



INTERNAL AUDIT REPORT

AIRPORT OPERATIONS–RAMP/AIRFIELD INSURANCE PROGRAM

LIMITED OPERATIONAL AUDIT

January 1, 2014 – August 31, 2015

ISSUE DATE: October 6, 2015
REPORT NO. 2015-10

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The Port of Seattle has established requirements for driving onto the airfield or Air Operation Areas (AOA). The AOA is an area “enclosed by the Airport security fence, including ramps, aprons, runways, taxiways, gate positions, airport parking areas, and FAA facilities.” Vehicles driving onto the airfield are required to show evidence of general and auto liability insurance.

The purpose of this audit was to determine whether Port management controls are adequate and sufficient to ensure:

1. Effective monitoring of the insurance requirements for all vehicles or motorized equipment accessing the airfield.
2. Compliance with Port policy (Sections of 6E. of Seattle-Tacoma International Airport - Schedule of Rules and Regulations No. 5) and procedure (Ramp Insurance requirements).

We reviewed information for the period January 1, 2014 - August 31, 2015. Details of the audit scope and methodology are on page two.

BACKGROUND

The Port of Seattle Airport Schedule of Rules and Regulations is the Commission policy governing many aspects of airport operations, including eligibility and insurance requirements for all motor vehicles and equipment accessing the AOA.

The Airport Operations Department within the Aviation Division is responsible for monitoring the Aviation Ramp Insurance Program.

On average, over 1,800 individual vehicles access the AOA daily. A large part of this traffic is attributable to multiple trips by in-flight meal catering companies. The rest of the traffic consists of vehicles from federal agencies, ground handlers and contractors, tenants, vendors, and concessionaire deliveries. Vehicles entering the airfield may be from companies that have a direct contract with the Port or from companies that do not contract with the Port directly.

AUDIT RESULT

Port Management controls are inadequate to mitigate risks related to uninsured vehicles and/or vehicles without proper insurance accessing Sea-Tac airfield. Further, Port management does not have a comprehensive and effective process to verify insurance compliance for activity on the airfield. See discussion in Finding 1 of the Schedule of Findings.

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Aviation Ramp Insurance Program. We reviewed information for the period of January 1, 2014 - August 31, 2015.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis of our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the management and staff of AV Operations, AV Business Development, AV Security, Risk Management, AV Resident Engineering, CPO/Construction, and AV Maintenance Department for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Margaret Songtantaruk, Senior Auditor	Michael Ehl, Director Airport Operations
Jack Hutchinson, Manager	Mark Coates, Senior Manager Airport Operations

BACKGROUND

The Port of Seattle Airport Schedule of Rules and Regulations policy governs many aspects of airport operations from sanitation to security requirements. As part of the security, these regulations govern and establish eligibility requirements for all motor vehicles and equipment accessing Air Operations Areas (AOA). The AOA is an area “enclosed by the Airport security fence, including ramps, aprons, runways, taxiways, gate positions, airport parking areas, and FAA facilities.”

Under Section 6-E of the policy, any person operating motor vehicles or motorized equipment in the AOA is required to:

- Be assigned to duty in such areas.
- Be authorized by the Director of Airport Operations.
- Possess authorized identification.
- Possess current proof of liability insurance.

The Port Risk Management Department has established specific insurance requirements and forms in compliance with the policy. These guidelines and forms are commonly referred to as “Ramp Insurance” requirements.

The Airfield Operations Department oversees the Aviation Ramp Insurance Program, to ensure that all vehicles/equipment driving onto the airfield are properly insured (general and auto liability insurance). Although Airfield Operations is primarily responsible for the program, there are other Aviation departments (e.g., Aviation Security and Aviation Business Development) that are also involved in the program.

For the period January 1, 2015, through July 6, 2015, approximately 297 companies accessed the airfield by vehicle. These companies have more than 8,000 non-Port employees who use company vehicles to access the airfield throughout the year. See statistics below:

TRAFFIC STATISTICS FOR VEHICLES ACCESSING THE AIRFIELD

January 1, 2015 – July 6, 2015

	vehicle in/out count	% of the total in/out count
Top 10 companies	179,100	54%
Top 20 companies	218,543	66%
Top 30 companies	247,546	75%

Data Source: Aviation Credential Center

Note: The data do not include vehicles under escort and/or construction vehicles accessing the Airfield

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2014 - August 31, 2015. We utilized a risk-based audit approach from planning through testing. To obtain a complete understanding of the Department operations, we gathered information through surveys, document reviews, staff interviews,

observations, and data analyses. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls are functioning as intended.

