

# Port of Seattle Audit Committee

December 7, 2018

P69, Commission Chambers

1:00 PM – 3:00 PM



## COMPREHENSIVE 2018 AUDIT STATUS

### COMPLETED AUDITS - 2017 AUDIT PLAN CARRYOVER

Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Host International, Inc.	Limited Compliance												
Delta Lounge	Operational												
P66 Norwegian Cruise Line Partnership	Operational												
Employee Parking	Operational												
Transportation Network Companies	Operational												
Terminal 91 Dockage	Operational												

### 2018 AUDIT PLAN STATUS

Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Beecher's Handmade Cheese	Limited Compliance												
Disbursements / Accounts Payable	Operational												
Sky Chef's Inc.	Limited Compliance												
Capital - N. Satellite	Operational												
Dollar Rent a Car	Limited Compliance												
TNC's Rematch (EKPI's)	Operational												
Fox Rent-A-Car	Limited Compliance												
Thrifty Car Rental	Limited Compliance												
Parking Soft System (Protiviti)	IT												
Capital - Westside Fire Station	Operational												
Cruise Related Investments	Operational												
Add: Cash Controls - Seatac Parking Garage	Operational												
Change Management - AVM (Point B)	IT												
Seatac Utilities	Operational												
Capital - IAF	Operational												
Data Centers - AVM	IT												
Marine Maintenance Shops***	Operational												
Add: Personally Identifiable Information	IT												
Add: Sixt Rent-A-Car LLC	Limited Compliance												
Remove: Taxi Cabs (Eastside for Hire)*	Operational												
Remove: Northwest Seaport Alliance**	Operational												

**Key:**

Complete
In Process / Carryover to 2019 Audit Plan
Add / Remove from Audit Plan

\* Contract with ESFH will not be renewed. Legal settlement/contract modification with ESFH addresses risk.

\*\* Audits will be performed in 2019 by an external audit firm.

\*\*\*Internal Audit was unable to complete this audit. Audit will be reassigned and completed in 2019.

# Key 2019 Audit Plan Drivers



## Lease and Concession Audit Plan Approach

➤ Approximately 111 leases

Agreement Year	Total Revenues	Sea-Tac	Economic Development
2017	\$112 MM	\$109 MM	\$3 MM
2018	107 MM	104 MM	3 MM
Total	\$219 MM	\$213 MM	\$6 MM

➤ Approach

Rating	Number of Leases	Revenue	Percentage	Frequency	Annual
High	9	\$113 MM	52%	4 year cycle	2-3
Medium	24	85 MM	39%	8 year cycle	2-3
Low	78	21 MM	9%	As needed	
	111	\$219 MM	100%		6



## Lease and Concession Audit Plan Approach

### Proposed 2019 Audits

Name	Division	Rating	2017/2018 Revenues
Enterprise Rent A Car*	Aviation	High	\$23,799,715
Anton Airfood	Aviation	Medium	3,568,762
Sixt Rent A Car LLC	Aviation	Medium	2,672,348
Mad Anthony's	Maritime	Low	913,840
Total			\$30,954,665
<b>Contingency**</b>			
Lenlyn Limited	Aviation	Medium	2,642,404
ALClear, LLC	Aviation	Low	403,679
			\$3,046,083

### Two Year Concession Audit History by Revenue



\* Includes: National, Alamo, and Enterprise

\*\* If resources exist, at director's discretion audit will be moved to the 2019 Audit Plan.

## Capital Projects Audit Plan Approach

### ➤ 102 approved projects

Division	Budget	Expense to Date
Aviation	\$3,594 MM	\$925 MM
Non-Aviation	125 MM	45 MM
	\$3,719 MM	\$970 MM

### Proposed 2019 Audits

Name	Management Rating	Budget	Note
Checked Baggage Recap/Optimization	Yellow	\$445 MM	Behind Schedule/Budget Increase
Noise Insulation Programs (FAA Part 150)	N/A	Various	Commission Request
Concourse D Hardstand Terminal	Yellow	37MM	
Shilshole Tenant Service Building	Red	10 MM	

Contingency*	Management Rating	Budget
Cruise Terminal	Yellow	100 MM

\* If resources exist, at director's discretion audit will be moved to the 2019 Audit Plan.



