

COMPREHENSIVE 2018 AUDIT STATUS

COMPLETED AUDITS - 2017 AUDIT PLAN CARRYOVER

Audit Title	Type	Status	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Host International, Inc.	Limited Compliance	Complete												
Delta Lounge - TRA	Operational	Complete												
P66 Norwegian - TRA	Operational	Complete												
Employee Parking	Operational	Complete												
TNCs	Operational	Complete												
Fishing & Comm. Ops. T-91	Operational	Complete												

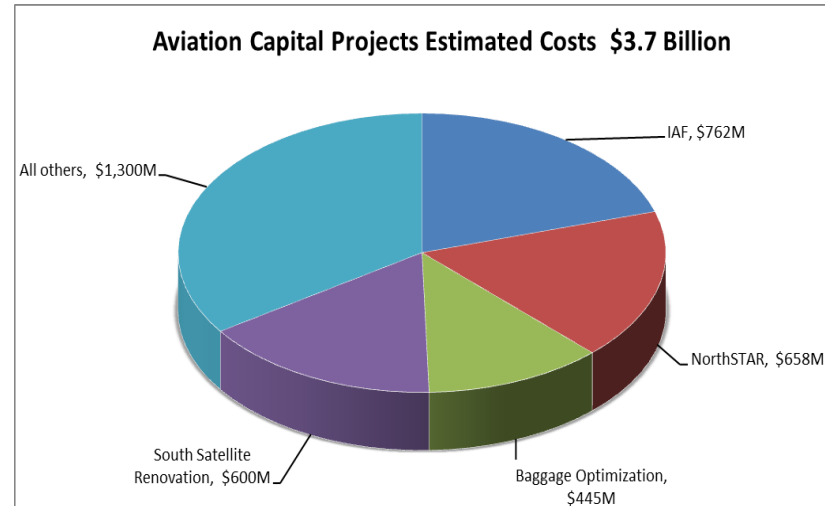
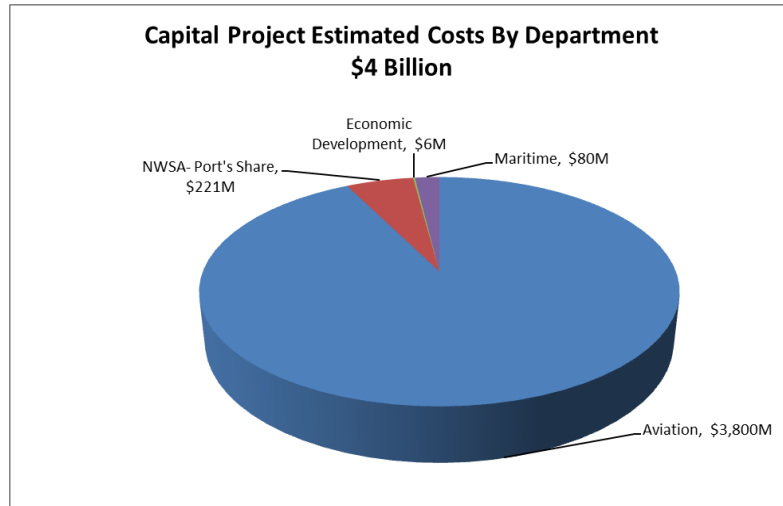
2018 AUDIT PLAN STATUS

Audit Title	Type	Phase	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Beecher's Handmade Cheese	Limited Compliance	Reporting												
Disbursements / AP	Operational	Fieldwork												
Sky Chef's Inc.	Limited Compliance	Planning												
Capital - N. Satellite	Operational	Planning												
Dollar Rent a Car	Limited Compliance	Planning												
Thrifty Car Rental	Limited Compliance	Planning												
TNC's Rematch (EKPI's)	Operational	Planning												
Marine Maintenance Shops	Operational	Planning												
ParkingSoft System	IT	Not Started												
Change Management - AVM	IT	Not Started												
Data Center - AVM	IT	Not Started												
Fox Rent-A-Car	Limited Compliance	Not Started												
Capital - W. Fire STA*	Operational	Not Started												
Seatac Utilities	Operational	Not Started												
Northwest Seaport Alliance	Operational	Not Started												
Capital - IAF	Operational	Not Started												
Taxi Cabs (Eastside for Hire)	Operational	Not Started												