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

1. To determine whether Port management controls are adequate and sufficient to ensure effective monitoring of automobile and general liability insurance requirements for vehicles accessing the airfield:
 - Conducted a nonscientific survey of 25 members of the Association of Airport Internal Auditors (AAIA). The survey focused on other airports’ practices for vehicle insurance monitoring. The intent was to establish a baseline expectation for management monitoring by Aviation Operations.
 - Reviewed Port public web sites to determine whether the insurance requirements are clearly and consistently communicated.
 - Reviewed and assessed the effectiveness of insurance monitoring procedures at airfield access gates, in order to determine whether the uninsured vehicles or vehicles without proper insurance are permitted to enter the airfield.
 - Reviewed the Ramp Insurance Mailbox to determine whether incoming emails with insurance information and certificates are timely reviewed and processed.
 - Reviewed the airport credential new system to determine whether:
 - The system provides an efficient interface to update insurance records.
 - There are available system reports to assist management.
 - Reviewed insurance records on file to determine whether proof of insurance is complete and proper.
 - Reviewed insurance folders for 15 non-construction companies and compared insurance provisions to determine insurance complied with Risk Management requirements and is consistent.
 - Analyzed 17 of 305 Risk Management insurance incidents and 101 Aviation Maintenance reimbursable work orders, to determine the effectiveness of management controls.
2. To determine compliance with the Risk Management Department’s established insurance forms, limits, types, and endorsement requirements:
 - Selected 81 of 364 (22%) third-party companies (i.e., companies with no contractual relationship with the Port) with airfield access to determine whether:
 - Proof of insurance is on file and current.
 - The Port is identified as an additional insured.
 - The general liability and automobile insurance amounts comply with the Port Risk Management Department’s requirements.
 - Selected and agreed 1 company from the Ramp Insurance Mailbox and compared its reported insurance to the hard copy records maintained by Airport Operations and information in the Credential Center Office data.

- Selected and agreed 4 companies' hard copy insurance records maintained by Airport Operations to the Ramp Insurance Mailbox and to the Credential Center Office data.
- Selected 5 prime construction contractor agreements to determine whether:
 - The insurance requirements are consistent and the coverage limits comply with Risk Management requirements.
 - The Port of Seattle is named as an additional insured.
- Selected 27 sub-contractors working on SEATAC RUNWAY 16C/34C to determine whether:
 - Insurance coverages are adequate as required by policy.
 - The Port of Seattle is named as an additional insured.

CONCLUSION

Port Management controls are inadequate to mitigate risks related to uninsured vehicles and/or vehicles without proper insurance accessing Sea-Tac airfield. Further, Port management does not have a comprehensive and effective process to verify insurance compliance for activity on the airfield. See discussion in Finding 1 of the Schedule of Findings.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1. PORT MANAGEMENT RAMP INSURANCE CONTROLS ARE INADEQUATE TO MITIGATE THE RISK OF UNINSURED OR UNDERINSURED VEHICLES ACCESSING THE AIRFIELD

Uninsured and underinsured non-Port vehicles accessing the airfield could result in financial loss to the Port in the event of an accident. To mitigate this risk, the Port requires commercial general liability and automobile liability insurance for all non-Port vehicles and equipment driving onto the Airfield. The Port's Aviation Operations Department has the primary responsibility for monitoring airfield vehicle general and auto liability insurance requirements and maintains an insurance file on each company.

As of June 5, 2015, the Port's badging information system at the Airport Credential Center had a record of approximately 364 third-party companies with approval to access the airfield. Those companies were properly authorized to enter the airfield with vehicles and/or motorized equipment. Of the 364 companies granted airfield access, our testing identified approximately 147 companies for which the Aviation Operations Department had no insurance information on file.

We tested 81 of 217 companies with insurance folders on file and identified the following exceptions:

- 21 companies or 26% did not have proof of insurance.
- 25 insurance certificates or 31% had expired.
- 12 automobile insurance coverages or 15% did not meet the \$5 or \$10 million minimum.
- 2 or 2% did not meet the \$1 million minimum in general liability insurance coverages.
- 1 or 1% did not list the Port as an additional insured.

We obtained insurance certificates for 27 sub-contractors from one prime contractor and tested for insurance compliance with Risk Management requirements. We identified the following exceptions:

- 22 did not meet the \$5 or \$10 million minimum coverage.
- 5 did not list the Port as an additional insured.

Based on the test results, we concluded that Aviation Operations management does not have a comprehensive system to effectively monitor the insurance requirements of vehicles or motorized equipment accessing the Airfield. The current system is fragmented and contains gaps. We determined that the following control weaknesses have contributed to the ineffective management monitoring:

1. Untimely Processing of Submitted Insurance Certificates

Companies are required to submit their insurance certificates and endorsements to the Port’s Ramp Insurance Mailbox. There were 28 emails in the Ramp Insurance Mailbox for a 5-month period from January to May 2015. We reviewed all emails and determined that 15 of 28 (54%) emails received had not been opened by Airport Operations as of June 1, 2015.

Untimely opening or processing of insurance emails delays status updates in the system and consequently defers necessary management follow-up if/when noncompliance is identified. Accordingly, the Port does not know whether it is insured against liabilities.