# Information Technology Audit Plan Approach

## Proposed 2019 Audits

Name	Risk (from IT Audit Universe)	Selection Criteria
Security of Personally Identifiable Information	High	Emerging Risk
HIPAA – Compliance	High	Regulatory Requirement
Payment Card Industry (PCI) – Quality Security Assessor	High	Contractual Requirement
Closed Network System Security	Critical	Emerging Risk
T2 Airport Garage Parking System Replacement	High	Management Request

Selection Criteria	Explanation
Emerging Risk	Selected from IT Audit Universe based on risk and perceived benefit to the Port
Regulatory Requirement	Periodic Review of HIPAA Compliance is required under § 164.308(a)(8) – Evaluation
Contractual Requirement	Annual review required by contract for Port Credit Card processing
Management Request	Requested by Sr. Management in Risk Interviews

### Contingency\*

Inventory and Control of Hardware Assets

\* If resources exist, at director’s discretion these will be moved to the 2019 Audit Plan.



# Proposed 2019 Audit Plan

## Limited Contract Compliance

- Sixt Rent A Car LLC<sup>1</sup>
- Enterprise Rent A Car
- Anton Airfood
- Mad Anthony's
- Marketing Fund-Concessions

## Operational

- Airport security screening program
  - Diversity Program
  - Marine Maintenance<sup>2</sup>
- Capital
- Baggage Optimization
  - Noise Insulation Programs (FAA Part 150)
  - Concourse D Hardstand Terminal
  - Shilshole Tenant Service Building

## Information Technology

- Security of Personally Identifiable Information<sup>1</sup>
- HIPAA – Compliance
- PCI-Quality Security Assessor
- Closed Network System Security
- T2 Airport Garage Parking System Replacement

<sup>1</sup> Approved addition to plan at 9/28/2018 Audit Committee Meeting

<sup>2</sup> Internal Audit was unable to complete this audit. Audit will be reassigned and completed in 2019.



# Contingency Audits - if resources exist, at director's discretion, these will be moved to the 2019 Audit Plan.

## Limited Contract Compliance

- Lenlyn Limited
- AIClear, LLC

## Operational

- 2019 Taxi Cab Contract
- Capital
- Cruise Terminal

## Information Technology

- Inventory and Control of Hardware Assets

## 2018 / 2017 Recoveries

2018 Audits	Amount
Dollar Rent -A-Car	\$22,164
*Fox Rent-A-Car, Inc.	98,310
*Thrifty Car Rental	203,764
**North Satellite Renovation and Expansion Project	1,532,281
Total	\$1,856,519

\* Agreed to pay, but not yet collected.

\*\*Not collected

2017 Audits	Amount
Hertz Car Rental	\$58,554
Bell Harbor International Conference Center	26,387
Airport Lounge Development Corporation	118,745
Clear Channel Outdoor, Inc.	11,259
TNC (Uber, Wingz, Inc.)	37,993
Total	\$252,938



## 2017 / 2018 Controllable Cost Over-Runs

Audit	Amount
North Satellite Renovation and Expansion Project	\$31,800,000
Delta Lounge	190,000
International Arrivals Facility – Labor Burden	\$8,200,000 – 11,000,000
International Arrivals Facility – Insurance	2,800,000
Total	\$42,990,000 – 45,790,000