* Audited Suns, Inc. under Host from the 2017 Audit Plan / Adding Fire Station Westside

Key:	Complete
	In Process
	Not Started

CAPITAL PROGRAM – AUDIT UNIVERSE



- \$4 Billion Total Estimated Project Costs through 2022
- 2017 Audits – IAF, Delta Lounge Tenant Improvement, Pier 66 Norwegian Tenant Improvement
- 2018 Audits – IAF, North Satellite, (recommending Fire Station West Side)
 - ✓ 36% of Total Estimated Capital Cost

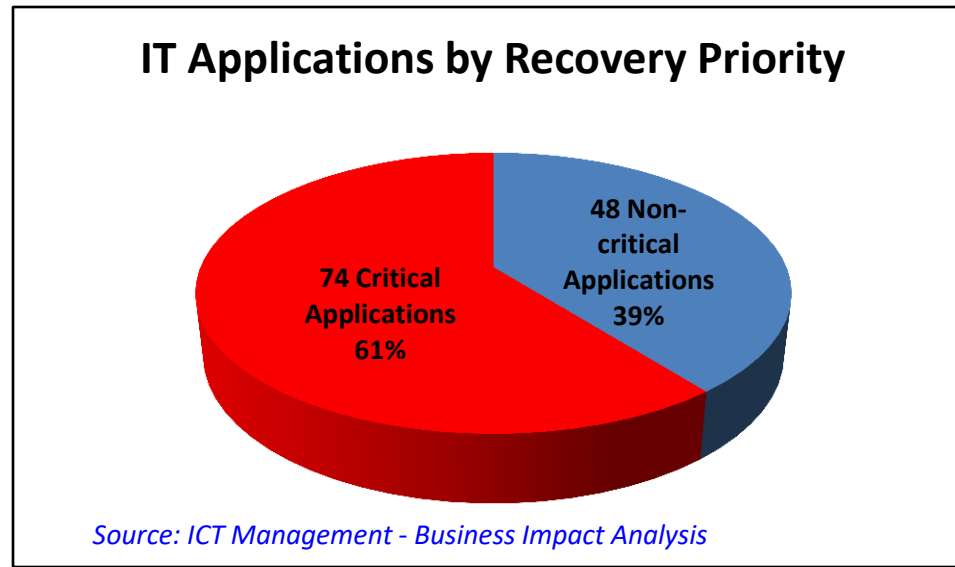


CAPITAL PROGRAM – PROPOSED ADJUSTMENT TO 2018 AUDIT PLAN

Completed Suns, Inc. from 2018 Audit Plan. Suns, Inc. audited under Host, Inc. from the 2017 Audit Plan. The audit scope covered January 2015 through December 2016.

Recommendation

- Add Fire Station West Side:
 - ✓ Original estimate \$2.4 million revised to \$5.5 million
 - ✓ Understand and validate rationale for revised estimate
 - ✓ Extremely high cost per square foot / Commission interest



- Utilizing NIST Framework (National Institute of Standards & Technology)
- Focus on Critical IT Applications
- Critical Applications include Priority 1 & Priority 2:
 - Priority 1, is when downtime \leq 2 hours
 - Priority 2, is when downtime \leq 4 hours
- 2017 IT Audits – Change Management & Disaster Recovery (ICT)
- 2018 IT Audits – Change/Patch Management, Data Centers, & T2 ParkingSoft System (AVM).

2018 Audit Plan

Limited Contract Compliance

- Beecher's Handmade Cheese
- Sky Chefs, Inc.
- Suns, Inc.²
- Dollar Rent-A-Car (CMC Investments, Inc.)
- Thrifty Car Rental (DTG)
- Fox Rent-A-Car

Operational

- Taxi Cabs (ESF)
- TNC's – Rematch (EKPI's)
- Maritime Maintenance Shops¹
- Capital Program IAF
- Capital – W. Fire STA²
- Capital Program North Satellite
- Northwest Seaport Alliance
- Seatac Utilities¹
- Disbursements / Accounts Payable¹

Information Technology

- Data Centers - AVM
- ParkingSoft System
- Change/Patch Management - AVM

¹ Carryover to 2018 from 2017 Audit Plan

² Suns Inc. audited under Host, Inc. from 2017 Audit Plan / Adding West Fire Station

INDEPENDENCE REQUIREMENT

International Standards for the Professional Practice of Internal Auditing (Standard 1110) requires annual confirmation of organizational independence.

