



Internal Audit Report

Limited Operational Audit

Delegation of Authority

January 1, 2010 – December 31, 2011

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed a limited performance audit of Delegation of Authority.

We reviewed information relating to Resolution 3605 from January, 1 2010, through December 31, 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the Commissioners, Executive Management and other Port staff for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

Audit Scope and Objective The purpose of the audit was:

1. To determine whether the delegation of authority under Resolution 3605 is efficient and effective
2. To determine whether management has adequate controls and has complied with the requirements of Resolution 3605
3. To determine whether the requirements of Resolution 3605 continue to be commensurate with the risks
4. To determine whether there have been any unintended consequences due to Resolution 3605

We reviewed information for the period January, 1 2010, through December 31, 2011.

Background In 2007, there was a confluence of events at the Port of Seattle. Two new Commissioners were elected, the Commission appointed a new Chief Executive Officer (CEO) and the State Auditor conducted a performance audit of construction management at the Port.

One of the issues cited in the audit report related to perceived deficiencies in the delegation of authority in Resolution 3181, which had not been revisited since 1994. The CEO and the Commissioners had already identified the need for review and revision of the delegated authority. In response to the state audit, this review process became a priority. The Commission formed a subcommittee to oversee the review. This subcommittee included two Commissioners, an expert on governance in public bodies and an expert in construction management, along with Port of Seattle staff. In August 2008, the Port of Seattle Commission unanimously adopted Resolution 3605, which was designed to strengthen the Commission's oversight of Port construction and other activities.

Resolution 3605 delegates specific authority to the CEO for day-to-day operation of the Port. Currently, under Resolution 3605, the CEO may authorize projects, contracts and agreements with a value up to \$300,000. Projects, contracts and agreements with an amount greater than \$300,000 require Commission authorization. There are additional specific provisions related to change orders and amendments to contracts and agreements. The delegation of authority is not limited to contracting and procurement. It also includes provisions for real property agreements, legal services, accounting activities, equal opportunity, risk management and other Port operations. In November 2009, the Commission adopted Resolution 3628, which amended certain sections of Resolution 3605.

Audit Result Summary The delegation of authority under Resolution 3605 is effective, but there are opportunities to improve efficiency. Management has adequate controls and has complied with the requirements of the Delegation of Authority. Given the improvements in the Port control environment and operations, the requirements of Resolution 3605 are no longer commensurate with the risks. The requirements of Resolution 3605 have created some unintended consequences.

Background

Throughout most of its 100-year history, the Port of Seattle Commission has delegated administration of Port operations to the Chief Executive Officer (CEO), of which there have been 11 between 1911 and 2012. The title Chief Executive Officer was adopted in 2001. Delegation of authority has evolved and shifted over the years, based on the composition of the Commission, the individual serving as CEO and other factors, not the least of which is public feedback.

In 2007, there was a confluence of events at the Port of Seattle. First, two new Commissioners were elected. Second, the Commission appointed a new CEO. Third, the State Auditor conducted a performance audit of construction management at the Port.

One of the major recommendations by the State Auditor suggested the Port of Seattle Commission "...re-evaluate the current delegation of authority to the POS CEO (encompassed in Resolution 3181) and develop and issue a new delegation of authority resolution that defines more clearly the Commission's intent with respect to construction management and reporting to the commission and the public concerning construction activities."

The delegation of authority in Resolution 3181 had not been revisited since 1994. The new CEO and the Commissioners had already identified the need for review and revision of the delegated authority. In response to the state audit, this review process became a priority.

On January 8, 2008, the Commission formed a subcommittee to oversee the review. This subcommittee included two Commissioners, an expert on governance in public bodies and an expert in construction management, along with Port of Seattle staff. The Commission unanimously adopted Resolution 3605 on August 26, 2008. This resolution established the authority delegated by the Commission to the CEO.

The resolution was designed to strengthen the Commissioner's relationship with the CEO and clarify his authority. It included new procedures that defined when and how Commission authorization is obtained on major Port construction projects. It provided for more transparency in Commission approval of expenditures and increased the quality and quantity of the information available to the public.

A major change mandated by Resolution No. 3605 eliminated the previous practice of "project-wide authorizations," which required only one Commission review of major construction projects. Resolution 3605 substituted a three-step authorization process. It established a uniform \$200,000 threshold for CEO approval on projects, but required additional Commission authorization if the threshold was exceeded. It established a quarterly review/reporting on construction projects, ensuring more timely and complete information for the Commission and the public.

