

START OF TRANSCRIPT

[00:00:29] This is Commissioner Calkins calling to
[00:00:30] order the Port of Seattle Audit Committee
[00:00:32] special meeting today is Thursday, March
[00:00:34] 28, 2024, and the time is 10:01
[00:00:38] a.m. We are meeting today at the Port of
[00:00:40] Seattle Headquarters, Commission chambers,
[00:00:42] and virtually via the MS teams platform.
[00:00:45] Present with me today is Commissioner
[00:00:47] Hamdi Mohammed and public member Sarah
[00:00:49] Holmstrom. To make this meeting more
[00:00:52] accessible to the public, the meeting is
[00:00:53] being live streamed and digitally recorded
[00:00:56] and may be viewed or heard at any time on
[00:00:58] the port's website. A call in telephone
[00:01:00] number is also provided for anyone who
[00:01:02] would like to listen into the meeting.
[00:01:04] Our first item of business is approval of
[00:01:06] our last meeting minutes from December 14,
[00:01:08] 2023. As a reminder to the viewing
[00:01:11] audience, the public member of the audit
[00:01:13] committee is not a voting member for the
[00:01:15] purposes of casting votes on motions made
[00:01:17] per the committee's rules. Are there any
[00:01:20] corrections to the minutes?
[00:01:25] Are there any objections to approval of
[00:01:28] the minutes as presented hearing? None.
[00:01:30] The minutes are approved. All right,
[00:01:34] our next order of business is the Office
[00:01:35] of the Washington State Auditor
[00:01:36] Accountability audit results for 2022.
[00:01:39] Mister Fernandez, please introduce our
[00:01:41] speakers today. Thank you, commissioner.
[00:01:43] Today we have Mattie Frost Schaeffer and
[00:01:46] Kyne Yuen from the state auditor's office
[00:01:49] that will be presenting our accountability
[00:01:51] audit. Maddie and Kai.
[00:01:56] Thank you, Glenn. Thank you,
[00:01:57] commissioners. As you said, we're very
[00:01:59] excited to be here today to talk about the
[00:02:01] results of our recent 2022 accountability
[00:02:03] audit. The presentation serves as an
[00:02:06] overall summary of our audit results, but
[00:02:08] we've also provided an exit conference
[00:02:10] packet that goes into greater detail about
[00:02:12] some of the items we'll discuss today,
[00:02:14] and it also includes our completed audit
[00:02:17] report that will be published on our
[00:02:18] website. And on the next slide, we talk
[00:02:22] a little bit about our office. As I'm sure
[00:02:24] you know, we report to Pat McCarthy,
[00:02:26] who's the state auditor. She has over 30
[00:02:28] years in public service. Other members of
[00:02:32] our management team include Kelly Collins,
[00:02:34] who's the director of local audits and
[00:02:36] oversees all of the audits across the
[00:02:37] state of Washington that are local, and
[00:02:39] Wendy Choi, who's our assistant director
[00:02:41] of local audits and oversees six teams in
[00:02:44] the Puget Sound area. And on the next
[00:02:47] slide, we'd just like to remind you a
[00:02:48] little bit about our mission and our

[00:02:50] vision. Our vision is to work with local
[00:02:52] and state governments to increase the
[00:02:54] public's trust in government. We do this
[00:02:57] by performing independent and transparent
[00:03:00] examinations and hopefully working
[00:03:03] with you to improve the efficiency and
[00:03:05] effectiveness of government and providing
[00:03:07] any helpful recommendations to work with
[00:03:09] you on that. And on that note, I will turn
[00:03:12] it over to Kai to talk about the results
[00:03:13] of our audit. Thank you, Maddie.
[00:03:18] All right, so for the port, we conducted
[00:03:20] an accountability audit that covers the
[00:03:22] period of January 1, 2022 through December
[00:03:25] 31, 2022. The purpose of an accountability
[00:03:29] audit is to ascertain whether the port has
[00:03:33] complied with state laws, regulations,
[00:03:35] contracts, grant agreements, and its own
[00:03:37] policies and procedures. In addition,
[00:03:40] those audits also look at whether, in
[00:03:42] general, the port has adequate controls to
[00:03:45] safeguard public funds. On the slide here,
[00:03:49] under the heading results in brief, you
[00:03:51] can see that our audit found that the
[00:03:53] ports operations complied in all material
[00:03:56] respects with applicable state laws,
[00:03:58] regulations, its own policies, and also
[00:04:01] provided adequate controls over
[00:04:03] safeguarding public resources. On the next
[00:04:06] slide in selecting specific
[00:04:10] areas for further review, we conducted a
[00:04:12] number of planning procedures that
[00:04:16] incorporated reviewing meeting minutes of
[00:04:20] the governing body analyzing financial
[00:04:22] trends. This included payroll and vendor
[00:04:24] information. We also conducted risk
[00:04:27] assessments and a few other procedures.
[00:04:32] We utilized a risk based approach in
[00:04:35] selecting areas for further testing based
[00:04:37] on those planning procedures included on
[00:04:40] the slide. Here are the areas that we
[00:04:42] identified for further testing in our
[00:04:44] audit. So we examined the ports controls
[00:04:47] over accounts payable tracking and
[00:04:49] monitoring of theft sensitive assets,
[00:04:52] also known as small and attractive assets.
[00:04:54] We looked at procurement and self
[00:04:56] insurance. We also reviewed the port's
[00:04:59] compliance with minutes, meetings, and
[00:05:01] executive sessions, and we looked at the
[00:05:04] port's financial condition on the next
[00:05:07] slide, we also looked at the
[00:05:13] work of other auditors. So we reviewed the
[00:05:16] financial statement and federal grant
[00:05:18] audit performed by Moss Adams. As noted
[00:05:22] during our review, we did not find
[00:05:24] anything about their work that that caused
[00:05:26] concerns about its quality.
[00:05:29] We also did not know any instances in
[00:05:31] which a material misstatement of the
[00:05:33] financial statement has or may have
[00:05:35] resulted from fraud or suspected fraud.
[00:05:39] I will hand it back over to Maddie with

[00:05:41] the next slide. Thanks, Kai. So, as Kai
[00:05:44] mentioned, it was a good, clean audit. So
[00:05:46] the results you want to see, we had no
[00:05:48] findings and no management letters. So
[00:05:51] just a few closing remarks we have. We're
[00:05:54] pleased to report that audit costs are in
[00:05:55] alignment with our original estimate.
[00:05:57] We'd really like to thank the port for
[00:05:59] working with us so well. I think a lot of
[00:06:02] our ability to complete the audit within
[00:06:04] budget is based on the speed at which
[00:06:06] they're able to give us information. So we
[00:06:07] really do appreciate that your next
[00:06:10] scheduled audit will be fall will begin in
[00:06:12] fall 2024. It'll basically be the same
[00:06:15] audit and accountability audit, and we'll
[00:06:16] also review the work of the CPA CPA again,
[00:06:20] and we've included an estimate for that
[00:06:22] audit in the exit packet for you.
[00:06:25] And then on the next slide,
[00:06:29] as a reminder, as I said, we will publish
[00:06:32] the completed audit report on our website
[00:06:34] here, probably in the next week or two.
[00:06:36] When we do that, we will also send out an
[00:06:38] audit survey you can forward on the link
[00:06:41] to anyone you feel can provide us
[00:06:42] information about how the audit went. We
[00:06:44] really do want to provide the best
[00:06:46] possible services. We'd really appreciate
[00:06:47] any and all feedback on how we can better
[00:06:49] serve you in the future. And then on the
[00:06:52] next slide, I'll pass it back to Kai to
[00:06:55] give a few kudos. Thank you, Maddie.
[00:06:57] Alrighty. So, before wrapping up our
[00:06:59] presentation today, we just like to thank
[00:07:02] all port officials and staff for their
[00:07:04] timely communication throughout the audit.
[00:07:06] In particular, we'd like to thank the
[00:07:10] following people. So, Andrew,
[00:07:12] Lisa and Glenn, thank you for
[00:07:14] participating in our weekly status update
[00:07:17] meetings. This allowed for increased
[00:07:19] communication and kept the audit running
[00:07:21] smoothly. As Maddie mentioned. It's
[00:07:23] another reason why we are able to complete
[00:07:26] the audit within budget. And, yeah,
[00:07:30] we also would like to thank Sandra, Greg
[00:07:32] and Sanders for the walkthrough of various
[00:07:35] self insurance areas and programs.
[00:07:37] Sophia, during our review of procurement.
[00:07:41] And then Diane and Tonya, while reviewing
[00:07:44] the electronic wire transfers.
[00:07:47] Eloise, while following up on the
[00:07:49] electronic fund transfers. And lastly is
[00:07:53] Carmen and Tiana for their detailed
[00:07:56] explanation of the port's small and
[00:07:57] attractive assets. So we are actually able
[00:08:00] to go on site in November. And they were
[00:08:04] super kind and was able to walk us through
[00:08:06] their process up at SEATAC.
[00:08:09] So really appreciate that. And on
[00:08:13] the next slide, this should be the last
[00:08:16] one. So this concludes our presentation to

[00:08:19] the port of our fiscal year 2022 audit.
[00:08:23] We just would like to thank everyone for
[00:08:25] your time today and letting us be here and
[00:08:28] walk you guys through our results. And I
[00:08:31] think now we just want to open it up to
[00:08:32] see if you guys have any questions or
[00:08:36] comments for myself and Maddie. Well,
[00:08:38] first off, thank you two for the
[00:08:39] presentation. And thanks to the office for
[00:08:41] preparing this audit for us. And with
[00:08:44] that, I'll turn it over to my colleagues
[00:08:45] for any questions. No questions. I just
[00:08:49] also wanted to say thank you so much for
[00:08:50] the work that you all do to ensure that
[00:08:52] we're being transparent and accountable.
[00:08:54] And congratulations to. To all of the port
[00:08:56] staff who participated in this audit.
[00:09:00] Sarah? Yeah, thanks.
[00:09:04] Something I'd like to say is, like,
[00:09:05] accountability audits, we're looking at a
[00:09:07] lot smaller things. So it's common, much
[00:09:09] more common, from my experience and
[00:09:12] perspective, to have issues found,
[00:09:14] because we're looking at smaller things
[00:09:16] that don't necessarily get the big
[00:09:17] attention and don't rise to level of
[00:09:19] financial materiality. So it's really good
[00:09:22] to see looking, you know, that level below
[00:09:25] and still see no issues. So good job to
[00:09:27] the board for the audit that
[00:09:31] begins in fall. 24. Does that cover
[00:09:33] calendar year 23, correct? Yes. So similar
[00:09:36] to this one just the next year. Exactly.
[00:09:38] Do we do this every year? Yes, every year.
[00:09:42] We are generally here in the fall and
[00:09:44] usually wrap up around this time and cover
[00:09:46] this year. A requirement or a desire by
[00:09:49] the port. Yeah. So all state or all
[00:09:52] local governments throughout the state are
[00:09:54] audited by our office. Given the port
[00:09:56] size, you fall on an annual cycle. So we
[00:09:58] perform that audit annually. Okay, well,
[00:10:01] thank you very much, Glenn. Is there
[00:10:02] anything you wanted to add or nothing.
[00:10:06] Just thanks to Maddie and Kai for their
[00:10:09] work. And I think Sarah at one
[00:10:12] point worked for the state auditor's
[00:10:14] office as well, so she knows the details
[00:10:17] and the intricacies. Thanks.
[00:10:19] Congratulations to the board.
[00:10:24] Thank you again. Thanks for coming in.
[00:10:28] All right, we're going to move on to the
[00:10:29] next topic. Item number four on the agenda
[00:10:32] is the director's annual communication.
[00:10:35] Mister Fernandez, you have the floor.
[00:10:36] Thank you, commissioner. Next slide,
[00:10:39] please. Michelle. So, Commissioner
[00:10:41] Calkins, you know, just welcome back to
[00:10:45] the audit committee. I think I'm genuinely
[00:10:48] glad to be back. I enjoy this work and I
[00:10:52] particularly like the team that you get to
[00:10:54] work with when you're on the audit
[00:10:55] committee. So I'm excited to be back.

