INTERNAL AUDIT REPORT

OPERATIONAL AUDIT
MARINE MAINTENANCE SHOP

JANUARY 2017– FEBRUARY 2019

ISSUE DATE: JUNE 14, 2019
REPORT NO. 2019-09

Port of Seattle | INTERNAL AUDIT

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EXECUTIVE SUMMARY

Internal Audit (IA) completed an audit of the Marine Maintenance Shop for the period January 2017 through February 2019. Marine Maintenance management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls to provide reasonable assurance that the controls are adequate and operating effectively. The audit focused on the following key processes at Marine Maintenance:

- Inventory
- Maximo Access Controls
- Capital/Small Works Projects
- Physical Access Security
- Fleet & Fuel Management

Marine Maintenance provides maintenance of all Port waterfront properties, fleet and equipment. They are an active partner in the responsible stewardship of Port held community assets. They also support the Real Estate Department and Maritime Lines of Business within the Port, with 14 specialized craft functions that respond to customer requests.

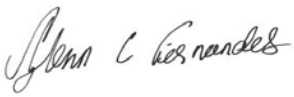
Our audit identified opportunities where internal controls could be enhanced or developed. These opportunities are listed below and are discussed in more detail beginning on page seven of this report.

1. (High) - Management self-identified that the process to issue and track keys and badges needs to be enhanced. Marine Maintenance has the ability to issue badges that allow individuals to access secure Maritime facilities.

2. (High) - Internal controls to monitor and account for fleet and fuel usage need to be strengthened. This will also help prevent the need to make future adjustments to the year-end fuel balance such as the $86,000 fuel adjustment made in 2018.

Our report includes recommendations that are intended to improve the internal controls and overall monitoring of these controls.

We extend our appreciation to management and staff of Marine Maintenance for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
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RESPONSIBLE MANAGEMENT TEAM
Stephanie Jones Stebbins, Managing Director, Maritime
Skip Himes, Director, Marine Maintenance

BACKGROUND

The Port's Maritime Division includes four major business groups: Cruise Operations, Fishing and Commercial Operations, Grain, and Recreational Marinas. It also includes Marine Maintenance, which provides maintenance of all Port's waterfront properties, fleet and equipment. Marine Maintenance is an active partner in the responsible stewardship of Port held community assets and supports the Real Estate Department and Maritime Line of Business within the Port with 14 specialized craft functions that respond to customer requests.

Marine Maintenance operates one central repair facility located at 25 S. Horton Street, Seattle. Locked gates and barbed wire secure the areas where vehicles and other equipment are parked, and video cameras are installed at various locations which record activity. Access to the building is secured via key cards. The Marine Maintenance Shop is staffed by 114 FTEs, including foremen, carpenters, mechanics, etc. Marine Maintenance provides preventive maintenance services and performs a wide range of repairs. It also performs small works capital and expense projects, including landscaping, plumbing, painting, electrical work, etc. for other Port departments, and recovers its costs through user charges. Marine Maintenance is not a revenue-generating department; only miscellaneous revenues are received by the department.

In addition to the S. Horton Street Facility, Marine Maintenance maintains the following Port facilities:

- Maritime Industrial Center
- Bell Harbor Cruise Terminal (Pier 66)
- Pier 69
- Multiple parks
- Container Terminals and Container Support Properties
- Cruise Terminals
- Smith Cove Cruise Terminal
- Shilshole Bay Marina (SBM)
- Fisherman's Terminal
- Terminal 91 and Terminal 86 – Grain Terminal

Marine Maintenance manages the acquisition, maintenance, service, repairs, fueling, replacement and disposal of fleet vehicles and motorized equipment. These include vehicles and equipment such as sedans, light and heavy duty trucks, trailers, and miscellaneous motorized equipment.

The Port owns about 1,300 fleet vehicles and equipment. Marine Maintenance manages about one-third of the vehicles and equipment, while the remaining two-thirds are managed by Aviation Maintenance (AVM).