After passage of Resolution No. 3605, Commission and Port staff initiated a number of activities centered on successful implementation of the resolution. Of significance were 1) extensive and continuing staff training, 2) formation of an inter-departmental committee to address questions on the individual sections of the resolution and 3) development of A Frequently Asked Questions (FAQ) page on the Port's intranet site. Key organizational changes at the Port supported successful implementation of the resolution: 1) creation of the Capital Development Division (CDD) and 2) the

Central Procurement Office (CPO) within the CDD. This current structure centralizes procurement and project management and provides additional control and oversight of Port operations.

Resolution No. 3605 also contained a provision that it must be reviewed “in twelve (12) to eighteen (18) months after it enters into force....” On November 3, 2009, Resolution 3628, which amended Resolution 3605, was unanimously adopted by the Commission. It increased the CEO authority to approve all contracts to \$300,000, and made this authority consistent across all contract types to facilitate contract administration.

Resolution 3605 is not limited to contracting and procurement. It also includes provisions related to real property agreements, legal services, accounting activities, equal opportunity, risk management and other Port operations. The following summarizes the discrete sections of Resolution 3605, as amended:

Section	Title
1	Roles and Responsibilities of the CEO
2	Real Property Agreements
3	Real Property Acquisitions and Sales; Street Vacations
4	Public Works Projects
5	Non-Public Work Projects
6	Contract and Procurement Administration
7	Professional, Personal, and Purchased Goods/Services Agreements
8	Utilization of Port Crews
9	Legal Services, Claims, and other Representation
10	Adjustment and Write-off of Accounts Receivable
11	Investment of Temporarily Idle Port Funds
12	Insurance Programs
13	Trade Development Programs
14	Issuance of Tariffs
15	Rules and Regulations
16	Non-Discrimination and Equal Opportunity
17	Travel of Employees and other Authorized Representatives of the Port
18	Sale of Personal Property
19	Working Funds
20	General Interpretation

The resolution is currently under review. It is anticipated that a revised resolution will be presented to the Commission for approval later this year.

Activity Highlights

The Port initiated 412 projects during 2010 and 2011, with a current budget of \$212 million. During this two-year period, the Port entered into 736 contracts with a current value of \$330 million. Of these contracts, the Commission approved 23 percent of total contracts and 90 percent of the total contract dollars expended. See Table 1.

Table 1

Contract Type	2010		2011		Total	
	No. of Contracts	Current Max Amount	No. of Contracts	Current Max Amount	No. of Contracts	Current Max Amount
Fixed Price Contracts/Goods and Services	51	16,961,320	34	4,131,101	85	21,092,421
Interlocal, Interagency, MOA, MOU Agreements	19	6,874,643	8	567,722	27	7,442,365
Major Construction Contracts	20	110,298,446	19	37,293,403	39	147,591,848
Service Agreements	234	75,612,261	150	42,843,610	384	118,455,871
Blanket Vendor Contracts	91	11,049,452	62	15,702,624	153	26,752,076
Small Works Contracts	24	4,201,986	24	4,989,456	48	9,191,442
Grand Total	439	224,998,107	297	105,527,916	736	330,526,023

Source: PeopleSoft - As of February 14, 2012

Highlights and Accomplishments

- Resolution 3605, as amended, is the “master policy directive” that establishes the authority delegated by the Commission to the Chief Executive Officer. The resolution has resulted in more transparency and accountability through:
 - More frequent information presented by management to the Commission in open public meeting
 - More comprehensive information presented by management to the Commission in open public meeting
 - Formal redelegation of authority by the CEO to management
- The current “Tone at the Top” supports a “culture of compliance” with laws, regulations and policies. It is clear from our discussions with the CEO, division directors and other managers that there is a pervasive commitment to “do the right thing,” to be accountable and to ensure transparency in the Port’s operations.
- The transparency and accountability that exists at the Port today ensure that the Commission and the public will be completely and timely informed of Port activities.
- The regular briefings that management presents to the Commission in open public meeting are also available to the public on the Port’s web site.

Audit Scope and Methodology

We utilized a risk-based audit approach, from planning phase to testing. We gathered information through extensive interviews with the Commissioners, the Chief Executive Officer, division directors and other managers. We received feedback from staff throughout the Port. We analyzed project and contract activity, including real estate agreements, for the period 2010 through 2011. We obtained a complete understanding of the history of delegation of authority, the current requirements of Resolution 3605, the current control environment, the current control activities and the information

and communication channels between management and the Commission. We conducted comprehensive and extensive analysis of the activities that come under Resolution 3605. We tested the controls that management has implemented to mitigate significant risks to the Port.

We conducted the following procedures to address our audit objectives:

1. To determine whether the delegation of authority under Resolution 3605 is efficient and effective

- We obtained an understanding of the processes implemented to ensure compliance with the requirements of Resolution 3605

In our interviews with the Chief Executive Officer, management and staff, we discussed the level of effort required to implement processes that support compliance with Resolution 3605. We considered such activities as preparation of reports for submission to the Commission, the number of times a project/contract was required to be submitted to the Commission for authorization, the layers of staff and management that reviewed the reports and the frequency of reporting to the Commission. We determined whether processes were efficient.