[00:10:57] Yeah, it's still early in the year, but
[00:10:58] here's a snapshot of the department that
[00:11:00] does all the work. We've essentially got
[00:11:04] three pillars. Dan Chase manages the
[00:11:07] performance audits and the concession
[00:11:09] audits. Spencer Bright manages capital
[00:11:13] audits, which is a large part of what we
[00:11:15] do, and ridicule. Marwah manages the it
[00:11:18] and technology audits. And Rumi kind
[00:11:23] of has a glue that holds it all together
[00:11:25] and keeps these audit committee meetings
[00:11:27] flowing. So next slide please.
[00:11:30] Michelle. One of the things we
[00:11:35] follow, we have standards that we have to
[00:11:37] live up to as well. And there's what
[00:11:41] we call the Red Book or the global
[00:11:43] internal Audit Standards and the Yellow
[00:11:45] Book, which are government auditing
[00:11:49] standards, essentially federal government.
[00:11:52] The GAO sets those up and they apply and
[00:11:55] are followed by many organizations.
[00:11:59] Historically, the global
[00:12:03] internal audit standards of the Red Book
[00:12:06] are followed by both private sector
[00:12:09] and public sector. And the two are very
[00:12:11] similar. There's a lot of overlap over the
[00:12:14] years for internal audit shops,
[00:12:17] even the GAO. The yellow book says, hey,
[00:12:20] you should be looking and following items
[00:12:22] in the Red book as well. So this is just
[00:12:26] a quick overview. There are some new
[00:12:28] changes and updates. The Red
[00:12:32] Book is becoming more public organization
[00:12:36] type specific and has specific
[00:12:39] pronouncements and items that we need to
[00:12:41] follow in the public sector. And one
[00:12:45] of the things that yellow Book is picking
[00:12:47] up is quality. We should have a system of
[00:12:49] quality to make sure that our work is
[00:12:52] always of the highest quality standards.
[00:12:55] Next slide, please. So one
[00:12:59] of the new things that's come out in this
[00:13:01] new structure and these new updates is the
[00:13:06] five domains, 15 principles that fall
[00:13:09] under there and the standards. Most of
[00:13:12] those apply to the way we do our work.
[00:13:14] But there's one called governing that
[00:13:16] applies to the audit committee, and I'm
[00:13:18] going to talk a little bit about that
[00:13:19] today because they asked me as a
[00:13:22] requirement to make sure that my committee
[00:13:24] is aware of their responsibilities. So the
[00:13:27] next slide please.
[00:13:29] You know, governing the internal audit
[00:13:31] function. And essentially, you know, our
[00:13:34] work is authorized by you, by the board,
[00:13:36] by the audit committee. We have an audit
[00:13:39] committee charter which is included in
[00:13:42] your deck that was updated a couple of
[00:13:45] years ago, about three years ago, some
[00:13:48] change. We have.
[00:13:51] You know, your responsibility is to make
[00:13:53] sure that we have board and senior

[00:13:55] management, not a committee support,
[00:13:56] which we do. We are positioned
[00:13:59] independently, which we are, by reporting
[00:14:02] functionally to you and administratively
[00:14:05] to Steve. So that is a best practice and
[00:14:09] it is the case. And then the third thing
[00:14:12] is just availability, making sure that I
[00:14:14] have the ability to interact with you like
[00:14:16] today and in our one on ones when we have
[00:14:19] our periodic briefing meetings. So all
[00:14:22] of these things are happening. We also do
[00:14:25] our external quality assessment. Every
[00:14:27] three years is required. And we have our
[00:14:29] internal quality assessment, which I'll
[00:14:32] talk briefly about today, also because we
[00:14:35] do have those in process. So these are
[00:14:37] just some very high level responsibilities
[00:14:39] of the audit committee.
[00:14:42] Next slide please, Michelle.
[00:14:46] So as required, and as mentioned, I'm also
[00:14:50] required to talk a little bit about the
[00:14:52] charter, make sure that the charter is
[00:14:53] updated and relevant still, that we
[00:14:57] are independent as we talked about.
[00:15:01] Yeah, the quality assurance program,
[00:15:03] making sure we have one. And we are
[00:15:04] following that and we have our external
[00:15:07] reviews and then finally follow up, which
[00:15:10] we always talk about at audit committee
[00:15:11] meetings. All the open issues from audits
[00:15:13] that we do in the past. Are we bringing
[00:15:15] those to the committee and are those
[00:15:17] getting addressed by the business? Next
[00:15:19] slide please, Michelle. The charter
[00:15:24] was last updated in late 2020 and
[00:15:28] signed by all audit committee members and
[00:15:32] the president of the commission. And it
[00:15:35] talks, it's attached in your deck and it's
[00:15:37] available for the public, but it talks
[00:15:38] about our authority and our
[00:15:39] accountability. It talks about our mission
[00:15:42] and our scope, our responsibility, our
[00:15:44] need to be independent and objective, and
[00:15:47] our commitment to quality and what we do,
[00:15:50] making sure that our reports and our work
[00:15:52] are always highest quality. Next slide,
[00:15:55] please. Independence.
[00:16:00] You know, I'm confirming that we continue
[00:16:03] to be organizationally independent by
[00:16:06] reporting functionally to the audit
[00:16:08] committee and administratively to the
[00:16:09] executive director. And the IIA
[00:16:13] standards, which is a red book, requires
[00:16:16] an annual confirmation of that. So that is
[00:16:18] happening. Next slide, please.
[00:16:22] Quality assurance. We have both
[00:16:26] the red book and the Yellow Book. The GAO
[00:16:30] and the international standards require a
[00:16:33] quality assurance program to make sure
[00:16:35] that our quality of our work is of the
[00:16:37] highest standards. And every year,
[00:16:41] generally, we try to do either an internal
[00:16:44] or external review. This year we did an

[00:16:46] external internal review because in
[00:16:50] 2022, we had outside auditors
[00:16:54] come in and look at the way we did our
[00:16:56] work. And I'm happy to say we did pass,
[00:16:58] that we got the highest rating, which was
[00:17:00] pass. And even with our internal work
[00:17:04] that was done by Rumi on our team
[00:17:07] this year, the items that
[00:17:11] she's looked at below are highlighted.
[00:17:14] She looks at our written policy, she looks
[00:17:16] at a sample of audit engagements and our
[00:17:18] work papers and just make sure that
[00:17:21] everything we're doing is well documented
[00:17:23] and followed and that we are following the
[00:17:27] standards. And I'm happy to say that from
[00:17:29] Rumi's work, she concluded that our
[00:17:33] quality control system was suitably
[00:17:35] designed and operating effectively. So
[00:17:39] that is at a high level of quality. And
[00:17:42] the last item, can you go to the next
[00:17:44] slide, please? Oh, it's okay. We're done
[00:17:49] as required. I'm required to talk about
[00:17:51] open issues that from.
[00:17:55] These are issues from audits that we've
[00:17:57] issued in the past reports. And it's to
[00:18:00] make sure that the business is addressing
[00:18:01] these issues. And, you know, after you do
[00:18:03] an audit, it's not put on a shelf and
[00:18:05] nobody looks at it. We actively follow
[00:18:09] up with the business and have discussions
[00:18:11] with the business to make sure open issues
[00:18:13] are addressed. Quite a significant amount
[00:18:17] have been addressed. There are some
[00:18:18] outliers out there that have been sitting
[00:18:20] open for a while. Most of them are
[00:18:23] technology issues. Please. Commissioner.
[00:18:26] So what we're looking at on left and right
[00:18:27] is, is time from time
[00:18:32] beyond when it was supposed to be
[00:18:33] resolved, versus on the right, it's time
[00:18:35] from when it was first identified. So some
[00:18:38] of the reason we have two charts is since
[00:18:43] about 2019 and 2020
[00:18:46] ish, we started asking for target dates.
[00:18:49] And the chart on the left that shows from
[00:18:51] target dates, when people provide us with
[00:18:54] a target date and they miss their target
[00:18:56] date. So if you look at something in the
[00:18:57] two years, they missed their target date
[00:18:59] by two years. So they're behind in some
[00:19:02] instances. We have issues from the past
[00:19:06] where people, or for whatever reason they
[00:19:08] didn't provide a target date or they were
[00:19:10] unable to provide a target date. In those
[00:19:13] instances, from the date the report was
[00:19:15] issued, how long have
[00:19:20] all the issue, I mean, so the chart on the
[00:19:22] right, one way to look at it is includes
[00:19:24] both those with a target date and without
[00:19:26] a target date. So we're looking at report
[00:19:28] date comprehensively. So you see some that
[00:19:32] are more than two years old and they're
[00:19:34] slightly higher than the chart on the

[00:19:37] left. And the reason it's slightly higher
[00:19:40] is those, a few audits don't have target
[00:19:42] dates. So the bar is a little bit higher.
[00:19:45] The rate is cumulative of both targeted
[00:19:47] and not targeted. Yes. So you have some
[00:19:49] issues that are sitting out there. Like I
[00:19:53] said, they're mostly technology related
[00:19:56] with aviation data centers. We're not
[00:19:59] going to discuss those in public session.
[00:20:01] We will talk about those in more detail in
[00:20:03] non public session. They are being worked
[00:20:06] on. But I think we were, or the
[00:20:09] business was a little aggressive when they
[00:20:12] provided the original estimates in some
[00:20:16] cases, but it takes time to
[00:20:21] fix certain things and they are in the
[00:20:23] works and the business does take them
[00:20:25] seriously. But we'll get into more detail
[00:20:28] in the next non public session when we do
[00:20:31] have it. On the operational side,
[00:20:36] issues are being addressed.
[00:20:41] So,
[00:20:44] you know, the operational
[00:20:51] issues, I think we had a big discussion at
[00:20:53] the last audit committee meeting on,
[00:20:55] especially on the it issues and a
[00:20:59] lot of those, you know, we went back to
[00:21:01] the business and if, as we discussed, if
[00:21:04] issues were, if the risk was mitigated
[00:21:07] sufficiently to where the risk, residual
[00:21:10] risk or the remaining risk was very low,
[00:21:13] you know, we looked at that and we did
[00:21:14] close out a bunch of them. So many, many
[00:21:17] issues have been cleaned. Just the ones
[00:21:19] that truly have risk and no work's been
[00:21:22] done on them are the ones that are
[00:21:23] reflected here. So we'll get into more
[00:21:26] detail and now open for questions. So
[00:21:28] questions on either the open issue status
[00:21:31] report or on the annual remarks from the
[00:21:33] director. Sarah? Yeah, I know everyone
[00:21:37] hates me bringing this up, but every time
[00:21:40] I will bring it up, I guess when I want to
[00:21:43] make sure, last time when we talked about
[00:21:45] this, we talked about revisiting what had
[00:21:47] been outstanding. And I know when we
[00:21:49] talked it was like, well, these were old
[00:21:51] recommendations. Maybe they don't make
[00:21:52] sense at this point, whatever. So you
[00:21:55] mentioned that some of these risks were
[00:21:58] mitigated in other ways. What I'm curious
[00:22:00] of is, is anything removed from this?
[00:22:03] That, that basically they just said, we
[00:22:04] don't think we should do this. And you
[00:22:06] guys agreed.
[00:22:09] I'm not aware from what I reviewed that
[00:22:14] any risk was absorbed by the business,
[00:22:16] but I will ask ridicule Marwaha,
[00:22:19] our it audit manager, to come up and since
[00:22:23] she did all the detailed work on this and
[00:22:26] respond to that. Hi, my name is Reika
[00:22:29] Marwaha, it audit manager with the port of
[00:22:31] Seattle. And since the issues were

