

2019 Summary of Internal Audits

Glenn Fernandes - Director, Internal Audit

December 10, 2019

Pier 69, Commission Chambers

12:00 PM – 5:00 PM

2019 Audit Committee

- Commissioner Peter Steinbrueck, Committee Chair
- Commissioner Ryan Calkins, Committee Member
- Christina Gehrke, Committee Public Member

About Internal Audit

- Internal Audit conducts independent, objective, risk-based audits of the Port's operations, activities and vendors.
- Our audits add value by helping the Port achieve its mission and result in: financial stewardship, accountability, transparency, governance, and operational excellence.
- Internal Audit derives its authority from the Port Commission.

18 Audits, 1 Summary Report Completed in 2019

Limited Contract Compliance (5)

- Sixt Rent A Car
- EAN Holdings, LLC
- Anton Airfood of Seattle, Inc.
- Mad Anthony's, Inc.
- Airport Tenant Marketing Program

Operational (8)

- Airport Employee Access¹
 - Diversity in Contracting
 - Marine Maintenance Shop
 - Architectural and Engineering Consultant Rates
- Capital
- Checked Baggage Optimization Project (Phase 1)
 - Noise Insulation Program
 - Concourse D Hardstand Holdroom
 - Shilshole Bay Marina Customer Facilities Project

Information Technology (6)

- Security of Personally Identifiable Information¹
 - HIPAA Security Compliance¹
 - HIPAA Privacy and Breach Compliance
 - Closed Network System Security¹
 - Inventory and Control of Hardware Assets¹
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- Payment Card Industry (PCI)^{1,2}

¹ Security Sensitive – Exempt from public disclosure per RCW 42.56.420.

² This work was performed by an outside firm. Internal Audit provided a summary report to the Audit Committee.

Key Themes

- 2019 Audits identified 13 High Risk and 29 Medium Risk issues for management action
- The Port has opportunities to strengthen internal controls and related processes
- Capital Spending – Opportunities to reduce costs / be more efficient

Highlighted Audits

Operational:

- 1) Marine Maintenance Shop
- 2) Airport Employee Access¹
- 3) Architectural and Engineering Consultant Rates

Capital:

- 4) Noise Insulation Program
- 5) Concourse D Hardstand Holdroom

IT:

- 6) Closed Network System Security¹
- 7) HIPAA Security Compliance¹
- 8) HIPAA Privacy and Breach Compliance
- 9) Inventory and Control of Hardware Assets¹

¹ Security Sensitive – Exempt from public disclosure per RCW 42.56.420

Operational - Marine Maintenance Shop

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

- ✓ Comprehensive list of physical access points did not exist
- ✓ Segregation of duties for authorization, custody, distribution did not exist
- ✓ Badges of terminated employees were still active
- ✓ Badge applications, showing authorization not retained
- ✓ Policies and procedures not established

Status: In process, with both short term and long term deliverables.

Operational - Marine Maintenance Shop

(High) - Safeguards and controls have not been designed and implemented to monitor and account for fuel and fleet usage. As a result, an \$86,000 fuel adjustment was made to the ending 2018 fuel balance. The cause of the adjustment was not known.

Status: Immediate detective controls implemented. Longer term controls in process.

Operational – Architectural and Engineering Consultant Rates

(High) - CPO had not established guidelines for what is determined fair and reasonable. Our testing of over 400 A&E consultants identified many instances where profit margins exceed what the industry deemed reasonable.

- ✓ Below table reflects the profit margins of the firms tested: *[Note: Industry standard ranges between 10 – 15 percent.]*

Profit	10% and below	11-19%	20-29%	30-39%	40-49%	Above 50%
Number of Consultants	139	81	79	60	30	18

Status: Forthcoming

Operational – Architectural and Engineering Consultant Rates

(High) - Management approval was not required when hourly rates exceeded the maximum rates produced by the service rate negotiation tool / model.

- ✓ Below table reflects the number of positions that exceeded the maximum and the amount that the Port agreed to pay over the maximum rate for every hour worked:

Positions	Amount over the Maximum (+2%)
31	\$51.05 - \$175.03
32	\$21.20 - \$48.05
103	\$.17 - \$19.98
166	

Status: Forthcoming

Operational – Architectural and Engineering Consultant Rates

(High) - A reconciliation between the final negotiated rates and the contract did not occur. As a result, we were unable to verify that all positions and rates reflected in the contract were accurate.

✓ Below table reflects the type and number of exceptions:

Position on contract did not exist on the rate tool	108
Rate on rate tool did not agree to the contract	40
Position on rate tool did not exist on the contract	20
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	168

Status: Forthcoming

Operational - Architectural and Engineering Consultant Rates

(Medium) - The Central Procurement Office is responsible for procuring all contracts related to public works, consulting services, and goods and services. Governance meetings, for Executive Leadership Team (ELT) oversight of CPO, had not occurred since December 7, 2017.

Status: Forthcoming

Capital - Noise Insulation Program

(High) – The Port’s controls related to the review of Job Order Contract work proposed and performed by a Job Order Contractor were not functioning effectively. As a result, the Contractor billed the Port an unreasonably high amount and may have billed for more work than was performed.

- ✓ Contractor charged the Port a 51% average mark-up
- ✓ Assuring line items and quantities proposed are appropriate requires a diligent review and necessitates questioning items that appear inaccurate
- ✓ Our work indicated a reasonableness review was not always performed

Status: Immediate review controls have been implemented. Long Term controls in process.

Capital - Concourse D Hardstand Holdroom

(Medium) – The Port’s consultant did not have adequate knowledge of airport building requirements, which resulted in the design/concept drawings including a building type that was not allowed in airport terminals. The Consultant’s error on the design/concept drawings resulted in additional costs to the Port of \$142,654.

Status: Management is pursuing collection

Capital - Concourse D Hardstand Holdroom

(Medium) – The Contract restricted the Port's ability to audit all contractor and subcontractor records within the lump sum contract. The audit clause only allowed audit of documents related to changes. When audit clauses are restrictive, there is an inherent risk that the Port may end up paying additional costs or not receive expected deliverables, without detection.

Status: In process

IT Audit - HIPAA Privacy and Breach Compliance

(High) – The Port had not designated itself as a hybrid entity for the purposes of the HIPAA Rule. The Port had not defined what units within the Port were part of the designated health care component.

Status: In process – expected completion is 12/31/2019

Limited Contract Compliance

- Self reported revenue from concessionaires and rental car companies
- Audits focus on compliance with concession agreement

Audits	Underreported Revenue	Due to Port
4	\$669,475	\$70,435

2020 Audit Strategy

- Continue with current course on Limited Contract Compliance Audits
- Continue to enhance our operational / performance audit approach
- Emphasize controls surrounding capital spending