- We tested the processes that ensure compliance with the requirements of Resolution 3605

Prior to testing compliance with the requirements, we tested the controls that were developed to ensure compliance to determine whether they were working as intended. We conducted detailed “walk-throughs” of the control points, which included extensive review of documents and extensive discussions with responsible managers and staff, who are accountable for the controls. We determined whether processes were effective.

2. To determine whether management has adequate controls and has complied with the requirements of Resolution 3605

- We tested whether real property agreements were properly authorized by the Commission

We selected a sample of 32 real property agreements from a population of 58 agreements that were executed during 2010 and 2011 and had a term of longer than five years or were executed by the Chief Executive Officer or a division director and reviewed the files. Those with a term longer than five years or a financial obligation to the Port of greater than \$300,000 were examined to determine whether the agreement was authorized by the Commission prior to execution.

- We tested whether contracts were properly authorized by the Commission

We selected a sample of 46 contracts from a population of 171 contracts with a current value over \$300,000 that were executed during 2010 and 2011, and reviewed the files to determine whether the contract was authorized by the Commission prior to execution.

- We tested whether management reported to the Commission as required

We reviewed Commission meeting minutes and memos to the Commission to determine whether required reports to the Commission for 2010 and 2011 were provided by

management in a timely manner. We identified the quarterly reports on public works projects and financial performance and the semi-annual reports on real property agreements, small works contracting and settled claims.

3. To determine whether the requirements of Resolution 3605 continue to be commensurate with the risks

- We Analyzed the Current Control Environment

As part of our interviews with Commissioners, the Chief Executive Officer and management, we discussed the origins, intent and implementation of Resolution 3605. We asked questions and evaluated responses in order to form a clear picture of the current “Tone at the Top.” Based on our professional judgment, we determined whether the “Tone at the Top” supported compliance with the requirements of Resolution 3605.

We obtained a detailed understanding of communication channels between management and the Commission. We reviewed documents to develop an in-depth understanding of the quality and frequency of information that management flowed to the Commission.

- We Obtained an Understanding of the Evolution of Commission Emphasis on Resolution 3605 Requirements

We analyzed Commission meeting minutes for the period between 2009 and 2011, to determine whether the Commission had increased or decreased its emphasis on certain requirements of Resolution 3605.

- We conducted a Benchmarking Survey

We conducted a benchmarking survey with other airports and port districts through the Association of Airport Internal Auditors (AAIA), to determine whether the authorization thresholds at the Port are consistent with delegated authority at comparable organizations. We gathered sufficient information about these other ports, to provide context for the authorization levels (e.g., comparison of capital and operating budgets). Respondents included:

1. Salt Lake City International Airport (UT)
2. Denver International Airport (CO)
3. Metropolitan Washington Airports Authority (VA)
4. Dallas-Fort Worth International Airport (TX)
5. Edmonton International Airport (AB)
6. Port of Portland (Portland International and Marine Ports, OR)
7. MassPort (Boston-Logan International, and Port of Boston, MA)
8. Port of Oakland (CA)

The most notable difference was the authorization threshold for public works projects, where the mean threshold (\$582,000) of the respondents was almost double the threshold at the Port (\$300,000).

- We Analyzed Port Activity

We analyzed projects, contracts, real property agreements and property acquisitions and sales for the period under audit (2010 and 2011), to determine the extent of Port activities governed by Resolution 3605. We determined whether the majority of activity flows to the Commission or stops at the level of the CEO and his delegates.

4. To determine whether there have been any unintended consequences due to Resolution 3605

- We Analyzed the Practical Implications of the Policy

In our interviews with Commissioners, the Chief Executive Officer, management and staff, we discussed the practical implications of Resolution 3605 and the impact of the requirements on Port operations. Based on the information collected and the common themes identified, we obtained corroborating evidence.

- We Reviewed and Discussed the Original Intent of Resolution 3605

We reviewed historical documents (audit reports and meeting minutes -- video and transcribed), to understand the issues and the discussion that surrounded the development of Resolution 3605. We stratified contract types and determined the percentage of the different contract types reviewed and authorized by the Commission. We discussed original intent with Commissioners, CEO, management and staff.

Conclusion

The delegation of authority under Resolution 3605 is effective, but there are opportunities to improve efficiency. Management has adequate controls and has complied with the requirements of the Delegation of Authority. Given the improvements in the Port control environment and operations, the requirements of Resolution 3605 are no longer commensurate with the risks. The requirements of Resolution 3605 have created some unintended consequences.