A Fleet fueling station is located at Marine Maintenance. The tank holds around 6,000 gallons of unleaded fuel and 3,000 gallons of diesel fuel. Marine Maintenance also has a mobile fuel truck which holds 2000 gallons of fuel and is used to deliver fuel to Terminal 91, for the large forklifts that are not street safe and cannot leave the property.

AUDIT SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the 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 for 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 reviewed information for the period January 1, 2017 through February 28, 2019, using a risk-based approach from planning to testing. We gathered information through document requests, research, interviews, observations, and analytical procedures. We assessed significant risks and identified controls to mitigate those risks. To achieve the audit objectives, we performed the following procedures:

I. Inventory:

- Gained an understanding of the Inventory Process via walkthroughs and interviews of management.
- Performed an analytical review of inventory levels and calculated both the Inventory Turnover ratio (number of times inventory is sold or used in a time period) and Days in Inventory ratio (average number of days current stock of inventory will last).
- Performed physical inventory inspections of all inventory locations to determine if the inventory items are stored in a secure location and observed a physical inventory count performed by Marine Maintenance personnel.
- Obtained a list of inventory items in Marine Maintenance and judgmentally selected a sample of 30 items to determine if inventory exists and selected 30 items on the floor to determine if inventory is complete.
- Performed testing to assure segregation of duties existed around the receiving and purchasing of inventory, by reviewing Maximo User Access roles.
- Reviewed the inventory listing from Maximo, to determine if all inventory items were counted at least once every year.

II. Maximo User Access:

- Compared Maximo Access Reports to the Port's Active Employee's Report, to determine if any employees who were no longer an active Port employee still had access to Maximo.
- Traced a sample of terminated employees with Maximo Access to Active Directory, to see if their network access had been removed.

III. Capital/Small Works Projects:

- Reviewed listing of capital projects performed by Marine Maintenance for the period under audit for reasonableness.
- Picked a judgmental sample of five high value capital projects and reviewed background information in PeopleSoft, for reasonableness.
- Validated that projects over $300,000 received Commission Authorization.

IV. Physical Access Security:

- Performed a walkthrough of the physical keys process.
- Observed the facility where the key blanks and master keys were stored, and key cards were printed.
- Obtained a report of Seaport badges issued during the audit period; January 1, 2017 through February 28, 2019.
- Compared this report to the active employees report from HR as well as the Human Resources (HR) Changes report to determine if any non-Port employees had been provided with a Port Badge.
- Judgmentally selected a sample of 12 employees and requested badge authorization support to determine if proper authorization had been received for these individuals.

V. Fleet & Fuel Management:

- Interviewed process owners to gain an understanding of the process around fleet and fuel management at Marine Maintenance.
- Conducted a walkthrough of the fleet fueling station at the Marine Maintenance Shop.
- Obtained a listing of Marine Maintenance fleet vehicles and equipment and a listing of fuel transactions and judgmentally selected a sample of 30 vehicles and equipment to determine if fuel was used for business purposes.
- Reviewed video surveillance for a 14-day period.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1) RATING: HIGH

Management self-identified that the process to issue and track keys and badges needs to be enhanced. Marine Maintenance has the ability to issue badges that allow individuals to access secure Maritime facilities.

Based on our physical observation and discussion with the process owner, it was affirmed that the process around the issuance, tracking and collection of physical keys and badges needs to be strengthened. The following are a few examples of critical areas where controls can be improved:

- A comprehensive listing of physical access points had not been completely established.
- Segregation of duties for authorization, custody, and distribution of badges and keys did not exist.
- A key request form was not required to obtain a key.
- Badges of employees (including interns) who were no longer employed at the Port were still active in the system.
- Badge Applications, showing authorization for new badges issued were not being retained.
- Policies and Procedures related to the replacement of locks, keys, and issuance of badges had not been established.

Recommendations:

Management should develop and implement a process that identifies access points, and accurately accounts for and collects keys and badges when an employee no longer needs access. After a process has been established, policies and procedures should be developed and adhered to.

