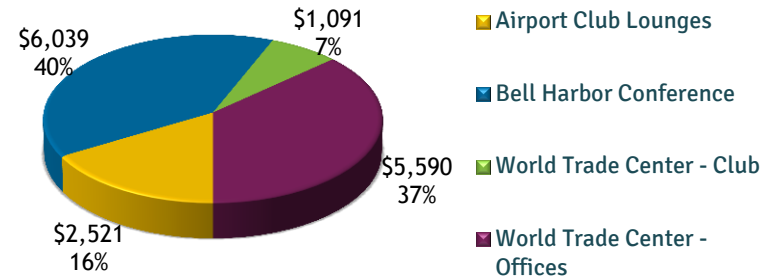
- Operational
- Accountability / Transparency
- Reporting
- Compliance

These 3rd Party Agreements below are currently under audit as part of the 2016 work plan.

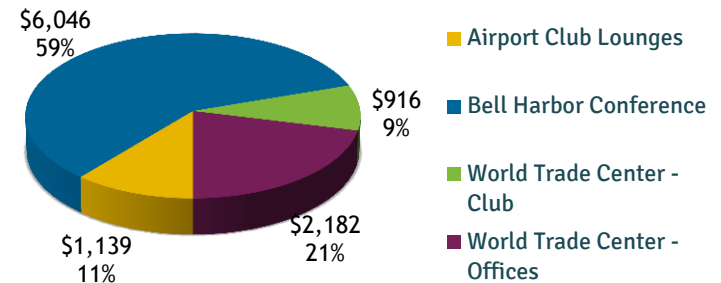
- Airport Club Lounges
- Bell Harbor Conference Center
- World Trade Center - Club

No 3rd party agreement audits are planned in 2017

**Revenues
(in 000's)**



**Expenses
(in 000's)**



Greater transparency through assurance and accountability

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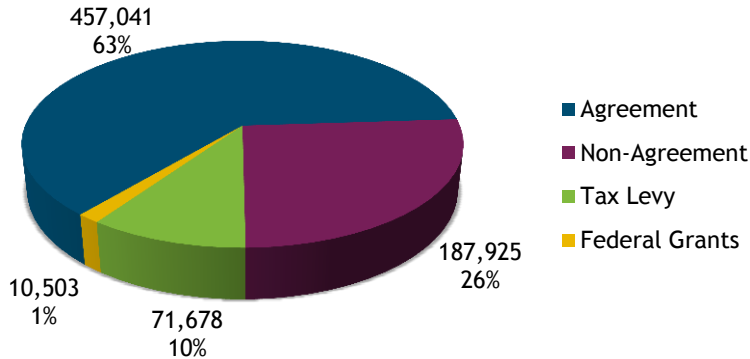
Source: PeopleSoft & PropWorks as of December 07, 2016.

Lease & Concession and Other Agreements

The Port earns most of its revenues from lease & concession and other agreements.

Port Revenues & Other Resources

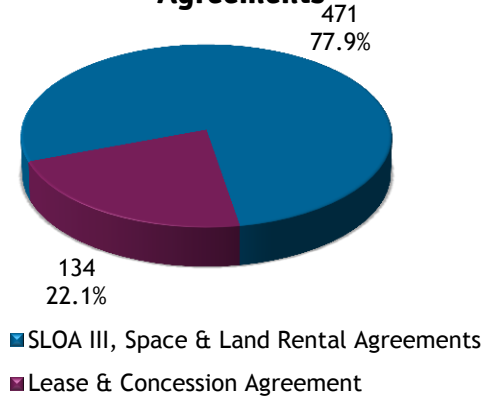
(\$ in 000's)



Common agreement types include:

- SLOA Airline Agreements
- Land Rental
- Space Rental
- Lease and Concession

Agreements



Non-agreement receipt types include:

- Parking
- Berthage and Moorage
- ID Badge Fees
- Others

Space and Land rental agreements generate fixed fee revenue based on square footage etc. To ensure accuracy and complete reporting to the port, these agreements are deemed low risk.

Lease and concession agreements generate revenue to the Port based on Lessee self-reported gross receipts . These agreements are deemed high risk, and Internal Audit has recovered over \$7.7 million in underreporting.

Economic Vitality through Developing, Negotiating, and Managing Agreements

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Lease & Concession Agreements

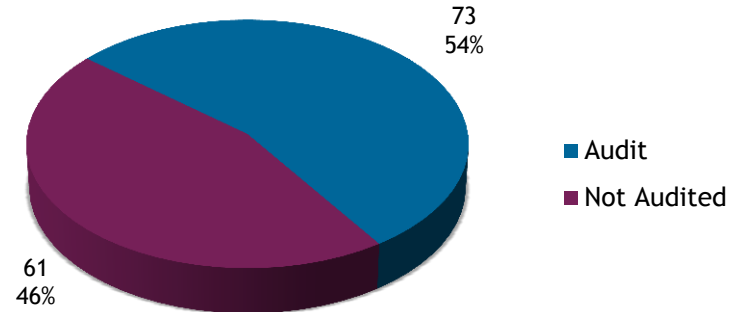
Key Risks

- Operational
- Accountability /Transparency
- Reporting
- Compliance

Proposed 2017 Work Plan

- Doug Fox Parking Lot /AZT
- Hertz Rent-A-Car
- Avis/Budget Car Rental LLC
- Eastside for Hire - New 2016 Airport Agreement for Customer pick up
- Host International, Inc.
- Dufry - Seattle JV (Duty Free shop)
- Bell Street P66 Parking Revenue

Concession Agreements



Agreements not audited are deemed low risk.