# Tracking of Significant Overdue Issues

Audit	Owner	Issue	Status
North Satellite Renovation and Expansion Project	Jeffrey Brown	<ul style="list-style-type: none"> <li>➤ August 2017 Port Management communicated to the Commission that a request was made to Alaska seeking reimbursement of \$1.2 MM</li> <li>IA recommended to seek reimbursement</li> </ul>	<ul style="list-style-type: none"> <li>➤ June 20, 2018 letter provided to Alaska requesting ~ \$1.5 MM</li> <li>Not invoiced</li> </ul>
On / Off Boarding of Consultants and Contractors	HR Director	<ul style="list-style-type: none"> <li>➤ A process has not been established to account for and manage / monitor independent contractors and contingent workers</li> <li>IA recommended a system to track non-port workers</li> </ul>	<ul style="list-style-type: none"> <li>➤ Processes and procedures have not been implemented</li> <li>Policy developed</li> </ul>
Centralized International Support Services Agreement	Tom Tanaka	<ul style="list-style-type: none"> <li>➤ \$55,000 overpayment to VIP</li> <li>IA recommended amendment to contract</li> </ul>	<ul style="list-style-type: none"> <li>➤ Legal is drafting amendment for commission approval ~ \$300,000</li> </ul>



# Audits

- 1) Sea-Tac Utilities
- 2) International Arrivals Facility (IAF)
- 3) AV/M and F&I Data Centers
- 4) AV/M IT Change Management and Patch Management
- 5) Thrifty Car Rental

## Sea-Tac Utilities

- Established as a utility in 2001
- Water, Natural Gas, Electricity, Garbage, Waste Water
- Approximately \$16 MM utility costs
- ~50% billed through metered use

# Results

## 1. **Medium** – Metered Accounts

- Over 750 Metered Accounts
- Process to validate the completeness of metered accounts list or the accuracy of the reads
- Incorrect Billing
- Broken & Missing Meters

# Results

## 2. Medium – Timely Billing

- Timely notification of billing information within Port Departments.
  - Lease Additions, Terminations, Adjustments...etc
  - 56% of notifications provided late
- Late billings to tenants
  - 74% of time for Electricity
  - 88% of time for Water/Gas



## MANAGEMENT RESPONSE

Management to discuss in person.  
Detailed response presented in audit  
report.



## International Arrivals Facility (IAF)

- September 2018, GMP amendment approved with Clark Construction - \$774 MM
  - Overall program cost - \$968 MM
  - Estimated completion May 2020
  
- Pay Application Process Robust / Well Established
  
- Approach – identify red flags that might impede successful and timely completion of IAF
  
- Identify areas where we can improve on future capital projects

# Opportunities

## 1. **Medium** - Set Labor Multiplier at market rates

- Labor multiplier for Clark set at 88.7% in new GMP
- Labor increased from 35.7% to 88.7%
  - U.S. Labor Statistics Seattle Region = 30%
  - Industry Standard Rate Between 30% - 40%
  - \$11 MM to \$8.2 MM increased payroll costs
  - Non-audit clause included in GMP contract

# Opportunities

## 2. **Medium** - Set General Liability Insurance (GLI) range from Risk Management

- GLI set at \$7.49 per \$1,000 of contract in new GMP
  - Port's Risk Management recommends \$3.95
  - External consultant calculated Seattle @ \$3.85
  - \$2.8 million in additional insurance cost
  - Non-audit clause included in GMP contract

# Opportunities

## 3. **Medium** - Require Not-to-Exceed (NTE) contracts with subcontractors

- NTE vs. Lump-Sum Contracts with Subcontractors
  - $\text{NTE} = \text{Actual Cost} + \% \text{ for Overhead \& Profit}$
  - Lump Sum = 100% of contract value, regardless of actual cost

## MANAGEMENT RESPONSE

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## AV/M and F&I Data Centers

The Data Centers/IDFs (Intermediate Distribution Frames) contain the Airport's servers, applications and network infrastructure which are critical to airport operations.