- The Port of Seattle Internal Audit Department continues to maintain organizational independence by reporting functionally to the Audit Committee and administratively to the Executive Director.

QUALITY ASSURANCE REQUIREMENTS

- Institute of Internal Audit (Standard 1312) requires both an internal & external quality assurance and improvement program. External assessments (Peer Reviews) need to occur at least every 5 years.
- Generally Accepted Government Auditing Standards / Government Accountability Office requires an external assessment every 3 years.

Our approach:

- Conduct a self assessment in the 2nd Quarter of 2018. In late 2018 / early 2019, after implementing the recommendations from this self assessment, we will conduct an external assessment.



IIA Standard 2500.A1 – Requires a system to monitor that management actions have been effectively implemented.

- Internal Audit implemented a new monitoring / follow up process
 - ✓ Beginning with audit reports from 2017 Audit Plan
 - ✓ High or Medium rated issues

- Status Update on outstanding audit issues will be presented at the June Audit Committee Meeting

Operational Audits

- 1) Delta Lounge – Tenant Reimbursement Agreement
- 2) Pier 66 – Norwegian Tenant Improvement Partnership
- 3) Fishing & Commercial Operations – Maritime
- 4) Employee Parking – Airport Garage
- 5) Transportation Network Companies

DELTA LOUNGE – TENANT REIMBURSEMENT AGREEMENT

BACKGROUND

The Port and Delta entered into an Agreement to construct a 23,000 square foot lounge for its members and guests. While Delta was responsible for the cost of completing the interior, the Agreement required the Port to reimburse Delta for the cost to construct the shell (exterior) and core utilities.

Port Commission approved a project budget of \$13.7 million. Construction began in October 2015 and was completed and fully functional in October 2016. As of January 2018, total construction costs were \$24 million, of which \$13.2 million was paid by the Port.

Port Management and Delta complied with the requirements of the Tenant Reimbursement Agreement.

DELTA LOUNGE – TENANT REIMBURSEMENT AGREEMENT

RESULTS

(High) The Agreement does not give Port management the authority or ability to be included in the selection process of contractors. However, the Port remained financially responsible for the majority of costs from these decisions. Below we list three examples:

- Delta Airlines received three bids, for design services, and selected ECH architect, with a bid of \$317,245. The bid was later revised to \$623,000. IA estimated that the Port incurred an additional \$190,000 as a result.
- Delta Airlines allowed PCL to review bids, including their own, and to select themselves as the successful bidder of “self-performed” work. PCL’s estimate was \$203,473 but the actual cost was \$450,536.
- The full contingency fund of \$912,000 was expended, however the Port was not given an opportunity to assess if it aligned to the original scope of the project or to determine the reasonableness of the charges until after the work had been completed.

DELTA LOUNGE – TENANT REIMBURSEMENT AGREEMENT

MANAGEMENT RESPONSE

Will be discussed by:

Ralph Graves – Sr. Director Capital Development

For detailed management response – see Audit Report



PIER 66 – NORWEGIAN TENANT IMPROVEMENT PARTNERSHIP

BACKGROUND

On August 14, 2015 the Port of Seattle (Port) entered into a Lease Agreement (Agreement) with Norwegian Cruise Line Holdings LTD. (NCLH) to renovate the cruise terminal at Pier 66.

The Agreement included a 15 year lease with NCLH with an option to extend the lease for an additional five years. The total cost of the renovation was estimated at \$30 million. The Port agreed to invest up to one-half of the renovation costs, not to exceed \$15 million, through its property tax levy.

The renovation expanded space for processing cruise passengers from 44,000 square feet to 151,000 square feet. The facility now accommodates 4,500 passengers, both embarking and disembarking, from a single vessel.