*To date, Internal Audit has recovered approximately \$7.7 million in underreporting concession fees.

Greater transparency through assurance and accountability

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Source: PeopleSoft & PropWorks as of December 07, 2016.

Limited Operational Programs (Port-Wide)

The focus of this audit category is efficiency and effectiveness of Port-wide programs, including compliance, accountability, and reporting. Such Port-wide programs include: Port travel, purchasing P-card program, inventory program, cost allocation, janitorial services, small business initiative etc.

Commission directives and Port objectives are carried out in these Port-wide programs or activities.

Key Risk

- Strategic/Governance
- Operational
- Accountability/Transparency
- Reporting
- Compliance

Proposed 2017 Work Plan

- Promotional Hosting and Trade Business Expenses --\$1.1 million in 2016.
- Capital Program
- Port/Private Partnership - P-66 Norwegian Cruise Line partnership & Construction - \$15 Million Port Contribution
- Aviation Tenant Reimbursements - Delta Lounge \$13 million Port contribution
- Port-wide On/Off Boarding of Port Consultants/Contractors - (Physical & System Application Access controls)
- Port Travel Expenses - Corporate Travel Card Program

Greater transparency through assurance and accountability

Limited Operational Program – Capital Program

The 2017 Capital Budget reflects the Port's continuing commitment through investment of \$651.6 million in development, expansion, and renewal of Port facilities. Major projects include:

- North Satellite Modernization
- International Arrivals Facility
- Center Runway Reconstruction
- Optimized Baggage Handling System

Key Risks

- Strategic/Governance
- Operational
- Accountability/Transparency
- Compliance

Proposed 2017 Work Plan

- International Arrivals Facility

Committed Capital Projects (\$ in 000's)	2017 Budget	2017-2021 CIP
Aviation Division	501,539	1,781,572
Maritime Division	29,531	56,130
Economic Development Division	7,765	13,553
Corporate & Others	7,219	30,676
Total Committed	546,054	1,881,931
Business Plan Prospective Projects	105,523	820,523
Total CIP	651,577	2,702,454

Greater transparency through assurance and accountability

Information Technology

The Port uses technology for innovation and to drive success of its strategies and programs. Therefore, information technology is critical to Port success, and is an integral part of the Internal Audit annual work plans.

Like in the past years, Internal Audit information technology projects are outsourced to external IT firms. These audits are managed by internal audit staff.

Key Risk

- Information technology

Proposed 2017 Work Plan Per Information Technology Port-wide Risk Assessment

- IT Change Management Diagnostic
- Business Continuity/Disaster Recovery Review

Working cross functionally to achieve Port's Goals

Consulting Services & Contingency

Proposed 2017 Work Plan

We partner and provide consulting services to Port management in order to improve Port programs and/or services. In consulting services, Port management owns and takes accountability of the projects.

The following is a list of consulting services we propose to provide in 2017.

Consulting Projects/Contingency	
Maritime	<ul style="list-style-type: none">• Implementation of a Port-wide moorage system to ensure effective controls and PCI compliance
Seaport Alliance	<ul style="list-style-type: none">• Seaport Alliance??
Aviation	<ul style="list-style-type: none">• Transportation Network Companies (TNCs, i.e. Uber, Lyft & Wingz) – currently the Port has a Pilot Program• Aviation Janitorial Program• Others as needed
Others	<ul style="list-style-type: none">• 2017 Work Plan – Risk Assessment

A partnership approach maximizes benefits to the Port

Internal Audit Team and Organizational Structure



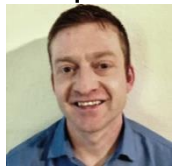
Joyce Kirangi, Director
Certifications: CPA, CGMA



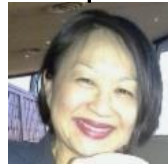
Pamela Bailey, Sr. Administrative Assistant
Certifications: PACE



Dan Chase, Acting Audit Manager
Certifications: CPA, CIDA



Spencer Bright, Senior Auditor
Certifications: CGAP, CIA, CFE



Margaret Songtantaruk, Senior Auditor
Certifications: CFE, CB



Dan Chase, Senior Auditor
Certifications: CPA, CIDA



Dandan Wang, Senior Auditor
Certifications: CPA, CIA



Ritika Marwaha, Internal Auditor



Roneel Prasad, Internal Auditor

Questions?