Areas reviewed during this audit:

- Physical Security
- Cleanliness
- Fire Detection/Suppression
- Emergency Power
- Seismic bracing
- Other related controls



# RESULTS

## I. Physical Access to Facilities

**High** – Many rooms in the sample allowed access to hundreds of people with no legitimate business need.

### Examples:

- For one of the server rooms– 82 people had key card access, while 1560 had physical key access
- For one of the telecommunication rooms – 577 people had key card access, while 1472 had physical key access.
- For another server room – In 2017; 32 individuals in the Police Department used the back door approximately 6000 times, which dropped to only 3 times in 2018 (this was due to construction in the garage, which limited access to the garage from the rooms' back door)



# RESULTS

## II. Physical Facilities Management

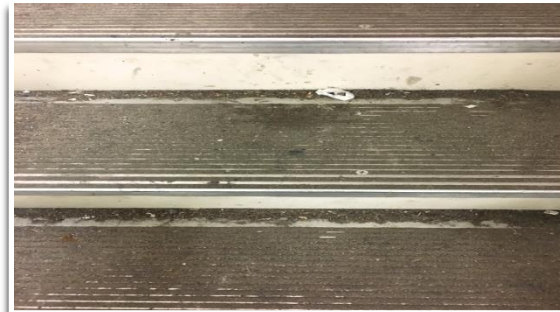
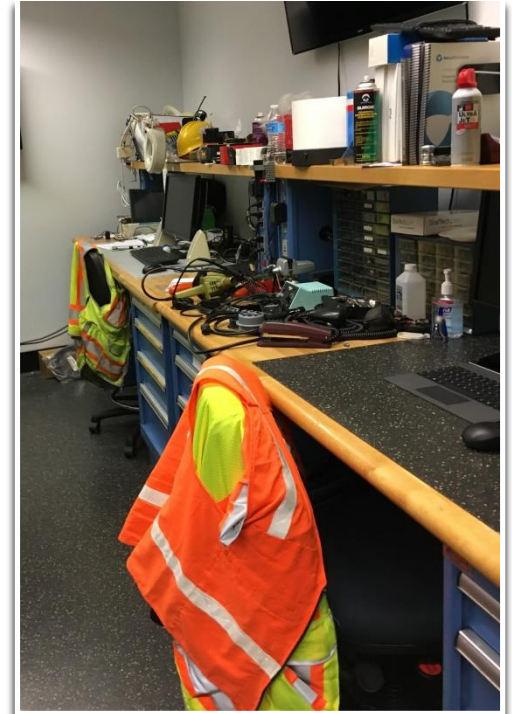
**Medium** - 77% of the rooms in the sample contained varying levels of flammable material, clutter, dust, and storage of inappropriate materials (including Christmas trees, old equipment, carts, etc.). Rooms with gas fire suppression lacked warning signage as required by state law.

CO<sub>2</sub> is being used as a Fire Suppression System in one of the rooms reviewed. The Environmental Protection Agency (EPA) states:

*“At concentrations greater than 17 percent, such as those encountered during carbon dioxide fire suppressant use, loss of controlled and purposeful activity, unconsciousness, convulsions, coma and death occur within 1 minute of initial inhalation of carbon dioxide”*

The room additionally lacked State Law and NFPA (National Fire Protection Association) Standard #12 required warning signs to alert people.