PIER 66 – NORWEGIAN TENANT IMPROVEMENT PARTNERSHIP

RESULTS

(Medium) Port management should strengthen its monitoring and approval of change orders. We tested two change orders (CO's) that represented the largest financial change and identified the following exceptions:

- Eight approved subcontractor CO requests did not include quotes and/or a breakdown of costs to substantiate or support the cost of the CO at a total cost of \$98,000.
- NCLH did not re-estimate the costs to determine whether the CO costs were reasonable prior to submitting the CO request to Port Management.

PIER 66 – NORWEGIAN TENANT IMPROVEMENT PARTNERSHIP

MANAGEMENT RESPONSE

Will be discussed by:

Ralph Graves – Sr. Director Capital Development

For detailed management response - see Audit Report



FISHING & COMMERCIAL OPERATIONS - MARITIME

BACKGROUND

Maritime Operations manages Terminal 91, which includes: Pier 90, Pier 91, and an upland area with leased premises, and storage for trailers, containers, cranes, and fishing nets. The Terminal provides short-term and long-term moorage for fishing and commercial vessels, including: tugs, barges, ferries, research vessels, and military and commercial vessels in lay-up or idle status; additionally, several leased buildings are housed at the Terminal.

REVENUE GENERATED BY BILLING CATEGORY			
Billing Category	2015	2016	2017
Dockage	\$2,388,826	\$2,246,035	\$2,271,232
Wharfage	405,963	509,262	432,283
Electrical	492,490	520,754	555,230
Water	52,347	53,453	68,099
Equipment Rental	211,635	181,070	252,515
Security	126,592	106,136	101,736
Yard Use	391,270	489,593	658,331
Miscellaneous	5,251	6,644	9,469
Total Revenue	\$4,074,375	\$4,112,945	\$4,348,895

FISHING & COMMERCIAL OPERATIONS - MARITIME

RESULTS

1. (High) The Maritime Operations Team and outsourced security personnel are responsible for manually observing, counting and measuring a constantly rotating clientele of marine vessels, land vehicles (i.e. trucks, cranes, fishnets, etc.) and storage. We observed this process to be manual, labor intensive and occasionally prone to error. Revenue leakage can be exacerbated if an individual is sick or out of the office, as limited observations/counts generally occur during that period. Additionally, segregation of duties are not adequate.

2. (High) Maritime Operations utilizes a variety of internally developed Access databases and Excel spreadsheets to record billable activities. The billing process is at risk of error due to a manual process and limited error checks. The process is also inefficient, labor intensive, and includes redundancies.

FISHING & COMMERCIAL OPERATIONS - MARITIME

MANAGEMENT RESPONSE

Will be discussed by:

Stephanie Jones Stebbins, Managing Director, Maritime
Kelli Goodwin, Manager, Maritime Operations

For detailed management response - see Audit Report



EMPLOYEE PARKING – AIRPORT GARAGE

BACKGROUND

The Seattle-Tacoma International Airport (STIA) Parking Garage is owned and operated by the Port of Seattle. The garage is the largest parking facility in the region with more than 13,000 stalls. The garage offers General parking and Terminal Direct parking. General parking is available on floors one to three and five to eight. Terminal Direct parking is available on the fourth floor and provides direct access to the Main Terminal via sky bridges at a slightly higher cost.

In 2017, ParkingSoft was implemented replacing the Scheidt & Bachmann parking system. ParkingSoft includes automated entrance and exit gates and processes prepaid tickets and credit cards. It also monitors the remaining capacity.

Employee Parking encompasses parking for Port employees, contractors, consultants, and tenants (i.e. concessionaires). As of November 2017, a total of 2,671 parking access cards were issued. Revenue generated from employee parking was approximately \$9.3 million in 2016 and increased to \$9.6 million in 2017.

EMPLOYEE PARKING – AIRPORT GARAGE

RESULTS

1. (Medium) Processes related to Employee Parking at the STIA Garage do not always incorporate internal controls to reduce the likelihood of errors and policy exceptions. Opportunities also exist to streamline processes, thereby increasing efficiencies.

2. (Medium) Motorcyclists do not enter the garage the same way. Some enter on the first floor, and pay \$30, while others bypass the gated entry and enter via Arrivals on the third floor, thus not paying a fee. Once in the garage, motorcyclists use two unofficial parking locations. If an accident were to occur, the Port would most likely be liable for not providing an official parking space.