2. Insufficient Coordination Among Departments

Insurance monitoring efforts at the Port are decentralized among several departments. Aviation Business Development, for example, monitors insurance for compliance with concession agreements. The Central Procurement Office (CPO) monitors insurance for compliance with construction contracts, purchased goods and services, and service agreements. Many of these agreements and contracts are with companies, which have badged employees who are authorized to access the airfield. However, badges are issued without checking insurance coverage. Thus the result of other departments’ monitoring efforts could inform Aviation Operations, if there were coordinated efforts, which, currently there are not.

The lack of coordination among departments leaves a gap in management controls, and results in the absence of assurance that the Port is protected against potential liabilities caused by non-Port vehicles or equipment accessing the airfield.

3. Insufficient Monitoring of Ramp Insurance at Each Gated Point of Entry onto the Airfield

Ramp or airfield insurance requirements established by the Port Risk Management Department mandate that a list of companies with proper insurance be maintained at each gated point of entry to the airfield. Company vehicles without proof of proper insurance should not be allowed to access the airfield.

Insurance monitoring at the airfield point of entry is not effective. Vehicles entering the airfield are not checked for proof of general or auto liability insurance. Only the vehicle operator’s identification (ID badge) is validated.

A valid airport ID badge does not guarantee valid insurance. Badges are issued without a check of insurance coverage. Allowing vehicles or equipment onto the airfield without a proper insurance check exposes the Port to unintended liabilities, and could result in the Port having to fund or pay for these liabilities.

Recommendations

We recommend that Port Management:

1. Set clear and comprehensive direction and information about the airfield insurance requirements.
2. Fully implement the airfield insurance requirements as established by the Port Risk Management Department, in order to ensure that insurance coverage meets the Port's needs: general liability, auto liability, appropriate endorsement, and specified insurance limits.
3. Open and process incoming ramp insurance emails timely.
4. Implement effective insurance coordination and/or monitoring among Port departments, to ensure timely and accurate updates.
5. Implement and maintain a system to validate the proof of proper insurance at each gated point of entry to the airfield, as required by Risk Management procedures.
6. Consider implementing a Continuous Process Improvement (CPI) program or Lean to increase program effectiveness and efficiency.

Management Response

To further promote the ongoing development of an airfield Safety Management System, the 2015 Aviation Division business plan included a request for the Port of Seattle Internal Audit department to conduct a preliminary assessment of the existing ramp insurance program to establish a baseline measure of compliance for insurance verification and validation. This communication documents the management response from Aviation Operations resulting from the recent completion of the internal audit which was conducted from January 1, 2014 to August 30, 2015.

The audit resulted in a single finding:

Port management ramp insurance controls are inadequate to mitigate the risk of uninsured vehicles accessing the airfield.

This finding specifically encompasses the identification of several opportunities for centralization of ramp insurance processes and procedures across and within the Port of Seattle enterprise.

Factors Contributing to ineffective Monitoring	Audit Recommendations:	Response:
1. Untimely Processing of Submitted Insurance Certificates 2. Insufficient Coordination Among Departments 3. Insufficient monitoring of ramp Insurance at each gated point of entry onto the airfield	1. Set Clear and comprehensive direction and information about the airfield insurance requirements 2. Open and process incoming insurance emails timely 3. Fully implement the airfield insurance requirements as established by the Port Risk Management Department in order to ensure that insurance has the coverage the Port needs: general liability, auto insurance, appropriate endorsements naming the Port as additional insured and contains insurance limits that meet port requirements. 4. Implement effective-insurance coordination and/or monitoring among Port departments to ensure timely and accurate updates 5. Implement and maintain a system to validate the proof of proper insurance at each gated point of entry to the airfield as required by the Port Risk Management procedures 6. Consider implementing a Continuous Process Improvement (CPI) program or Lean to increase program effectiveness and efficiency	System will be updated to reduce Spam and will be reviewed weekly Coordination meetings set for Oct 9 th to address gaps and expectations and assign action items and mitigations Update SAFE to better integrate with the security system Develop I-phone conformation app. For use at gate. Initial meeting completed – lean team is considering

Despite the identified areas for improvement, it is important to note that significant progress has been made in attempting to automate the insurance verification mechanism through the incorporation of insurance coverage data associated with the security credential media utilized by individuals seeking to access the airfield ramp environment. While insurance confirmation data for some constituent credential holders accessing the ramp are currently included in the access control data base, others are not, thus requiring further coordination of Aviation Division and Port of Seattle corporate departments. A meeting of all identified relevant stakeholders will be conducted on October 9th to review ramp insurance gathering and recording processes and practices, with the intent to establish a comprehensive data sharing program and the associated incorporation of improved controls.

Key objectives of the meeting will be to identify the appropriate departmental center of expertise for the Port of Seattle, and to establish the subsequent work plan, deliverables, schedule for completion, resource requirements, and continuous improvement feedback mechanism necessary for sustainability of the program. In keeping with of our commitment to quality assurance, we request the Audit Committee reassess and evaluate the effectiveness of our insurance program post implementation of these proposed mitigations and corrective actions on or about the 2017 audit cycle.