# Examples – Clutter, Dust, Storage



# Example – CO2 Fire Suppression in Generator Room



# RESULTS

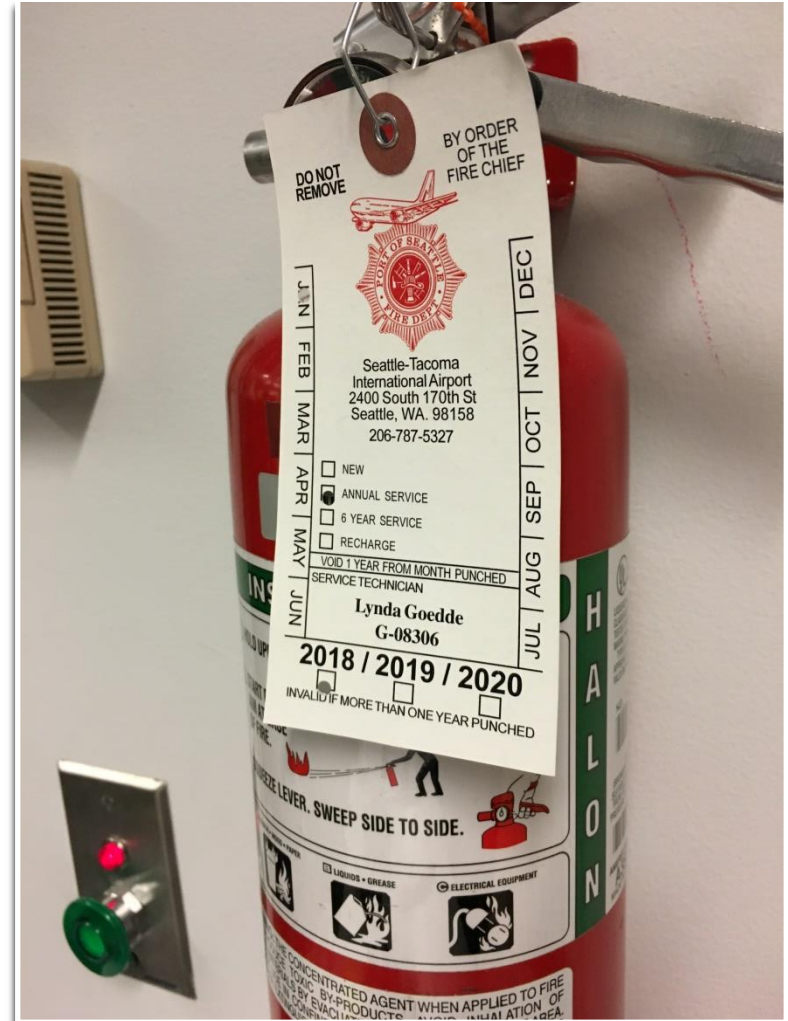
## III. Protection Against Environmental Factors

**High** - 35% of the rooms reviewed did not have fire suppression capability and 55% did not have fire extinguishers. Four rooms had Halon fire extinguishers which are ozone-depleting and do not support the Port's value for being a responsible steward of the environment.

Types of Fire Extinguishers being used:

- Halon
- Halotron
- ABC
- Ammonium Phosphate
- Foam

## Examples – Halon Fire Extinguishers



## MANAGEMENT RESPONSE

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# INFORMATION TECHNOLOGY AUDIT AVIATION MAINTENANCE IT CHANGE MANAGEMENT AND PATCH MANAGEMENT

January 2014 – November 2018

Prepared by Point B in partnership with the Port of Seattle Internal Audit department



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# BACKGROUND

## Change Management

A broadly accepted, industry best-practice that governs the identification, prioritization, authorization, release, and communication of all changes to production environments

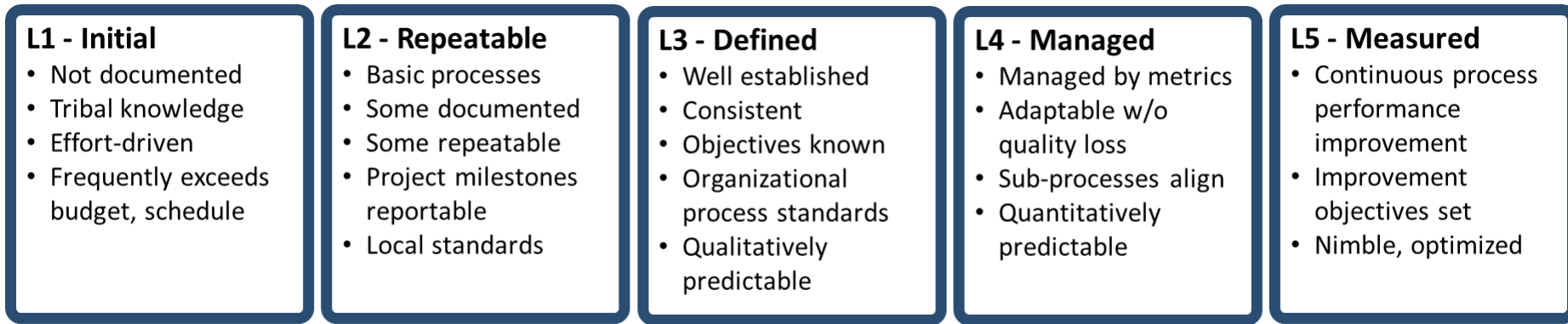
## Patch Management

Processes and controls that govern the identification, assessment, prioritization, testing, and application of critical application and security patches to the production environments