EMPLOYEE PARKING – AIRPORT GARAGE

MANAGEMENT RESPONSE

Will be discussed by:

Michael Ehl, Director, Airport Operations
Jeff Hoevet, Senior Manager, Airport Operations

For detailed management response - see Audit Report



TRANSPORTATION NETWORK COMPANIES

BACKGROUND

Lyft and Rasier, LLC (Uber) entered into a pilot program with the Port on March 31, 2016 and Wingz entered into a pilot program on April 4, 2016. The agreements expired on March 31, 2017 and all three are now operating on a month to month agreement.

The agreements allow Lyft, Uber, and Wingz, collectively known as Transportation Network Companies (TNCs), to pick up and deliver passengers at the airport. During the audit period, TNCs paid the Port \$5.00 per outbound trip or passenger pickup. As of late 2017, the fee was raised to \$6.00 per trip.

TNCs connect riders and drivers through a mobile application. TNC platforms sometimes referred to as ridesharing, connect passengers with drivers using their personal or non-commercial vehicle. The mobile application has functionality to provide the requestor, or person receiving the ride, with an estimated pick up time, manage the payment process, and provide customers an opportunity to evaluate the driver.

TRANSPORTATION NETWORK COMPANIES

RESULTS

1. **(Medium)** Uber provided IA with a list of drivers that operate at the airport. When IA meshed this with available trip information by month, we noted some discrepancies. Uber recalculated trip activity based on discrepancies noted, and through this process, Uber “self-identified” an underpayment of revenue of \$30,045.

2. **(Medium)** TNCs are growing faster than expected and many of the TNC drivers did not display or present a valid King County Decal, a for-hire permit, or the TNC Trade Dress (Uber, Lyft or Wingz Logo). During the time of our audit, King County was behind on issuing Decals and permits, however, drivers appeared to lack a sense of urgency to pick up and display this information.

TRANSPORTATION NETWORK COMPANIES

MANAGEMENT RESPONSE

1. Aviation staff agrees with the Audit team's recommendation to seek recovery of underreported revenue. Staff will pursue collection of the \$30,045 from Uber and \$1,250 from Wingz.
2. In early January, Port staff communicated with TNCs regarding consistent enforcement of credentials. Enhanced enforcement is underway (February 1, 2018) in agreement from King County.

For detailed management response - see Audit Report

Limited Contract Compliance Audits

1) HOST INTERNATIONAL, INC.

HOST INTERNATIONAL, INC.

BACKGROUND

The original Agreement between Host and the Port was executed June 6, 2003 for the right to operate certain food and beverage concessions at the Airport. In March 2016, the MAG was adjusted downward to approximately \$5.2 million because seven stores/units were deleted from the Agreement; nonetheless, the concession revenues from Host have consistently exceeded the MAG. The table below reflects the total concession revenue earned by the Port through the Host agreement.

HOST CONCESSION REVENUE BY CATEGORY*		
Category	2015	2016
Food and Beverage (Includes branded and non-branded)	\$5,563,032	\$5,129,985
Alcohol, Beer, Wine	1,835,889	1,803,435
Retail	280,397	244,252
TOTAL	\$7,679,318	\$7,177,672

* Data Source: PeopleSoft for 15 Stores Operated Under Agreement 000435

As of 2016 Host also operated an additional nine stores under Agreement 000439



HOST INTERNATIONAL, INC.

RESULTS

(Medium) For the period, October 2015 to November 2016, Host reported a DBE participation of 24.29%. Host also reported a DBE participation of 17.15% under the Lease and Concession Agreement with Seattle Restaurant Associates, a partnership of Host and Uwajimaya. The targeted DBE participation goal in both Agreements was 25%.

MANAGEMENT RESPONSE

The federal regulation requires Host to make good faith efforts to maintain the 25%. Port staff have asked Host to present documentation on their good faith efforts to achieve the ACDBE participation goal for the period of the audit as well as for the time subsequent to that covered by the audit by the end of March 2018. Also, Port staff recognizes the need for additional mechanisms in the lease, short of default, for holding tenants accountable for non-compliance with lease provisions including ACDBE good faith efforts. Port staff will develop recommendations towards this goal for incorporation into future leases by the end of September 2018.