[00:22:34] sensitive in nature, I cannot share the
[00:22:36] details, but I do want to say that
[00:22:38] management did take actions to resolve the
[00:22:41] issues. For most of them, there was maybe
[00:22:44] one item where the risk was mitigated
[00:22:46] because they had other controls in place
[00:22:49] and so it was taken care of. But no, they
[00:22:51] have taken actions to mitigate all the
[00:22:53] risks there. The substantial decline we're
[00:22:56] seeing here in like, these outstanding
[00:22:59] ones, especially the one to more than two
[00:23:02] years sections are related to follow
[00:23:06] up on them. I guess what I want to
[00:23:08] understand is we've been tracking these,
[00:23:11] like, we've been talking about these since
[00:23:13] I've been on like the committee and we've
[00:23:15] had some outstanding. So it seems like was
[00:23:19] our process, like if you don't do this
[00:23:21] exactly exact solution or resolution
[00:23:24] we've proposed, then it's listed as
[00:23:26] outstanding. But like, when we went back
[00:23:28] to them, we were able to talk through it
[00:23:30] more and they found other ways to handle
[00:23:33] it. I guess I'm just not sure why that was
[00:23:35] probably just for one or two issues, but
[00:23:37] usually they have taken the action that
[00:23:39] was recommended. And I want to say
[00:23:42] that we started with 20 open items and we
[00:23:45] cleared out seven. So they really made a
[00:23:46] lot of progress. Progress. So they really
[00:23:48] worked hard. I'm talking about ICT, ABM,
[00:23:50] and Infosec, the three issues that you see
[00:23:53] outstanding related to the aviation data
[00:23:56] centers. There has been a lot of change in
[00:23:57] the management as well since we started
[00:23:59] the audit back in 2018. So things have
[00:24:02] been on hold or like transferred from one
[00:24:05] person to another. But they're also work
[00:24:07] in progress. And so I think one of the
[00:24:09] issues they're hoping to resolve, they
[00:24:12] have to do some constructions in order to
[00:24:14] install some access card readers. And that
[00:24:17] will happen by 2025 because they need to
[00:24:20] get approval from the commission. And then
[00:24:22] there was somewhere the fire
[00:24:23] extinguishers, fire suppression needs to
[00:24:25] be installed. And again, they're working
[00:24:27] on it. So we're hoping that maybe in the
[00:24:30] coming year or so, we'll be able to close
[00:24:32] out the three outstanding issues related
[00:24:34] to the data centers audit that was
[00:24:36] performed in 2018. And again back
[00:24:40] then, the dates that were given were
[00:24:42] probably based on the management that was
[00:24:44] in charge at that time, and some of them
[00:24:46] retired or left or there was some change.
[00:24:48] And so the new people are kind of taking
[00:24:50] over, and obviously it's taking a little
[00:24:52] longer than we had hoped for. Okay. So I
[00:24:55] just want to clarify. The steps of how we
[00:24:57] got here is not so much that we went back,
[00:25:01] and by we, I mean you guys kind of went
[00:25:03] back with them and reviewed what they've

[00:25:06] done, and you're like, oh, I guess we
[00:25:07] actually can close this out. It's more
[00:25:08] like they actually were taking, taking
[00:25:10] action because we've kind of been pushing
[00:25:11] on this, of, hey, what are you going to
[00:25:13] do? They've actually taken action within
[00:25:15] the department to address it, and that's
[00:25:17] why they're falling off. Absolutely.
[00:25:19] That's great. Thank you.
[00:25:24] All right. No further questions on those
[00:25:26] two topics. So item number six on the
[00:25:29] agenda is an update on the 2024 audit
[00:25:31] plan. Glenn, can you proceed with the
[00:25:33] presentation on that matter? Thank you,
[00:25:35] commissioner. So for,
[00:25:39] commissioner, for your benefit, in the
[00:25:43] December audit committee meeting, we
[00:25:45] presented our audit plan to the old audit
[00:25:47] committee. And this from, is a high level
[00:25:50] snapshot of the audits that were approved
[00:25:53] that are on our 2024 audit plan.
[00:25:56] So we have limited contract compliance
[00:25:58] audits. We also have contingency
[00:26:02] limited contracts compliance audits. And
[00:26:04] since we've streamlined our process, we
[00:26:07] anticipate completing all of these and
[00:26:10] then adding some additional ones on. So
[00:26:14] that's a big part of it. Performance
[00:26:15] audits are the more,
[00:26:19] they involve a little bit more than a
[00:26:21] limited contract compliance audit. But
[00:26:23] we've got quite a few on there,
[00:26:26] both performance and capital because,
[00:26:29] because they both fall under that
[00:26:30] umbrella. So we've got quite a bit of work
[00:26:33] ahead of us on the performance audits and
[00:26:38] information technology audits. You know,
[00:26:40] there are some new TSA cybersecurity
[00:26:44] requirements that we're looking at and
[00:26:45] we're tasked with as well. So it's quite a
[00:26:47] bit of, we also look at the center for
[00:26:51] Internet Security, CIS controls, and,
[00:26:55] and they've got top 18 controls that every
[00:26:57] business should have. So we cycle through
[00:27:00] those and make sure that all of those
[00:27:03] controls are robust at the port. And
[00:27:05] that's a big part of our plan as well. So
[00:27:07] this is a high level snapshot of our
[00:27:12] plan. Next slide, please.
[00:27:15] We also, because we do a lot of GCCM
[00:27:19] type construction projects or general
[00:27:23] contractor construction manager. That's
[00:27:25] what the GCCM stands for. It really works
[00:27:29] well for the port. We've had a lot, the
[00:27:30] port's had a lot of success with these.
[00:27:33] However, RCW does have
[00:27:37] a clause in there requiring an independent
[00:27:39] audit to confirm proper accrual of cost.
[00:27:42] So we do have to audit all of these
[00:27:44] projects. We do have an outside firm that
[00:27:47] we partner with that does a lot of the
[00:27:48] work, but we still have to manage that,
[00:27:50] find the firms and make

[00:27:54] sure that they come, at least
[00:27:55] periodically, to the audit committee and
[00:27:57] present the findings. And then also their
[00:28:00] findings have to be cleaned up and
[00:28:02] addressed by the business. So all of the
[00:28:05] projects listed are either in process or
[00:28:07] will be in process in 2024
[00:28:11] or beyond. So we're working on all of
[00:28:13] these. And our teams, our capital project
[00:28:17] team is actually working with the business
[00:28:20] on all of these audits. Big part.
[00:28:23] Next slide, please. One of the things
[00:28:28] commissioners that we
[00:28:33] historically have done is we do these
[00:28:35] construction audits, and then we notice
[00:28:37] that the contracts have language in there
[00:28:40] that missed something. And we say,
[00:28:42] because of the contract language, you
[00:28:45] know, we've got these issues and we can't
[00:28:46] address them, but we can fix them going
[00:28:48] forward. So we're stuck with that
[00:28:51] particular audit.
[00:28:55] We're just noting it and saying that was a
[00:28:57] mistake that we made. And hindsight, yes,
[00:29:01] we should have caught that. So one of the
[00:29:04] things the audit committee asked us for at
[00:29:06] the direction of the audit committee last
[00:29:08] year, and commissioner Mohammed in
[00:29:09] particular, said, you know, I'd like you
[00:29:12] guys to get involved a little earlier and
[00:29:14] try to catch these problems before we sign
[00:29:17] these contracts and get them out. So we've
[00:29:21] put a process in place, and we had to work
[00:29:23] with the business on this with Karen Goon,
[00:29:25] who's deputy executive director, and with
[00:29:28] CPO, to come to agreement as to how we
[00:29:30] could best work with them and plug into
[00:29:33] the business without disrupting their
[00:29:35] process materially and slowing them down.
[00:29:38] So we came to an agreement that we'll be
[00:29:41] invited to all alternative works
[00:29:43] construction review meetings. So they have
[00:29:47] these meetings whenever a new project is
[00:29:49] coming on, and they're going to start
[00:29:51] involving us at the front end, inviting us
[00:29:53] in. So somebody in the capital audit team
[00:29:56] will sit in all those meetings, meetings
[00:29:58] and attend all of those meetings and
[00:30:00] provide recommendations and updates and
[00:30:04] guidance to them as needed. Now, to
[00:30:07] maintain our independence, we're not going
[00:30:09] to own the process. We're merely
[00:30:10] recommending and saying, it's your
[00:30:13] process. We're going to recommend these
[00:30:15] items change, and these are areas that are
[00:30:19] potentially at risk if needed.
[00:30:22] In certain cases, you know, we'll reach
[00:30:24] out to these construction audit firms that
[00:30:26] we work with that have vast amounts of
[00:30:28] experience in this. And, you know, we talk
[00:30:31] to them on a regular basis, but we'll seek
[00:30:34] their counsel as needed and pull them in.
[00:30:38] And then, you know, this is a proactive

[00:30:41] approach, but it doesn't mean we're not
[00:30:42] going to perform our regular audits. And
[00:30:44] we might even, you know, when we do our
[00:30:46] detailed testing later on, we still might
[00:30:49] find issues, but the intent is to try to
[00:30:51] mitigate as many as possible upfront.
[00:30:55] So one more slide and then we can take
[00:30:59] questions on this.
[00:31:05] The last slide I have is just a snapshot
[00:31:08] of our audit plan that I showed you. And
[00:31:11] green, yellow or the pinkish means
[00:31:15] we haven't kicked the audit off yet. So as
[00:31:18] you can see on the yellow side, we've got
[00:31:20] a lot of audits that we've kicked off. So
[00:31:22] I anticipate by June we'll have quite a
[00:31:24] few on the agenda and we've got a lot of
[00:31:27] work ahead of us. This is the first slide
[00:31:30] on the audits and our Gantt chart of where
[00:31:33] we stand. So, Commissioner Calkins, I'll
[00:31:35] pass it back to you. All right.
[00:31:38] Any questions on the audit plan updates?
[00:31:46] Thank you, Glenn, for that information. I
[00:31:49] had a question around the construction
[00:31:51] contract review process that you just laid
[00:31:53] out. It's great that you guys have been
[00:31:55] working together and coming up with some
[00:31:57] approaches. I wonder when
[00:32:01] folks from the audit committee will
[00:32:04] participate in that. Those initial
[00:32:06] conversations, what will be the overlap
[00:32:08] with the attorneys? Right, because the
[00:32:10] attorneys also review the contract. Like
[00:32:13] what are the different sort of roles the
[00:32:16] audit individual who will be a part of
[00:32:18] those discussion will play versus the
[00:32:21] attorneys that review those contracts. So
[00:32:24] the attorneys are looking at it through a
[00:32:25] different lens and they're in the meetings
[00:32:27] as well, so they'll provide their
[00:32:29] guidance. We do work with our legal team
[00:32:32] quite a bit on these and what
[00:32:36] might be important to us and things that
[00:32:39] we see as an issue might not be important
[00:32:41] to them. So the idea is to push for those
[00:32:44] recommendations and those items that we
[00:32:46] think are going to become problems down
[00:32:47] the road. And from a legal perspective,
[00:32:51] our legal team is usually pretty open to
[00:32:54] that. But we do have to push when we catch
[00:32:56] it on the back end, their comments usually
[00:32:59] are, well, we'll fix it in the next round.
[00:33:01] That's right. So I appreciate the
[00:33:03] proactive approach to this. And so thank
[00:33:05] you for this update. Thank you,
[00:33:07] Commissioner the question I
[00:33:10] had was, I think it was about four or
[00:33:14] five months ago. President Mahong was
[00:33:18] preparing then I guess president elect
[00:33:23] was preparing to take over. Generally,
[00:33:25] the commission were talking about stuff
[00:33:28] we'll be working on in 24. And one idea
[00:33:31] was a study session on what I think we're
[00:33:35] now being emerging technologies. And as