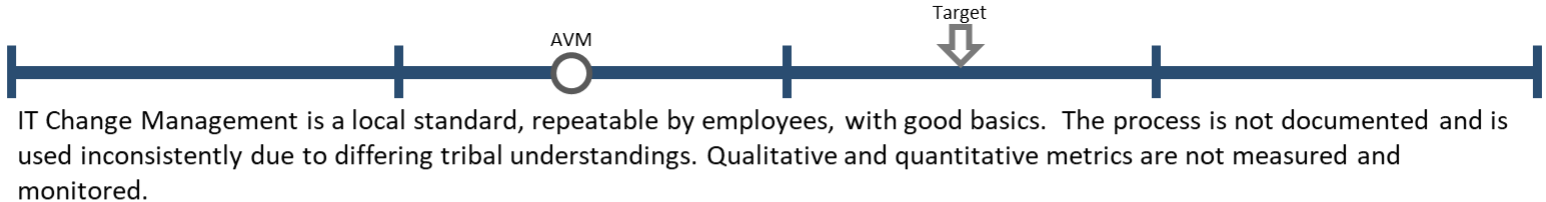


# RESULTS

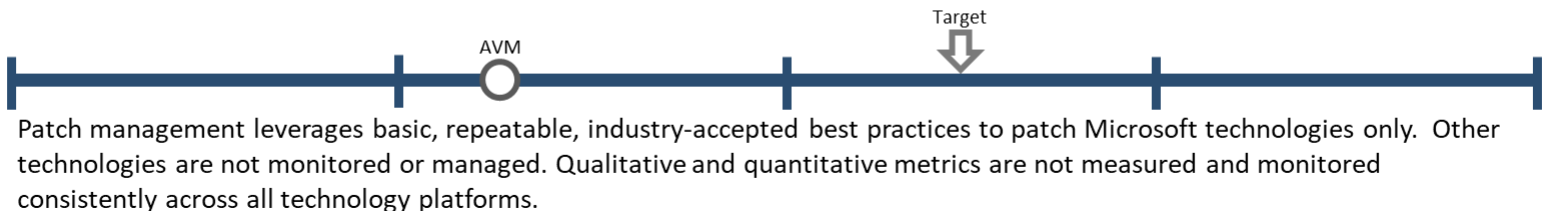
The following diagram compares the AV/M IT Change Management and Patch Management process maturities to a standard Capability Maturity Model. While reflecting many best practices, the internal processes and controls require further maturation in order to meet the requirements of a critical infrastructure environment



IT Change Management



Patch Management



# RESULTS

## I. IT Change Management

**Medium** – AV/M's IT Change Management processes are straightforward and repeatable, but require further maturation. The established processes also need to be consistently followed in order to meet the requirements of critical infrastructure environments.



# RESULTS

## II. Patch Management

**Medium** - While some technologies (Windows servers and desktops) are appropriately managed, AV/M does not maintain the control processes and tools necessary for effectively managing patch compliance over the full breadth of systems they support.

For example; patch management is not effective for unsupported Microsoft operating systems and applications, or for Linux operating systems.



## MANAGEMENT RESPONSE

Management to discuss in person.  
Detailed response presented in audit  
report.



## Thrifty Car Rental

- Minimum Annual Guarantee - 10% of Gross Revenue
  
- Customer Facility Charge - \$6
  
- 2014 – 2017
  - Percentage Fees ~ \$1.5 MM / Year
  - CFC Fees ~ \$2.1 MM / Year

## Results

1. **Medium** - \$10,358 due in additional Percentage Fees. (Incidental Revenue)
2. **Medium** - \$111,912 due in additional CFC fees. (Waived CFCs)

## Management Response

- Management will seek to recover the fees (including audit costs), together with any applicable late fees and interest charges. Management will also communicate both verbally and in writing their obligations with respect to revenues and CFC's.