



INTERNAL AUDIT REPORT

CENTRALIZED INTERNATIONAL SUPPORT SERVICES AGREEMENT
LIMITED OPERATIONAL AUDIT

JANUARY 1, 2015 – DECEMBER 31, 2016

ISSUE DATE: JUNE 27, 2017
REPORT NO. 2017-04

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was:

1. To determine whether management internal controls are effective.
2. To ensure VIP complied with significant terms within the contract.
3. To ensure compliance with Proposition 1 - minimum hourly wage.

Details of our audit's scope and methodology are on page three.

BACKGROUND

On December 8, 2014, the Port of Seattle entered into Agreement S - 00318180 with VIP Hospitality to provide passenger and baggage services in the Federal Inspection Services (FIS) area. VIP staff assists the Customs and Border Patrol (CBP) officers in facilitating the movement of international passengers and baggage through FIS area.

AUDIT RESULT

From January 2015 to February 2016 internal controls were not operating effectively. As a result, the Port overpaid VIP \$55,000 (see issue 1).

VIP complied with the significant terms within the contract.

VIP complied with Proposition 1 - minimum hourly wages (from December 1, 2015, through December 31, 2016).

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Centralized International Support Services Program.

We conducted the performance audit in accordance with Generally Accepted Government Auditing Standards and International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis of 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 management and staff of Airport Operations for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Dan Chase, CPA Internal Audit Manager - Acting	Michael Ehl, Director Airport Operations
	Daniel Zenk, Senior Manager Airport Operations Charles Goedken, Manager International Operations

BACKGROUND

On December 8, 2014, the Port entered into a contract with VIP Hospitality for international passenger and baggage service within the Federal Inspection Services (FIS) area. The Port consolidated contracts in the FIS due to the increase in international traffic, capacity constraints, and the airlines desire to have the Port oversee the management of the FIS area.

The intent of entering into the contract was to increase passenger satisfaction, improve operational efficiency, and to achieve greater accountability. The term of the contract is one year commencing on January 1, 2015. At the Port's sole option, the contract may be extended up to four times for an additional one year term.

VIP staff assists the Customs and Border Patrol (CBP) officers in facilitating the movement of international passengers and baggage through FIS area.

In February 2016, VIP Hospitality and the Port negotiated new contract rates. These negotiations took place to adjust to the City of SeaTac "Good Jobs Initiative" outlined in proposition 1. Change Order No. 3 - Bill Rate Update went into effect for services performed as of December 1, 2015.

FINANCIAL HIGHLIGHTS

PORT OF SEATTLE PAYMENTS TO VIP HOSPITALITY		
PERIOD	2015	2016
JANUARY - MARCH	\$297,151	\$391,481
APRIL - JUNE	411,961	646,864
JULY - SEPTEMBER	393,226	494,705
OCTOBER - DECEMBER	381,555	578,719
TOTAL	\$1,483,893	\$2,111,769

Data Source: PeopleSoft Financials

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2015 - December 31, 2016. We utilized a risk-based audit approach from planning through testing. To obtain a complete understanding of the operations, we gathered information through document reviews, Port management and VIP staff interviews, observations, and data analyses.

We applied audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. To determine whether management internal controls are effective.
 - We assessed significant risks and identified controls to mitigate those risks.
 - We evaluated whether those controls were operating effectively as intended.
2. To ensure compliance with the terms and conditions of the contract:
 - Observed operations within the FIS during core hours
 - Conducted interviews with both Port and VIP management
 - Ensure that the rate paid on the invoice agreed to the rate per the agreement
 - We validated that the total number of regular and overtime hours on the invoice agree to the total number of hour on the system of record
 - Traced system of record time card detail for period 8/21/2016 to 9/3/2016 to the corresponding APS payroll summary for the same period
 - Traced system of record time card detail for period 10/1 - 15/2015 to the corresponding CompuPay payroll summary for the same period
3. To ensure compliance with Proposition 1* - minimum hourly wage:
 - Agreed total hours per retro invoice disbursement to total hours per retro payroll disbursement
 - Traced system of record time card detail for period 8/21/2016 to 9/3/2016 to the corresponding APS payroll summary for the same period

*This procedure was only performed for the period December 1, 2015 through December 31, 2016.

CONCLUSION

From January 2015 to February 2016 internal controls were not operating effectively. As a result, the Port overpaid VIP \$55,000 (see issue 1).

VIP complied with the significant terms within the contract.

VIP complied with Proposition 1 - minimum hourly wages (from December 1, 2015, through December 31, 2016).

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1. INTERNAL CONTROLS WERE NOT EFFECTIVE TO ENSURE ACCURACY OF PAYMENTS

VIP Hospitality provides baggage and passenger services at the FIS as detailed in the agreement between the Port and VIP. The agreement also lists two rates for passenger and baggage service.

Between January 1, 2015 through February 29, 2016, VIP billed rates that were not included in the contract. Management knowingly authorized invoiced rates that did not agree to the terms and rates in the agreement. Although Port management reviewed and approved the invoices, the review was not effective at preventing the overpayment. As a result, the Port overpaid VIP by \$55,000 from the period January 1, 2015 through February 29, 2016.

Recommendation

- Port management should seek recovery of the \$55,000 from VIP.
- Port management should also continue to improve internal controls to minimize the likelihood of errors.

Management Response

Management acknowledges this finding and appreciates the auditor's recognition of the error and recommendation to continue operating using existing implemented internal controls.

The root cause of this issue has been identified and addressed. AV Management signed documents with the vendor authorizing additional personnel (supervisors and lead) and billing rates associated with that work. AV management did not have authority in accordance with the Port delegation (EX-2) to authorize these changes.

When the issue was discovered in December of 2015, Aviation Operations management worked with the Port's Central Procurement Office (CPO) to address the issue. At the time of the discovery, CPO characterized this as an authority issue -- AV revised the contract without actual authority and a formal amendment. Though made in error, AV believed adding these additional supervision positions was in the best interests of the Port. CPO and Aviation Operations collectively agreed to continue paying the rates authorized by AV until an amendment could be negotiated and executed. An amendment published in February of 2016, effective retroactively to December 1, 2015.

Given that VIP Hospitality had provided the services in good faith for Lead and Supervisor positions as approved by AV Management, Management does not interpret this as an overpayment. It is the joint recommendation of the Aviation Division, Aviation Operations, the Central Procurement Office, and Port Legal counsel therefore, to recognize our obligation to have paid for those services as invoiced and to not seek repayment.

Management further advocates that a retroactive contract amendment be executed to include the authorization to employ supervisors and lead personnel for the associated work performed during this period.

Finally, following the release of the findings of this audit, Management has implemented changes in monthly invoice review to ensure additional managerial oversight of billing and payment.