[00:33:39] you all think about your kind of late year
[00:33:41] work plan, if capacity does,
[00:33:46] in fact, become available,
[00:33:50] I'd like there be certainly
[00:33:55] participation from audit folks in that
[00:33:58] study session, at the very least there to
[00:34:01] hear the same reports that we're hearing,
[00:34:04] the questions that we're asking. And then
[00:34:06] if there's an integration of some of the
[00:34:08] sort of best practices emerge from that
[00:34:10] into our audit processes, we've got this
[00:34:14] brand new technology that is one of those
[00:34:17] classic double edged swords with tons of
[00:34:20] potential benefit and tons of potential
[00:34:22] risk. I think, I just think this is
[00:34:27] probably fits in the IT cybersecurity
[00:34:30] bucket for the most part, but not
[00:34:32] entirely. There are implications, too.
[00:34:35] So as a public agency,
[00:34:39] we're going to be held to a very high
[00:34:41] standard. We employ it and also how
[00:34:45] our partners in the spaces can employ it.
[00:34:47] And so I want us to be,
[00:34:50] all aspects of the organization can be
[00:34:53] very conscientious about its use.
[00:34:57] Very good. We definitely, commissioner,
[00:35:00] have room in the plan. And as we. The plan
[00:35:04] is designed to be flexible, so something
[00:35:08] with low risk, for instance, might get
[00:35:11] deferred or pushed out so we can spend
[00:35:13] more time on what the committee feels is
[00:35:15] important, such as emerging technologies.
[00:35:18] And there are other audit shops out there,
[00:35:20] audit firms, even the larger private
[00:35:22] sector organizations, not only on the
[00:35:24] public side, but on the private side that
[00:35:26] are doing a lot with emerging technologies
[00:35:29] and AI going forward. So, yes, it is going
[00:35:32] to revolutionize everything we do. Okay.
[00:35:36] Any other questions on those items, or
[00:35:37] should we jump into our audits?
[00:35:41] Okay, item number seven on the agenda is a
[00:35:44] performance audit for concourse a,
[00:35:45] building expansion for lounges. Delta TRA?
[00:35:49] Glenn, floor is yours. Thank you,
[00:35:52] commissioner. Yeah. Come on.
[00:35:55] I'm going to ask Stuart Matthews to
[00:35:59] come up and introduce himself and Jason
[00:36:02] Johnson and Karam Onaut as well. He's a
[00:36:06] new senior internal auditor in our
[00:36:08] construction audit team.
[00:36:10] Welcome. And I will present the issue.
[00:36:14] Stuart and Jason will provide management
[00:36:16] responses as appropriate, and everyone
[00:36:20] will introduce themselves. But concourse
[00:36:25] a. Next slide, please. Please. Michelle.
[00:36:29] Oh, no worries.
[00:36:33] So this is a Delta tenant reimbursement
[00:36:35] account agreement. I'm sorry. And
[00:36:37] essentially, we're expanding a building
[00:36:41] and building a lounge for Delta and
[00:36:44] concourse a at a cost of about \$133.
[00:36:48] Million, the bulk of which the port will

[00:36:51] pay sooner, about \$111 million. Of that
[00:36:54] the port pays, and then \$22
[00:36:58] million picked up by Delta for their
[00:37:00] specific work. So in this case,
[00:37:03] Hensel Phelps is selected as the general
[00:37:05] contractor and manages this
[00:37:10] process for essentially
[00:37:18] for Delta and for the port. And the port
[00:37:21] works very closely with both Hensel Phelps
[00:37:23] and with Delta on this.
[00:37:27] The commission approved the project in
[00:37:30] April of 2021, and it's anticipated to be
[00:37:33] completed in 2024. We have three
[00:37:37] issues that we've found from our audit
[00:37:39] that we'll talk about next. So next slide,
[00:37:41] please, Michelle.
[00:37:45] So the first issue is a higher risk issue.
[00:37:48] I'll talk through all three of the issues
[00:37:51] and then Stuart and team will provide
[00:37:54] their response. I'll talk to the first,
[00:37:56] and actually, Karen will talk to the
[00:37:58] second, too. But one element that we
[00:38:02] looked at was insurance.
[00:38:04] So as on any port projects, the
[00:38:07] contractors are required to have, have
[00:38:09] insurance. And the contract language says
[00:38:12] up to 15 million a minimum.
[00:38:15] Actually, I'm sorry, it says a minimum of
[00:38:18] 15 million. Now, historically,
[00:38:22] for whatever reason, nobody's gone over
[00:38:24] the 15 million or they stay at that 15
[00:38:27] million level. There's always been this
[00:38:29] assumption that when the contract says
[00:38:31] minimum, it means 15 million, and they
[00:38:34] hover around there initially in
[00:38:37] the contracting process. Well, actually,
[00:38:39] during the work, Hensel Phelps reached out
[00:38:41] to the port's risk management team and
[00:38:43] said, you know, we think 10 million will
[00:38:46] be sufficient or something along those
[00:38:48] lines. And port's risk management team
[00:38:50] agreed to the 10 million in general
[00:38:53] liability insurance. So the two had
[00:38:54] created this sort of email agreement
[00:38:56] saying, we'll go at about \$10 million,
[00:38:58] which will cost about \$559,000.
[00:39:02] Now, that language didn't translate
[00:39:06] into the contract, so it goes back to the
[00:39:08] contract, and the contract still says
[00:39:11] minimum GLI of 15 million. So when
[00:39:16] we were doing our work, we saw Hensel
[00:39:19] Phelps bill the port for \$100 million in
[00:39:21] general liability insurance at a cost of
[00:39:23] 1.12 million. So quite a bit
[00:39:27] larger amount. And,
[00:39:31] you know, the number, the insurance has
[00:39:33] been passed over risk management before
[00:39:35] payment. So we have not paid Hensel Phelps
[00:39:37] yet, but it's sitting with risk
[00:39:39] management, the port's risk management
[00:39:41] team, to make that determination if they
[00:39:43] have any grounds to push back or fight
[00:39:46] back with Hensel Phelps. But the gist

[00:39:49] of this issue is, you know,
[00:39:53] we need to get the contract language right
[00:39:55] up front so they don't have the ability to
[00:39:57] say, well, we want to bill you for 100
[00:39:59] million later. Maybe that
[00:40:03] email exchange is adequate and legal would
[00:40:06] have to get involved there. The second
[00:40:09] item is when we're doing these audits, we
[00:40:12] like to look at a little more detail with
[00:40:15] subcontractors, their bid documents and
[00:40:19] other information that's being, being
[00:40:21] submitted by subcontractors. And our audit
[00:40:24] clauses are not, you know,
[00:40:27] are very high level, but they do exist.
[00:40:30] But we'd like to put a little bit more
[00:40:31] bite into them. And the reason being
[00:40:35] the team went out and asked Hansel Phelps
[00:40:37] for this detailed data and Hansel refused
[00:40:42] to provide it. I think what they were
[00:40:43] trying to find out is we being billed
[00:40:47] for insurance somewhere else in addition
[00:40:49] to this, which is sometimes,
[00:40:53] it occasionally happens. So since we
[00:40:56] didn't get the documents, legal
[00:40:59] recommendation to us is hey, maybe we need
[00:41:01] to put something more stronger in our
[00:41:03] audit clause next time. Like a clause
[00:41:06] saying there are penalties if you don't
[00:41:07] provide us with the data. So again, this
[00:41:09] is something that we're going to do in the
[00:41:10] future, but it goes back to contract
[00:41:12] language. The first high risk issue that
[00:41:15] we have, the next two issues, I'm going to
[00:41:17] hand it over to Kerem. And Kerem, if you
[00:41:20] could introduce yourself. Hello,
[00:41:23] my name is Kerem Monat, senior internal
[00:41:25] auditor at the capital project.
[00:41:29] Before I start talking about the next two
[00:41:31] issues, I would like to define two terms
[00:41:33] that we're going to use. One is general
[00:41:35] conditions. The other one is general
[00:41:36] requirements. General requirements are the
[00:41:39] direct costs associated with the project.
[00:41:42] General conditions are the indirect costs
[00:41:44] associated with the project and in both
[00:41:46] cases documentation is crucial. Issue
[00:41:49] number two, the medium rating issue. This
[00:41:52] one is about the general requirements,
[00:41:54] which are the direct costs associated with
[00:41:57] the project. The TRA
[00:42:00] under which this project is operating
[00:42:03] mandates adequate documentation for
[00:42:05] reimbursement. However, we observed
[00:42:09] that Hansel Phelps submitted, instead of
[00:42:12] invoices, they submitted accounting system
[00:42:15] printouts. This provides some insights,
[00:42:18] but it doesn't ensure that the costs
[00:42:22] associated with specific to this project
[00:42:24] are even accurate. Not having the
[00:42:27] breakdown invoices brings
[00:42:33] the integrity. Sorry. Makes it
[00:42:36] much harder to validate. Yes. To validate.
[00:42:38] Yes. So we recommend that the payment

[00:42:42] approved reimbursement approval approvers
[00:42:44] obtain proper documentation not only for
[00:42:47] the past approved reimbursement
[00:42:50] applications, but also for the future
[00:42:52] ones. Also, we also recommend to update
[00:42:55] the sops to make sure this is implemented
[00:42:59] in the process. And SOP is a standard
[00:43:02] operating procedure.
[00:43:07] Do I move? Next one?
[00:43:10] And we also have some screenshots. Next
[00:43:12] slide, please. I'm sorry. We also have
[00:43:15] some screenshots showing the accounting
[00:43:17] system printout. So it lists certain
[00:43:20] items, but there is no way for
[00:43:23] us to validate that these costs that we
[00:43:26] are seeing are actually specific to this
[00:43:28] project, or even if they're accurate,
[00:43:30] it's just they're GLS general ledgers
[00:43:34] basically. Next slide, please.
[00:43:38] Another example is this one here, for
[00:43:41] example, you will see that the phase
[00:43:42] description shows general conditions and
[00:43:47] the description lists general liability
[00:43:49] insurance. So. But the general liability
[00:43:52] insurance is not a general condition. So
[00:43:55] these accounting printouts don't really
[00:43:56] provide enough information for us to
[00:43:58] validate. Next slide.
[00:44:03] These were the recommendations that I
[00:44:05] mentioned before.
[00:44:09] So next slide, please.
[00:44:12] So issue number three is about the general
[00:44:16] conditions, which are the indirect costs
[00:44:18] associated with the project.
[00:44:21] These are things like staff salaries,
[00:44:25] safety measures, or the computer expenses.
[00:44:27] These are just some examples. So the
[00:44:30] agreement between Hassel, Phelps and Delta
[00:44:32] outlined allowable and not allowable costs
[00:44:36] for general conditions, but it also
[00:44:39] allows, hence helps, to submit general
[00:44:41] conditions as a lump sum without providing
[00:44:43] the details as to what included in them.
[00:44:45] So this creates some risks for
[00:44:49] the port where they may go to short term
[00:44:52] staff reductions affecting management.
[00:44:55] They may be reluctant to spend the general
[00:44:57] conditions funds, or they may shift the
[00:45:00] costs to the subcontractors, or they may
[00:45:04] move other expenses into general
[00:45:05] conditions to avoid scrutiny, or they may
[00:45:09] do early billing without the job is
[00:45:11] actually done because it's still lump sum.
[00:45:13] And when you look at it, as long as the
[00:45:15] budget is not exceeded, you think all is
[00:45:17] good. So for this next slide,
[00:45:21] please.
[00:45:24] So we recommend that the general
[00:45:27] conditions are reimbursed at a cost basis
[00:45:30] and not as a lump sum.
[00:45:33] So, however, if the port continues to
[00:45:37] decide to use lump sum as a route for
[00:45:40] general conditions, we recommend that at