Management Response/Action Plan:

Marine Maintenance Management recognizes the assessment and recommendations from our Internal Audit department highlighted in the report, and are immediately working towards a series of corrections. A project to capture critical security access data is currently underway which will support future enhancements within the Seaport Division.

Project #105909 outline for Internal Lock & Security Assessment:

Below is a synopsis of the current Marine Maintenance Lock and Security Assessment Project created to capture access data across Seaport properties.

Broadly, overarching and long term goals were discussed in regards to access control from the Security perspective and the lock and security assessment was identified as Phase I in a three phase endeavor;

- Phase I – Perform an assessment to identify current state of access control systems.

DUE DATE: 12/31/2019

- Phase II – Based off findings from Phase I, define the parameters for implementation of a new access control system.

  DUE DATE: 07/31/2020

- Phase III – Implementation of new access control system. Likely a comprehensive major works project – Seaport wide or Port wide.

  DUE DATE: 12/31/2023

Phase I will involve performing a physical-inspection of the lock / access systems and hardware on all Seaport building facilities, an inventory of all existing ownership of keys, and identification of Marine Maintenance's current policies and procedures for granting (or restricting) authorization for access.

This will be a sustained, collaborative effort resulting in multiple end products. Asset Management is spearheading the initiative to create a SharePoint tool that will be used to remotely enter the surveyed lock & hardware information from the field at each Seaport facility. Efforts are underway to build out this tool and field surveys have begun. This SharePoint tool will serve as a database for all inventoried access systems once site visits are complete. The Marine Maintenance Lock & Security Shop will lead the initiative to audit existing key ownership, consult with Asset Management on necessary information to collect in the field, and be integral in conversations with Seaport Security regarding policy and procedure.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

2) RATING: HIGH

Internal controls to monitor and account for fleet and fuel usage need to be strengthened. This will also help prevent the need to make future adjustments to the year-end fuel balance such as the $86,000 fuel adjustment made in 2018.

Below are some examples of areas where internal controls could be enhanced or developed:

- Although Fuel Master has functionality to limit the number of gallons for a specific vehicle, these limits were excessive (50 gallons per transaction and 100 gallon daily limit per vehicle).
- A process had not been designed to assure that Marine Maintenance fleet vehicles are only used for business purposes. The vehicles did not have a GPS system making it difficult to determine how they are being used.
- Although fuel consumption data was available, a process was not in place to monitor usage. Establishing a monitoring function was useful to identify unusual patterns such as high or frequent consumption that could result from pilferage.
- Any employee ID could be used to obtain gas.
- The vehicle mileage number was required to be entered into the system, however, this was not always followed. When reviewing the consumption log, we identified several entries of 9999 and 0 for vehicle mileage.
- Although fuel logs were maintained to account for mobile truck usage, they were not always completed and, in some cases, had been lost.
- Although a surveillance camera was nearby, it was not specifically focused to monitor the fuel pump or positioned to identify the license plate number. In several instances the camera had been moved to focus on the railroad tracks.

Recommendations:

Management should develop processes to monitor and account for fleet and fuel usage. Furthermore, new technology could be explored with better built in controls, that will help track the fuel consumption and provide visibility of vehicle location.

Management Response/Action Plan:

Management recognizes the deficiencies highlighted in the report and is immediately working towards a series of corrections. The team is developing several solutions and processes to improve control and accuracy over fuel inventory transactions and the overall access to Port fuel. The initial methods are classified as immediate, short term, midterm and long term in implementation time, budget and effort. There will be more methods developed as solutions are discovered. The detailed response outlining these initial solutions and processes can be found under Appendix B on page 11 of this report.

DUE DATE: IMMEDIATE/SEE APPENDIX

APPENDIX A: RISK RATINGS

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Port. Items deemed "Low Risk" will be considered "Exit Items" and will not be brought to the final report.