[00:45:43] a minimum, they require a detailed
[00:45:46] expected scope for the line items for the
[00:45:49] general conditions to see what is being
[00:45:51] included and what those amounts are, and
[00:45:54] do not reimburse anything beyond the
[00:45:57] budgeted amount for a specific line item.
[00:45:59] And if it needs to be exceeded, then there
[00:46:02] will be like an approval process.
[00:46:09] Sub commissioners and Sarah, we also have
[00:46:12] Stuart Matthews and Jason who introduce
[00:46:15] themselves and speak to the response
[00:46:17] today. Thank you, Stuart. Thank you,
[00:46:19] commissioners, audit committee or audit
[00:46:22] team members and Miss Holtenstrom. I'm
[00:46:25] Stuart Matthews and I am the assistant
[00:46:27] director within the aviation Project
[00:46:28] Management Group. I'm here today on behalf
[00:46:32] of our director, Eileen Francisco. She's
[00:46:34] away on paid time off, so I am filling in
[00:46:36] on this one. I want to start off today by
[00:46:39] noting that tenant reimbursement
[00:46:41] agreements provide a different method for
[00:46:43] a project delivery from our traditional
[00:46:45] port sponsored capital projects.
[00:46:48] As such, the team that participates in a
[00:46:51] tenant reimbursement agreement for project
[00:46:53] delivery is significantly different than
[00:46:56] our standard as well, and the contractual
[00:46:58] arrangements are different. We have a
[00:47:00] broader group of port stakeholders in this
[00:47:02] effort. I make this point only to be clear
[00:47:05] that the project management team and the
[00:47:07] construction management team, which are
[00:47:08] usually the ones involved in audits around
[00:47:11] construction delivery, are not the only
[00:47:15] stakeholders or partners in this effort.
[00:47:18] I specifically may not be able to answer
[00:47:20] all your questions today. Hopefully, with
[00:47:22] the team that's here, here and on the
[00:47:25] teams meeting, we'll be able to answer
[00:47:27] whatever you have. As we noted in the
[00:47:29] management response, there's no less than
[00:47:31] six departments that are engaged in the
[00:47:34] process of delivering a TRA. And while
[00:47:36] we've agreed with the recommendations that
[00:47:38] are included, generations of the
[00:47:40] improvements that will come as a result of
[00:47:43] that, we'll take some time to develop and
[00:47:46] reach agreement amongst all of those
[00:47:47] parties. In response to item one,
[00:47:50] I'll defer primarily to risk management
[00:47:53] team and Jeff Hollingsworth, as this is
[00:47:55] aye. area of expertise. I am not an
[00:47:57] insurance expert by any means, but I did
[00:48:00] want to say a couple of things there.
[00:48:02] What I do understand in talking with the
[00:48:04] contractor is that the insurance
[00:48:06] requirements that the contractor has been
[00:48:08] invoicing the point for are the insurance
[00:48:11] requirements that are agreed to in their
[00:48:13] contract with Delta Airlines. And I make
[00:48:16] this distinction because the port of
[00:48:17] Seattle's contract is with Delta Airlines

[00:48:20] and not Hensel Phelps. As was noted in the
[00:48:23] audit report, the TRA requires a minimum
[00:48:27] insurance amount, as noted. And we think
[00:48:28] this is obviously an area of improvement
[00:48:30] that we can make discussions regarding the
[00:48:34] disagreement over the insurance costs,
[00:48:38] those are things that are outside my area
[00:48:39] of expertise, and I would defer to Jeff
[00:48:41] if, if you would like to respond on those,
[00:48:44] Jeff, I do know that Jeff is on the line,
[00:48:48] and I see Jeff there.
[00:48:51] Go ahead, Jeff. Yes. Good morning. Thank
[00:48:53] you. And good morning, commissioners and
[00:48:56] port staff. Just one
[00:49:00] comment before getting into the specifics
[00:49:02] earlier in the discussion in which it was
[00:49:05] brought up that there was correspondence
[00:49:07] during the kind of, the design or
[00:49:11] finalization of the contract requirements
[00:49:13] regarding the general liability limits
[00:49:18] suggested were requested by Hensel Phelps
[00:49:20] and the port, that was the \$10 million and
[00:49:23] whether that would be acceptable.
[00:49:27] When questions like that come up, it's
[00:49:30] also formalized. It's not quite that
[00:49:32] informal. When there's a request like that
[00:49:35] that comes in, risk management doesn't
[00:49:37] just directly reply to the designer or the
[00:49:39] owner or, excuse me, or the contractor
[00:49:42] with a determination. When we get
[00:49:44] something like that, it gets vetted back
[00:49:46] up. And because the reviews and the input
[00:49:49] that we have to general conditions all get
[00:49:51] rolled up into the final contract with
[00:49:54] review, and there's different layers of
[00:49:58] final, you know, agreement on what's going
[00:50:01] to be put in there. Also from
[00:50:05] the risk management side, we've been doing
[00:50:07] construction contract reviews for many
[00:50:09] years, working with our CPO and the
[00:50:12] templates and the requirements and the way
[00:50:13] that they're pushed out.
[00:50:17] It is a formal process and we adhere to
[00:50:20] those as well.
[00:50:23] But the specifics of
[00:50:27] the audit here, the issue at hand, I think
[00:50:30] that's a really important note in the fact
[00:50:32] that this was tenant reimbursable
[00:50:34] agreement versus a direct contract in
[00:50:37] which our contracts and the general
[00:50:41] conditions as the port uses them are the
[00:50:44] ones that then the contractor on site is
[00:50:46] working to.
[00:50:50] For the TRA at hand. We had what was
[00:50:52] called an exhibit either, and that was
[00:50:55] what went to Delta and it did include,
[00:50:59] and that is the normal way that we express
[00:51:02] the requirements in terms of the minimum
[00:51:04] amount that is required when
[00:51:11] that was submitted and got worked into the
[00:51:12] agreement with Delta, the role from risk
[00:51:15] management, then our next involvement
[00:51:17] would be then looking at any of the

[00:51:19] documents that were required as they
[00:51:23] come through, and then we reply and
[00:51:25] comment on those. And one thing to be,
[00:51:28] one other important note as well is that
[00:51:32] with a lot of these projects, you have
[00:51:34] early work packages and you have work that
[00:51:37] may get started prior to the final
[00:51:40] guaranteed maximum price or while there's
[00:51:41] still design being finished. And on
[00:51:46] the insurance part, there's really two
[00:51:47] components. There's one, there's the
[00:51:49] insurance that's protecting the assets,
[00:51:51] the work that's being built, that's going
[00:51:53] to the work that's going to be the final
[00:51:55] product that the port or in this case,
[00:51:58] our tenant Delta is going to utilize.
[00:52:02] And that the groundbreaking for that was
[00:52:05] in September of 2022, whereas the final
[00:52:09] guaranteed maximum price in the final
[00:52:11] design wasn't really going to be completed
[00:52:13] until 23, but the insurance had to be
[00:52:16] purchased for that. That's one phase,
[00:52:18] which is the property insurance then on
[00:52:21] the liability as well. When we start
[00:52:23] mobilizing with the contractor vendors on
[00:52:25] site, that liability insurance has to be
[00:52:27] in place, even though again,
[00:52:32] the design is being finalized and the
[00:52:34] guaranteed maximum price has not yet been
[00:52:36] established. So in this case,
[00:52:40] when we got the review of the documents in
[00:52:43] December, it was when we really started
[00:52:45] looking at the different items and working
[00:52:47] with the project team, just like it was
[00:52:49] explained when the project team received
[00:52:54] the invoice or the accounting statement
[00:52:56] regarding just the one line. One of the
[00:52:59] comments that risk management had was that
[00:53:01] you can't tell what that means because
[00:53:03] within, even if it's just liability
[00:53:05] insurance or insurance, there's so many
[00:53:06] different purchases on the contractor side
[00:53:09] for the different types of coverage,
[00:53:12] which could be six or seven different
[00:53:13] policies on just the liability. And then
[00:53:15] you got, then you have again the builder's
[00:53:17] risk or the property insurance. So there
[00:53:19] were several emails between risk
[00:53:21] management and the project team stating
[00:53:24] that, well, we can't really, we don't know
[00:53:25] what those costs are until we can actually
[00:53:27] get the breakdown, the coverage, what was
[00:53:29] paid for it, and when we received those,
[00:53:31] that's when we started looking at the,
[00:53:34] matching that up with what we had in
[00:53:36] exhibit e for the TRA and
[00:53:39] notice that the coverage limits were much,
[00:53:41] much higher than were in the requirements
[00:53:45] to Delta. And like any, like for
[00:53:49] projects that the port has the direct
[00:53:51] contract with the contractor, I mean, we
[00:53:53] have a change order process in which the
[00:53:56] contractor has suggestions on whether it's

[00:53:59] materials or different materials, means or
[00:54:00] methods to propose in lieu
[00:54:03] of what's in the general conditions.
[00:54:05] There's a process to review that to
[00:54:07] determine if that's needed or necessary or
[00:54:10] if perhaps it's a good idea. So risk
[00:54:15] isn't, I mean, when we did the review on
[00:54:18] the cost and finally had it all broken
[00:54:20] out, that's when we proportioned out
[00:54:24] what we had actually required in the
[00:54:26] reimbursable versus what was presented
[00:54:28] with the invoices from Hensel Phelps and
[00:54:31] their insurance broker. That's where we
[00:54:33] noticed the big gap in the difference
[00:54:35] between what we felt was adequate to
[00:54:38] protect the port and the public and the
[00:54:40] work in hand that was related to
[00:54:44] Delta in the TRA versus what was actually
[00:54:48] purchased for that project. And I think
[00:54:50] that's where, and I've spoken
[00:54:54] with the both audit team and with the
[00:54:56] construction management folks, we have
[00:54:57] some ideas on the risk management side,
[00:54:59] how we can assist our
[00:55:02] project teams when, especially when the
[00:55:06] invoices and billing gets through. And the
[00:55:08] other thing to remember too, is that the
[00:55:10] insurance is all prepaid and you have to
[00:55:12] know, if you're going to be paying an
[00:55:14] invoice, you have to know, is this a cost
[00:55:16] for a one year policy, a two year or three
[00:55:18] year old, because it gets amortized over
[00:55:21] that period of time. So again,
[00:55:25] just a billing or an invoice doesn't tell
[00:55:27] you what is that duration that coverage
[00:55:31] is for which we just received the billing.
[00:55:34] So hopefully that wasn't too confusing.
[00:55:40] Thank you, Jeff. I appreciate the insight.
[00:55:43] From your perspective, risk management.
[00:55:49] Stuart, any further comments on issue
[00:55:52] 203? I believe, Jeff, you know, we still
[00:55:55] have the open issue with whether we pay
[00:55:57] the insurance or pay the amount that they
[00:55:59] billed or not that's sitting on your desk
[00:56:01] for approval. I know you talked about the
[00:56:04] process, but that falls to you and to your
[00:56:07] team. But anything else from your end on
[00:56:10] Kerem's recommendations and the general
[00:56:13] conditions or general requirements?
[00:56:16] No. I do have some comments on item two
[00:56:19] and three, but I don't know if anybody
[00:56:21] else wants to weigh in on item one.
[00:56:26] I have a quick clarifying question.
[00:56:29] When Jeff, you were talking about exhibit
[00:56:31] e and the cost breakdown, was that the
[00:56:34] cost breakdown that you guys didn't
[00:56:36] initially received? That it sounds like
[00:56:38] that might be an exhibit. I'm not looking
[00:56:40] at the appendix. Yeah, I think Jeff is
[00:56:43] referring to the contract itself, the
[00:56:45] whole contract with Hensel Phelps and the
[00:56:48] details in there. There's some, and I
[00:56:51] think Jeff, correct me if I'm wrong, but

[00:56:53] one of the things he said is the details
[00:56:55] submitted, which is very much what Kerham
[00:56:57] said as well by Hensel Phelps just wasn't
[00:56:59] adequate to identify what was this
[00:57:02] insurance for? Was it for one year? Was it
[00:57:04] for three years? He also wants more detail
[00:57:08] from Hensel Phelps. So I think it's going
[00:57:10] back to putting the information in a
[00:57:13] contract that we have with Delta saying
[00:57:16] this needs to flow down to your contractor
[00:57:19] having stronger contract language there,
[00:57:21] and then making sure that the
[00:57:25] subcontractor provide or the contractor
[00:57:27] provides that information so Jeff can do
[00:57:29] aye. job also and verify that what they're
[00:57:32] billing us for is accurate. One other
[00:57:35] comment. I think it's very important
[00:57:39] where we have a TRA, that we would also
[00:57:42] actually have the requirement between the
[00:57:45] contractor and the actual purchaser,
[00:57:47] which would be the contract between Delta
[00:57:49] and Hensel Phelps. Because if we had that
[00:57:52] and we had then what we gave to Delta in
[00:57:54] terms of the TRA and the detail on what's
[00:57:58] actually being billed for, we could pick
[00:58:01] up on if there's discrepancies between
[00:58:03] what Hensel Phelps had required or,
[00:58:06] excuse me, what Delta had required of
[00:58:07] their contractor and what was in the TRA.
[00:58:09] So at that point we could involve others
[00:58:12] as needed to see how we wanted to work out
[00:58:14] if there's material differences that
[00:58:16] impacted the overall cost.
[00:58:19] Thanks for that additional explanation.
[00:58:21] And then I just had one additional
[00:58:22] question. So it sounds like you guys
[00:58:24] accepted the recommendations and those
[00:58:27] sops will be updated. TRA process is
[00:58:30] a multi year process. Do you have a
[00:58:32] timeline on when you're intending to
[00:58:34] update those Sops? Is there an estimated
[00:58:37] timeline on it? I can speak
[00:58:41] to that a little bit. But did you have any
[00:58:43] other item? No, I was just going to note
[00:58:47] that exhibit e is to the tenant
[00:58:49] reimbursement agreement with between the
[00:58:51] port and Delta. That's referred to.
[00:58:53] Jason, could you introduce. Yeah, sorry.
[00:58:54] Jason Johnson. I'm the senior manager of
[00:58:56] aviation properties and airline affairs.
[00:59:00] So, Commissioner Mohammad, in response to
[00:59:03] your question on the timeline, there is
[00:59:06] a TRA working group of which I am a part
[00:59:09] of, amongst others. We actually meet every
[00:59:11] two weeks working on TRA improvements.
[00:59:15] They include elements well outside of the
[00:59:18] audit, but we're intending to incorporate
[00:59:20] all of these within that. That's why we
[00:59:23] note sort of in the general area, we're
[00:59:25] looking to have those all completed by
[00:59:27] 2020 in 2025. And our last item, two
[00:59:30] recommendation here, we're targeting 2025.
[00:59:33] A couple of things that lead to that. As

[00:59:35] you heard a little bit here, there are a
[00:59:36] number of different departments that have
[00:59:38] to weigh in as we develop these language
[00:59:40] changes. So that's one key part about
[00:59:43] getting all that buy in from all those
[00:59:44] stakeholders. The other element is that
[00:59:48] Tras don't come along at a steady pace,
[00:59:50] necessarily like our normal construction
[00:59:53] is. And part of what we consider
[00:59:54] completion of these is actually going
[00:59:56] through that with a tenant and a
[00:59:58] contractor to see if there's any changes
[01:00:00] that we have to make along the way. We're
[01:00:01] going to come forth with our best
[01:00:03] recommendations and try some things, but
[01:00:05] that may be an iterative process. We do
[01:00:07] have one TRA in process with our
[01:00:09] commercial management team right now, and
[01:00:11] we're working to incorporate as many of
[01:00:13] these changes, at least in our first
[01:00:14] round, as part of that. That's our
[01:00:16] concourse, a duty free TRA that's in
[01:00:19] process right now.
[01:00:22] I'm going to ask a follow up on that. The
[01:00:24] other big TRA that I'm aware of is the
[01:00:27] north terminal, the Alaska project.
[01:00:31] Sea Gates. Have we reviewed that one for
[01:00:34] the same. I know we're midstream at this
[01:00:37] point, but I would defer to Glenn on
[01:00:40] that one from an audit perspective. No,
[01:00:42] it's not on our plan, but I presume the
[01:00:45] same point where we could have a friendly
[01:00:48] agreement before we, this becomes a.
[01:00:52] I can certainly, commissioner, reach out
[01:00:54] to that project team and the folks
[01:00:56] involved with that, that resides in
[01:00:58] properties as well, business and
[01:01:00] properties as well with that group. So
[01:01:03] absolutely can. It doesn't have to be one
[01:01:04] of my projects. Yeah, it seems like the
[01:01:06] only beneficiary here is the insurer,
[01:01:08] who's getting more.
[01:01:17] Okay, I have a couple questions, a couple
[01:01:19] clarifying ones in the actual issue
[01:01:22] itself. The four fourth bullet point says,
[01:01:24] using risk management's estimate, we would
[01:01:26] have decreased the final price by 1.1
[01:01:29] million. I'm trying to reconcile that 1.1
[01:01:31] million, because we have invoices totaling
[01:01:33] 1.1 million. We estimated 560,000.
[01:01:38] So what is the 1.1 million? A lot of
[01:01:41] detail there. Yes. So one of the things
[01:01:44] that occurred when this started. So
[01:01:45] there's a lot of balls moving. Jeff and
[01:01:48] aye. team. Team agreed, or basically had
[01:01:52] an email exchange and settled on \$559,000
[01:01:57] for \$10 million of GLI. Somehow in there,
[01:02:00] when the GMP was being built,
[01:02:03] there was. Hensel Phelps threw in a 1.7
[01:02:07] million into the GMP for insurance. So
[01:02:11] that was highly inflated. So the GMP is
[01:02:13] really, really high, least by 1.7 million.
[01:02:16] It should have been brought down if we had

[01:02:20] used risk management's estimate of 559
[01:02:25] for the cost of insurance.
[01:02:29] The difference between that and the 1.7
[01:02:32] that was thrown into the GMP by Hensel
[01:02:34] Phelps is \$1.1 million. So it seems like
[01:02:37] that would be another opportunity in our
[01:02:39] sops or our process, because that should
[01:02:42] have flagged this right out of the gate.
[01:02:43] Absolutely. Absolutely. Okay. So that, I
[01:02:47] mean, I don't know if that's on, like,
[01:02:49] what you guys are looking at, but it seems
[01:02:51] like reviewing that. You know, like, if we
[01:02:52] agreed on this amount and you guys are
[01:02:54] coming back at a totally different amount
[01:02:56] when we're looking at our maximum price
[01:02:59] here, then there's a discrepancy somewhere
[01:03:01] and we get ahead of it, essentially
[01:03:03] getting risk management's number into the
[01:03:05] GNP and using that. And I believe Jeff
[01:03:08] Hollingsworth's got aye. hand raised again,
[01:03:10] to answer your question. So, Jeff,
[01:03:12] briefly. Thanks, Glenn. Well, yeah, point
[01:03:16] of clarification. So, and it kind of ties
[01:03:18] back into what I was stating about when
[01:03:20] the, when the project starts, especially
[01:03:22] with the early work packages at that point
[01:03:25] in time, those are actual, real, the costs
[01:03:27] that the contractor actually incurred to
[01:03:29] get the coverage, those are actual, real
[01:03:30] costs that they're not estimates at that
[01:03:33] point. That's what they actually paid for.
[01:03:35] And that was the documentation that we
[01:03:37] didn't get and that I was asking for when
[01:03:40] we were asked to review the billing
[01:03:44] statement from the project team in
[01:03:46] December. The early work started in
[01:03:48] September, so they were already three plus
[01:03:50] months into the actual construction costs
[01:03:53] and schedule.
[01:03:56] And it took a little bit of asking,
[01:03:58] requesting from Hensel Phelps. But the
[01:04:02] costs that we got, which included a 30,000
[01:04:05] commission to the broker that Hensel
[01:04:07] Phelps used were actual costs that they
[01:04:10] spent on various, various insurance
[01:04:16] coverages. Did not include their errors
[01:04:20] and emissions, which they purchased. \$25
[01:04:23] million worth of limits. We only had \$5
[01:04:26] million worth of limits, which is typical
[01:04:28] for that type of a job. So we took, and
[01:04:31] that also does not include any of the
[01:04:33] builders risk. It was just all liability.
[01:04:35] So we actually looked at what Hensel
[01:04:38] Phelps paid, and we had the correspondence
[01:04:40] between their broker and Hensel Phelps.
[01:04:42] So those were costs that they might not
[01:04:44] have been amortized or earned yet, which
[01:04:46] that relates, again, to the coverage term,
[01:04:49] because as each month
[01:04:53] goes by and insurance is used up for that
[01:04:55] portion, you still have remaining balance
[01:04:58] on the rest of the insurance that's being
[01:04:59] amortized. But what I did

[01:05:03] is I took, I prorated what was actually
[01:05:07] in the exhibit e. Again, this was the
[01:05:09] exhibit that Delta received and estimated
[01:05:12] based on what was actually paid with the
[01:05:14] equivalent cost for what the port had
[01:05:17] required should be. That's what that
[01:05:19] difference represents.
[01:05:23] Okay, so from what I'm understanding, the
[01:05:26] delta, the contract with delta required
[01:05:29] this \$100 million limit, which is kind of
[01:05:32] how we ended up here. Is that accurate?
[01:05:34] No, I'm sorry, I didn't explain that. No.
[01:05:36] The requirements in exhibit e to delta is
[01:05:39] what would be the lower amounts. When we
[01:05:43] looked at this project, which was, it's
[01:05:46] not a small project, but from
[01:05:50] the risk side, we're very comfortable with
[01:05:51] those limits. This project the value of is
[01:05:54] roughly \$111 million in terms of
[01:05:56] construction value. So the exhibit e
[01:05:59] requirements were much less than what we
[01:06:02] saw Hensel Phelps had actually purchased
[01:06:04] from their broker.
[01:06:08] So essentially we have a contract with
[01:06:10] Delta, and in that we said 15 million.
[01:06:12] And Delta is supposed to be passing that
[01:06:14] on to Hensel Phelps, but we don't
[01:06:17] know what happened there and how that
[01:06:19] negotiation went. Okay, so there isn't
[01:06:21] another contract that says we have to have
[01:06:24] 100 million that would require us to have
[01:06:26] to pay? Not that I'm aware of. Jeff, are
[01:06:28] you aware of any contracts? That's the
[01:06:31] missing piece. We don't know. At least
[01:06:32] risk management does not know what was
[01:06:34] the, in the actual contract between Delta
[01:06:36] and Hensel Phelps. So, I mean, most of the
[01:06:40] times when there's a TRA, the TRA
[01:06:43] requirements get passed along and are part
[01:06:45] of the contract between the airlines and
[01:06:48] their contractor. I don't know what Delta
[01:06:52] included or how much or how they conveyed
[01:06:54] it. Any additional language that they may
[01:06:56] have put in there for Hensel Fels,
[01:07:00] which is one of the takeaways that I
[01:07:05] mentioned or suggesting, is when I
[01:07:09] think it's crucial for the port to know
[01:07:11] what's in that contract. So when we're
[01:07:13] reviewing things like that, we can take
[01:07:14] that into account and involve other
[01:07:17] parties that need it, I guess. Go ahead,
[01:07:20] Sarah. But essentially our contract with
[01:07:22] Delta just needs to have the specific
[01:07:24] language in there. You were spot on. We
[01:07:26] need to update our sops to say that in the
[01:07:28] contract language to say your
[01:07:30] subcontractor will have 10 million of
[01:07:32] insurance or, you know, the general
[01:07:36] contract of the GC will have this and
[01:07:38] you'll pass that on, flow that through.
[01:07:40] But are we responsible for Delta's,
[01:07:43] I mean, this may be, I guess, a legal
[01:07:45] question. I don't know. Are we responsible