Rating	Financial	Internal Controls	Compliance	Public	Port Commission/ Management
HIGH	Large financial impact Remiss in responsibilities of being a custodian of public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, State, and Local Laws, or Port Policies	High probability for external audit issues and/or negative public perception	Important Requires immediate attention
MEDIUM	Moderate financial impact	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, State, and Local Laws, or Port Policies	Potential for external audit issues and/or negative public perception	Relatively important May or may not require immediate attention
LOW/ Exit Items	Low financial impact	Internal controls in place but not consistently efficient or effective Implementing/enhancing controls could prevent future problems	Generally complies with Federal, State and Local Laws or Port Policies, but some minor discrepancies exist	Low probability for external audit issues and/or negative public perception	Lower significance May not require immediate attention
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient				

APPENDIX B: DETAILED MANAGEMENT ACTION PLAN

FUEL AND FLEET MANAGEMENT

Port Fuel Site Controls

Immediate Actions:

1. Craft Labor managers will review a daily log of fuel transactions. These transactions will be filtered out based on the following criteria:
    a. Non-Police transactions between 5 p.m. and 5 a.m.
    b. Non-Police double transactions that occur within a 10-minute period of each other.
    c. Non-Police transactions that occur on the weekends.
    d. Managers will cease daily reviews once Fuel Master and GPS are fully functional and automated exception reports can be developed.
2. Adjust all assets in Fuel Master so that their fuel tank capacities and authorized fuel limits match.

Short term plan (Within 1 Year):

1. Discussed with our Electrician General Foreman, Fleet Manager, and Seaport Security. We are defining the current needs of monitoring use at the Marine Maintenance fuel pumps. Options include, but not limited to, a camera at the control box to determine facial recognition and another camera set up to capture the license plate of the vehicles. Seaport security will work with our ICT department to specify the project and make equipment recommendations. Type of system would be a dedicated camera(s) linked to our current monitoring system that cannot be manipulated away from the specific location.
2. Investigate Port Installed RFID Card Readers to authorize employees during Fuel Transactions versus Fuel Master Provided hardware. Once the best course of action is determined, the Fleet Manager will request a project to implement this change.
3. Request Funding, CPO coordination and ICT review of new Fuel Master and Veeder Root hardware, software and interface creation.

Medium / Long Term Plan (1 to 5 years):

1. Upgrade the fuel island hardware and software. Install card reader access to validate employee use of fuel Island. Install hardware on vehicles that validate the fueled vehicle is in fact a Port owned vehicle. Calibrate fuel system so that each valid vehicle fueling can only dispense enough fuel to fill the vehicle's fuel tank to capacity and no more.
2. Install GPS devices on all Port vehicles. GPS will be utilized to collect mileage data. Once the devices are installed, there will no longer be mileage entries at the fuel island.
3. Fuel consumption tracking will be implemented with GPS. GPS will also provide engine run data and mileage. Right now, we do not collect engine run data on all assets.

PORT FUEL TRUCK CONTROLS

Immediate Action:

Employee fueling will have to complete and sign off on a fuel distribution sheet. General Foreman /

Crew Chief will have to review the fuel distribution sheet as they are filled out and turned in for completeness and accuracy. They will then sign off on the sheet and deliver the Fuel Distribution Sheet to Stores. Stores Personnel will then enter the fuel transactions into Maximo, and they will sign off on the fuel sheet before turning it in to the Fleet Program Coordinator for storage.

Short Term Actions (0 – 1 Year):

1. Determine a cost for retrofitting Fuel Master on to the existing fuel truck.
2. Determine a cost for a new, smaller capacity fuel truck with Fuel Master installed.
3. Explore other options for fueling Port equipment without the use of a Fuel Truck.
4. Explore third party fueling options.

Medium Term Actions (1-3 Years):

1. Automate the Fueling of off-site assets through use of a new Fuel Truck or:
2. Automate fuel transactions through use of on-site Fuel Cells or:
3. Fuel offsite equipment through a 3rd Party vendor or:
4. Develop another method that meets the needs of our customers but can be tracked and monitored.