[01:07:47] for Delta's contract with Hensel Phelps?
[01:07:50] Like, is that our responsibility? Because
[01:07:51] that's what's ultimately going to drive.
[01:07:53] Do we have to reimburse them for this? We
[01:07:55] only have to, we have a contract with
[01:07:57] Delta and we have to only reimburse Delta
[01:08:00] up to what's in our contract with them.
[01:08:02] Okay, so our contract with Delta is
[01:08:05] strong. Well, it says a minimum of 15
[01:08:07] million. So that verbiage is to
[01:08:11] that point.
[01:08:15] While I like the idea of creating greater
[01:08:19] specificity, I think we should be cautious
[01:08:22] about forbidding a higher upper bound.
[01:08:25] So I think there's language we could use
[01:08:27] to say we're requiring 15 million and
[01:08:31] we'll reimburse up to that amount.
[01:08:34] At that amount. However, if a third party
[01:08:37] contractor wants to ensure their own
[01:08:40] responsibility in a project, Sky's the
[01:08:43] limit for them, right? Absolutely. They
[01:08:45] would never go over that, though. My point
[01:08:48] is I wouldn't want them to then have a
[01:08:50] tool to say we would have insured higher.
[01:08:52] Agreed. But you told us not to. And so I
[01:08:55] think there's a finessing of the language
[01:08:57] there that we don't want to say. Just we
[01:08:59] want to say over and above that, you're on
[01:09:02] your own, you're welcome to it, but we're
[01:09:03] not going to reimburse. Perfect. Sorry,
[01:09:06] sir. Go ahead.
[01:09:10] I guess my other question is, since we had
[01:09:13] this inconsistency between contracts
[01:09:19] here and what we agreed to, like, is this
[01:09:21] something that legal would have typically
[01:09:22] reviewed? Like, is there a review process
[01:09:24] with legal that would have caught this,
[01:09:26] or because the contract and this other
[01:09:28] like \$10 million conversation was like,
[01:09:30] not a contract, it was just kind of an
[01:09:32] email exchange that they wouldn't have
[01:09:34] seen that part, so they wouldn't have
[01:09:35] flagged it. Okay, thanks. It sounds like
[01:09:38] some of this is, and I appreciate getting
[01:09:40] a little bit of the kind of inside
[01:09:42] baseball on there is a task force on TRAs.
[01:09:45] I know when the talk of TRAs first came
[01:09:48] up ahead of this project, there was some
[01:09:53] discussion around the fact that we hadn't
[01:09:54] done this or at least recently, and that
[01:09:57] we were going to have to learn to exercise
[01:09:58] that muscle a little bit. So I'm glad to
[01:10:00] hear we've got that group working. You
[01:10:03] know, in some ways, when you change
[01:10:05] project types, you exchange one group of
[01:10:08] challenges and problems with a different
[01:10:09] group of. And so we've got to learn how to
[01:10:11] anticipate those and, and put on the belts
[01:10:14] and suspenders for those. But I'm glad to
[01:10:17] hear that we're thinking about that for
[01:10:18] future projects, too. We also do need to
[01:10:20] hear from Stuart and Jason. No problem.
[01:10:23] I just saw Jeff's head still up, so I

[01:10:25] don't know if he had more to say. Jeff,
[01:10:27] if you want to quickly. Yep. And I think
[01:10:30] the commissioners are really spot on with
[01:10:33] their suggestions. And from the risk
[01:10:35] management side, we're really sensitive to
[01:10:38] what we're putting in there. We've been
[01:10:39] working, for example, with me and Rice,
[01:10:41] because at the other end, we're trying to
[01:10:44] really work hard to make sure that the
[01:10:47] requirements don't, aren't a barrier to
[01:10:49] smaller firms that want to work with the
[01:10:51] port. So it's really a delicate balance
[01:10:53] about the upper and the lower ends.
[01:10:56] We want to make sure that we're not
[01:10:58] requiring too much, but not, but again,
[01:11:01] insurance that's sufficient. So, and then
[01:11:04] regarding whether legal gets involved with
[01:11:07] the reviews and whatnot, I think that,
[01:11:10] and also relative the minimum amount, I
[01:11:13] think the wording and the SOP, like Glenn
[01:11:16] mentioned, is a good start, but also
[01:11:19] making it very clear that any proposed
[01:11:22] changes to what we have in the TRA need to
[01:11:25] be discussed and put through, like in
[01:11:27] fashion of a change order, which would
[01:11:29] then bring in the project team and risk
[01:11:31] management and whoever else needs to be in
[01:11:34] there to see if the additional expense for
[01:11:38] what is being proposed to be purchased is
[01:11:41] something that we agree on or not. And
[01:11:43] then I think with the TRA, if,
[01:11:46] if the contractor is suggesting
[01:11:49] materials or other things that are in
[01:11:51] excess of the TRA, then I think that's,
[01:11:54] that then involves Delta as the owner to
[01:11:56] see if they want to pay for that
[01:11:57] additional cost, which was above what was
[01:12:01] in the TRA between the port and delta in
[01:12:04] this case. All right, let's make sure we
[01:12:06] have enough time for issues two and three.
[01:12:12] In regard to issue two again, or item two,
[01:12:15] we agree with the recommendation as
[01:12:16] provided in the audit. As we noted
[01:12:19] already, there's a team of port staff
[01:12:21] working on a variety of improvements in
[01:12:22] TRA and an overall enhancement to the
[01:12:24] general requirements section,
[01:12:26] specifically of the TRA. And that's where
[01:12:29] the more detail, as our audit team has
[01:12:32] requested, we'd begin to weave that into
[01:12:34] that area. We intend to incorporate these
[01:12:37] audit changes and recommendations as part
[01:12:40] of that work. This is a fairly large
[01:12:43] effort in getting to this level of detail,
[01:12:45] not only into what we want to require,
[01:12:48] but making sure we have the staff and the
[01:12:49] resources with the skill sets to do the
[01:12:51] reviews as it goes through as well. So it
[01:12:54] is going to take us some time to do and
[01:12:57] then to develop all the changes we want to
[01:12:59] make, incorporate, vet, and then gain
[01:13:01] agreement amongst all the parties. But we
[01:13:04] do agree with the recommendation and

[01:13:09] issue three as well. Sure. Issue three,
[01:13:11] again, a little bit simpler one, but we
[01:13:14] agree with that recommendation as provided
[01:13:15] in the audit, and we'll incorporate that
[01:13:17] item into our effort as well. The general
[01:13:20] condition appendix section is, or general
[01:13:23] conditions is a section that isn't
[01:13:25] currently included in the appendix of a
[01:13:27] TRA. So that'll be an element we'll be
[01:13:29] adding into that where we can, can itemize
[01:13:31] out all of those acceptable items to be
[01:13:34] sort of built into the schedule of values
[01:13:35] and be able to be charged against. So in
[01:13:39] all these cases, we're going to strive to
[01:13:40] get these changes incorporated as quickly
[01:13:43] as possible into the tenant reimbursement
[01:13:45] agreements. But we don't want to rush such
[01:13:47] significant contract language changes as
[01:13:50] well. We've got a lot of parties,
[01:13:52] including legal, business and properties,
[01:13:54] commercial management, construction
[01:13:56] management, and a variety of folks. So
[01:13:59] it's going to take some time for us to do
[01:14:02] and then aligning that with timing for new
[01:14:04] TRAs that are coming forward. All right,
[01:14:06] any further questions on this audit? Go
[01:14:09] ahead. Okay, quickly on number two.
[01:14:13] So it looks like if I'm reading these
[01:14:16] graphs right, 2.3 million is our total
[01:14:21] responsibility. We've reimbursed for
[01:14:23] 417,000 of that 2.3 million. Is that
[01:14:27] correct? Yes, that is correct.
[01:14:30] Okay, so I guess what I want to clarify
[01:14:33] is, like, even if it's not in our standard
[01:14:35] operating procedures, is this something
[01:14:36] like of the difference in the rest of that
[01:14:38] that we can implement where, like, we look
[01:14:41] through, we look, require invoice, like,
[01:14:43] even if it's not in the standard operating
[01:14:45] procedures, I would think we would have a
[01:14:46] minimum bar for like, when we're reviewing
[01:14:48] these requirements, requests for payment
[01:14:50] that we would want adequate support that
[01:14:52] helps us make sure these expenses are for
[01:14:54] the project. Yeah, I mean, the TRA
[01:14:57] language provides for reasonable
[01:14:59] documentation establishing that tenant
[01:15:01] incurred the costs. So it's pretty open
[01:15:05] that we could tell Delta we're not paying
[01:15:08] anything until you give us these, until
[01:15:10] Hensel Phelps gives you the invoices that
[01:15:13] support this. So I guess my question to
[01:15:16] the staff is explicitly, do you guys plan
[01:15:20] on changing your process now, or are you
[01:15:22] going to wait till you change the sop to
[01:15:24] change your process? I think specifically
[01:15:27] in the concourse, a duty free TRA. We can
[01:15:29] engage in that immediately. Yes. Okay.
[01:15:32] And then on number three, how much are we
[01:15:34] talking here? Like, there's nothing that
[01:15:36] tells me how much, like the other one had.
[01:15:38] Like that graph, how much does this one,
[01:15:40] I believe it's 7 million in total. 6.6,

[01:15:44] which is the port share, I guess.
[01:15:49] Why would we ever agree, like, what is the
[01:15:52] actual upside to ever agreeing to
[01:15:53] something where we just say, you can bill
[01:15:55] us? Why would we ever want that? There are
[01:15:58] certain benefits of using a lump sum where
[01:16:01] on the management side, it's easier to
[01:16:03] manage because you just have a budget at
[01:16:04] the target number. As long as we. Oh,
[01:16:06] it's on. Okay. As long as we're not
[01:16:08] crossing, exceeding the budget, we should
[01:16:11] be good to go. So operationally,
[01:16:14] it's a little like easier to manage. But
[01:16:17] on the audit side, there's potential
[01:16:19] savings because you don't have to do as
[01:16:21] much of the kind of accounting that you
[01:16:24] would need to do, let's say. Yes. But on
[01:16:26] the other side, it also prevents savings
[01:16:29] because when you make it a lump sum, the
[01:16:31] contractor will meet that lump. They will
[01:16:33] spend all seven every time. If you make it
[01:16:36] a cost basis, you incentivize them to
[01:16:38] actually save money. But lump sum is
[01:16:40] easier to manage. On the management side,
[01:16:45] seems highly risky. I mean, you're
[01:16:46] basically just saying, here's \$7 million,
[01:16:49] do with it what you want. The industry
[01:16:51] literature actually counsels people not
[01:16:54] using lump sum check.
[01:16:59] Okay, well, thank you, Karen and
[01:17:02] Glenn, for that presentation. Thanks for
[01:17:03] the management response as well. We're
[01:17:06] going to move on to item eight,
[01:17:11] which is in regard to the payment card
[01:17:14] industry and qualified security assessor
[01:17:17] assessment result. Go ahead, Glenn.
[01:17:20] Thank you, commissioner. One of the things
[01:17:24] we have to do periodically, because we
[01:17:27] handle a lot of credit card transactions.
[01:17:29] Well, actually every year we have to
[01:17:34] either in house do what's called
[01:17:38] a security assessment or hire someone, in
[01:17:40] this case a qualified security assessor,
[01:17:42] to come in and assure that we're
[01:17:44] compliant, that the controls over managing
[01:17:47] credit people's credit cards are
[01:17:49] compliant. So it's how we store
[01:17:53] process and transmit data. All of that
[01:17:55] needs to be compliant with payment card
[01:17:58] industry standards, and that's a
[01:18:00] requirement from Visa to the banks.
[01:18:03] Internal audit has done the self
[01:18:05] assessment questionnaire in the past.
[01:18:07] This year. Like I mentioned, it was an
[01:18:09] outside consultant that was engaged that
[01:18:12] did the assessment. Next slide, please,
[01:18:15] Michelle. So we
[01:18:18] accept credit cards for taxi driver fees.
[01:18:22] Parking garage is the largest thing,
[01:18:24] actually, the one at SEATAC. We have,
[01:18:26] gosh, close to \$100 million in revenue
[01:18:29] from that. Majority of it is credit cards,
[01:18:32] a very small amount of cash. So we're a

[01:18:36] large merchant, and we've got to follow
[01:18:40] and do these audits periodically. So happy
[01:18:42] to say that the work was completed in
[01:18:45] December and we did receive a
[01:18:49] compliant rating. So congratulations to
[01:18:51] Dan and aye. team, but I'll pass it back to
[01:18:53] you. That's for questions. Commissioners,
[01:18:58] any questions? All right,
[01:19:01] continue with the next item. Okay. And
[01:19:04] congratulations to Dan Thomas and team for
[01:19:06] that one. The last.
[01:19:12] The last item. One we have,
[01:19:13] commissioners, is Polito at
[01:19:17] SEATAC airport. So essentially, we do
[01:19:20] these limited contract compliance audits,
[01:19:23] and, you know, a lot of the revenue is
[01:19:26] self reported to the port. We have over
[01:19:29] 100 concessionaires with over \$100 million
[01:19:32] in revenue throughout the port that we
[01:19:34] look at. And it's really, you know,
[01:19:39] our big objective is always to just make
[01:19:41] sure that, one, they're paying us
[01:19:43] accurately. Not too much, not too little,
[01:19:46] just the right amount as required by the
[01:19:48] contract. So we've streamlined our
[01:19:51] procedures. We're trying to get more of
[01:19:53] these done at a quicker pace. And I'm
[01:19:56] happy to say that Palino Inc. Paid us as
[01:19:59] required. Required. And we identified no
[01:20:01] exceptions. That concludes my
[01:20:03] presentation. Back to you, commissioner.
[01:20:06] Any other questions on the Polina audit?
[01:20:11] Why did we only review six months?
[01:20:14] So part of what we did is we looked at
[01:20:18] other airports and our benchmarking and
[01:20:20] what they were doing. We noticed that the
[01:20:24] pace at some of these airports of cycling
[01:20:27] through, especially Atlanta, was much more
[01:20:30] rapid. And their big thing was,
[01:20:34] let's do them more often, but look at a
[01:20:36] smaller period. If you look at items more
[01:20:38] recently, they have those records readily
[01:20:41] available, and they don't have to go back
[01:20:42] and fish the records out. So by cycling
[01:20:46] through these at a much faster pace and
[01:20:48] more often, our hope is that we
[01:20:52] have to look at a smaller scope period
[01:20:53] also, so they can readily have those
[01:20:55] records and provide them to us, and then
[01:20:57] we'll cycle through them at a more rapid
[01:21:00] pace. Got it. And presumably,
[01:21:04] we'd be more likely to catch an instance
[01:21:06] in which they weren't complying. And could
[01:21:08] then go back further into the
[01:21:12] records if needed. Yeah, if we do find
[01:21:14] something where they're not complying.
[01:21:15] Absolutely. Go back and fix all the errors
[01:21:19] at that point. But the
[01:21:23] more recent records are readily available
[01:21:25] and easier to cycle through an audit on.
[01:21:31] Okay, at this point.
[01:21:36] Any final comments, Glenn, on that audit?
[01:21:39] Not on this audit, I think just moving

[01:21:43] forward. So no comments here for me.
[01:21:45] Great. Okay. Before we move into final
[01:21:48] closing comments today, I'd like to take a
[01:21:50] moment to recognize Pam Bailey and Rumi
[01:21:53] Okuma, who are retiring.
[01:21:57] Pam has been internal audits
[01:21:59] administrative assistant with the port for
[01:22:00] almost 23 years. That's remarkable.
[01:22:04] It makes me proud to work for an
[01:22:06] institution that can keep good people like
[01:22:07] that for so long. She's been with internal
[01:22:10] audit since its inception back in 2008.
[01:22:14] We'd also like to thank Pam for developing
[01:22:16] internal audits external facing website.
[01:22:18] No small task which increased one of our
[01:22:21] main values as an entity, which is
[01:22:23] transparency to the public. So thank you
[01:22:25] for that. Pam. Rumi. She's been with
[01:22:27] internal audit since 2018. And besides
[01:22:30] leading audits, she's been instrumental in
[01:22:32] managing key elements of the audit
[01:22:33] committee process. Rumi developed a
[01:22:35] quality control review process to assure
[01:22:37] all materials are accurate. She program
[01:22:40] manages and gathers all audit committee
[01:22:42] materials from internal and external
[01:22:44] presenters and transmits the material over
[01:22:46] to commission records in accordance with
[01:22:48] the strict deadlines we've set. She's also
[01:22:51] led many audits that have brought positive
[01:22:53] change to the port. For example, the
[01:22:55] parking airport garage audit just last
[01:22:58] year, which saves a lot of. Of money. I
[01:23:01] just want to sincerely say thanks to both
[01:23:03] Pam and Rumi for their contributions to
[01:23:05] the port. And we wish them the very best
[01:23:07] in their retirement. Glenn, would you like
[01:23:10] to add.
[01:23:13] Oh, I'll just second everything you said,
[01:23:16] Commissioner Calkins. Pam and Rumi have
[01:23:19] been instrumental. And especially, you
[01:23:22] know, when you look at all the work that
[01:23:23] Michelle does for this, actually,
[01:23:25] Michelle is the one that carries a big
[01:23:27] burden, and Rumi helps her with that
[01:23:29] weight throughout the auditory. Michelle,
[01:23:31] you better not be retiring, too.
[01:23:39] Thank you, Rumi and Pam. Okay, Glenn, I'm
[01:23:41] going to turn to you for closing comments.
[01:23:42] And then, committee members, no further
[01:23:44] comments from me. Commissioner. So just
[01:23:47] thank you. Thank you, Commissioner
[01:23:48] Mohammed, for sitting in on this
[01:23:50] commission. Welcome to the odd committee,
[01:23:52] Commissioner Calkins. Thank you, Sarah.
[01:23:54] Do you have any closing comments,
[01:23:57] commissioner? Well, I just want to say
[01:23:59] congratulations to Pam and Remy for your
[01:24:02] retirement. And thank you so much for your
[01:24:04] public service and the work that you've
[01:24:06] done at the port of Seattle. We deeply
[01:24:07] appreciate you both I
[01:24:11] do have one. I guess we'd call it like an

[01:24:14] other business matter. Something that has
[01:24:16] been been stewing my head since our public
[01:24:19] meeting on Tuesday. And I'm really glad
[01:24:21] Dan is here, because, Dan, this is
[01:24:24] some homework, I think. But I want us to.
[01:24:29] I want us to be thinking about a metric
[01:24:30] that we talked about on Tuesday and
[01:24:33] whether that's something we could
[01:24:34] incorporate here in the work of the audit
[01:24:35] committee, or it might be just a general
[01:24:39] evaluation, but it's about a metric around
[01:24:43] capital spend. Do you recall we had a
[01:24:46] little bit of a dialogue amongst
[01:24:48] commission executive leadership about that
[01:24:51] percentage target, and I had gone into the
[01:24:53] meeting feeling really good about how high
[01:24:55] that number was this particular year.
[01:24:57] You know, it is rare that we get close to
[01:25:01] what we had budgeted for capital spend for
[01:25:03] a variety of reasons about which, Dan,
[01:25:06] you could elucidate. I'm sure you could
[01:25:07] give us 8 hours of seminar about what
[01:25:11] might lead to achieving capital spending
[01:25:15] in particular. You're not.
[01:25:18] And the thing that I've been ruminating
[01:25:21] over is how, by when we measure something,
[01:25:25] we really want to strive to get that. And
[01:25:27] there are times when that reflects
[01:25:31] positive achievements. We've successfully
[01:25:34] worked as a team to complete projects that
[01:25:37] then get invoiced and we get those
[01:25:39] invoices paid. And it's all a good story,
[01:25:42] but I'm concerned that it might also
[01:25:44] create some incentives that work
[01:25:48] at cross purposes. So in the event that
[01:25:53] we have a budget for a project and
[01:25:57] there are opportunities for cost savings,
[01:26:00] save some money, it actually now brings
[01:26:02] that number down slightly. And so
[01:26:06] instead of celebrating that we were able
[01:26:08] to actually deliver a project for less
[01:26:10] money in that percentage of capital spend,
[01:26:14] it now reduces that. And so I guess my
[01:26:17] question for Dan and maybe for the other
[01:26:19] wise folks in the room is, is there a way
[01:26:22] for us to both
[01:26:26] continue to try to deliver actual physical
[01:26:31] capital, new buildings,
[01:26:34] ribbon cutting type things,
[01:26:37] and get that money out the door, so to
[01:26:39] speak, to ensure that we have those
[01:26:40] facilities that we need, while also
[01:26:43] celebrating when we're able to save as a
[01:26:46] part of the process, through innovation,
[01:26:49] through a better way of doing things,
[01:26:51] through incentivizing our
[01:26:55] staff and the teams we work with to
[01:26:59] deliver projects in the most affordable
[01:27:00] way possible. Does that make sense? Yeah.
[01:27:03] Thank you, Commissioner Dan Thomas, chief
[01:27:05] financial officer, for the record. Yeah.
[01:27:08] There's no single metric, right, for the
[01:27:10] capital program. We have a large capital

[01:27:11] program with hundreds of projects at
[01:27:14] various stages of development.
[01:27:17] Clearly, for specific projects, you want
[01:27:20] to look at things like on time and on
[01:27:23] budget, right? That's really what you want
[01:27:24] to look at for individual projects, and
[01:27:27] that needs to be reported and focused on
[01:27:29] as well. But for that annual number,
[01:27:32] admittedly, it's just a slice in time. It
[01:27:35] does happen to line up with our annual
[01:27:37] budget. So we do look at how much we spent
[01:27:40] against our capital plan for that given
[01:27:42] year. And you may recall that in the past
[01:27:45] we woefully underspent. You know,
[01:27:47] sometimes we only spent 60% of what we
[01:27:50] had planned to spend in that year and we
[01:27:53] felt that. But it's not that we're trying
[01:27:55] to spend money that we don't need to, but
[01:27:57] oftentimes it's because projects did get
[01:27:59] delayed and spending got delayed and
[01:28:01] pushed out. So we do focus on that just as
[01:28:04] one of many indicators that sort of
[01:28:07] says how we do it in terms of just looking
[01:28:09] at a slice in time. But I think we can
[01:28:12] probably do better. I think it's worth the
[01:28:14] conversation about how do we more
[01:28:15] comprehensively report out on our capital
[01:28:18] program, given that there are so many
[01:28:19] projects, and we do try to give you some
[01:28:22] information in those, the annual reports.
[01:28:26] And we used to produce more comprehensive
[01:28:29] capital spending reports that actually
[01:28:33] looked at dashboard dashboards, for
[01:28:35] example, on how many projects are on time
[01:28:37] and on schedule. I think we've moved away
[01:28:40] from that, but maybe we need to. Well, I
[01:28:42] think part of it too is, you know, we do
[01:28:45] want to recognize, when I think of the
[01:28:48] waterfront electrification program that
[01:28:50] included the Pier 66 shore power, in which
[01:28:55] a very thoughtful innovation by an in
[01:28:58] house engineer was able to find a
[01:29:00] significant cost savings through creative
[01:29:04] reimagining of the problem. And we want to
[01:29:07] celebrate those things large and small. I
[01:29:09] know we've got a lean process improvement
[01:29:11] team here that is working on how do we cut
[01:29:14] out waste and find more efficient ways of
[01:29:16] doing things. So I think there's, we are
[01:29:19] attacking this from a lot of different
[01:29:21] angles, but it almost feels like,
[01:29:25] and this may be a small portion of that
[01:29:27] overall, but it's almost as if we could
[01:29:30] take that capital budget and say if
[01:29:33] the number at the beginning of the year
[01:29:34] was \$100 million, but through innovation
[01:29:38] and efficiency we
[01:29:42] were able to actually bring the
[01:29:43] anticipated spend down to 98 million,
[01:29:46] then that 89% number wouldn't be impacted
[01:29:50] because. Because it's what percent of the
[01:29:53] 98 rather than the 100 million? I don't
[01:29:55] know. And I know you are trying to deliver

[01:29:59] enormous amounts of information in a very
[01:30:01] small window to a bunch of non experts,
[01:30:03] but I just wanted to make sure we weren't
[01:30:08] cementing an incentive to just spend every
[01:30:11] dime, even if just to keep that number,
[01:30:14] right? No, I think it's worth a
[01:30:15] conversation. Thank you, Dan. Thanks for
[01:30:17] jumping in. Random question. And thank
[01:30:20] you, Glenn, for very good points,
[01:30:23] commissioner. It's one of our
[01:30:26] values. Also, right? Stewardship of
[01:30:29] assets. All right, hearing no further
[01:30:32] comments and having no further business.
[01:30:34] If there is no objection, the meeting is
[01:30:38] adjourned at 11:31 a.m.,
[01:30:41] thanks, everyone, for participating.

END OF TRANSCRIPT