

March 10, 2020

Re: Office of the Washington State Auditor's Exit Recommendations, Port of Seattle, Audit Period Ending, 12/31/2018

The Port of Seattle extends its appreciation to the State Auditor's Office (SAO) audit team. We value the work performed and the recommendations provided for Port consideration for which full agreement is expressed. Please find as follows, the Port's response and actions for each of the Exit items.

State Auditor Exit Recommendation: Policy for Professional Services Procurement – Architectural and Engineering (A&E)

The Port's Policy for Consulting Services section 7.3 on publication and solicitation says:

- *Policy 7.3.1. For procurements with contract value(s) less than \$50,000, the Port is not obligated to publish or issue a solicitation*
- *Policy 7.3.2. For procurement with contract value(s) less than \$200,000, the solicitation may be in the form of a letter or email directed to specific firms.*

RCW 39.80.030 states each agency shall publish in advance that agency's requirement for professional services. The announcement shall state concisely the general scope and nature of the project or work for which the services are required and the address of a representative of the agency who can provide further details. An agency may comply with this section by:

- (1) Publishing an announcement on each occasion when professional services provided by a consultant are required by the agency; or*
- (2) Announcing generally to the public its projected requirements for any category or type of professional services.*

We recommend the Port modify its policy regarding publication and solicitation for professional services so advanced publication requirements are included for contracts less than \$200,000.

Port of Seattle Response:

The Port of Seattle will review and update its policy to align with RCW 39.80.30's language no later than June 30, 2020.

Currently, the Port's CPO-1 Policy Section 6, Competition, for Professional Services in Subsection 6.4 says "RCW 39.80 requires advance publication of agency requirements for Professional Services. The Port may publish an announcement for each requirement or announce generally to the public its projected requirements for any category or type of Professional Service." Typically the Port publishes an announcement for each requirement.

The Port will revise our policy to remove ambiguities regarding publication requirements.

State Auditor Exit Recommendation: Procurement for Professional Service (A&E) Contracts

We tested 17 architectural and engineering contracts and noted the Port did not follow competitive negotiation requirements for one contract for \$93,871.

We recommend the Port strengthen its internal controls over the procurement of professional service contracts to ensure compliance with state law.

Port of Seattle Response:

The contract identified in this audit was an unauthorized action made by a Port employee, who has since retired from the Port. The Port employee did not request CPO to conduct a competitive procurement process for professional services as required by RCW 39.80 and Port policy. The Port employee authorized work without having delegated authority or a contract.

Once CPO was made aware professional services had been performed without a competitive process, CPO immediately stopped work to investigate. CPO confirmed the competitive procurement process had not occurred in accordance with state law and Port policy. CPO followed the Port's policy on how to handle actions that were not authorized. This includes the ratification process in accordance with the Delegation of Authority, EX-2, Policy, which requires the Port's Executive Leader to approve the action. The ratification was approved by the Executive Leader allowing CPO to process the appropriate documents for payment.

CPO conducted training to the department's staff to prevent future unauthorized actions. The training topics included the Port's procurement requirements for professional services along with identifying who has delegated authority per Port policy.

CPO will also provide additional awareness to the Port's Executive Leaders in effort for each leader to eliminate these types of situations from occurring in the future within their respective teams.

State Auditor Exit Recommendation: Electronic Fund Transfer (EFT) Disbursements

In our review of the Port's policies and procedures over EFT disbursements, we noted the following opportunities for improvement:

- *The Port's policy did not clearly reflect staff responsibilities over the creation of new vendors and modification of current vendor bank account information in its database.*
- *The Port did not consistently document to evidence follow up procedures to confirm the validity of request for changes to vendor bank account information.*

In addition, our testing of 33 additions/modifications of vendor information noted the following exception:

- *Three requests to change vendor bank account information did not include evidence of a follow up by Port staff to confirm the validity of the request, such as contacting the managing department or the vendor directly.*

We recommend the Port strengthen its internal controls over EFT disbursements by:

- 1. Ensuring policies over EFT vendor setup and changes are clearly documented and accurately reflect staff responsibilities.*
- 2. Consistently document to evidence the Port's follow up on requests to change vendor bank account information.*

Port of Seattle Response:

The Port policy language describing staff responsibilities over the creation of new vendors and modification of current vendor bank account information was timely refined during the course of the audit to resolve the lack of clarity as noted by the auditor. We appreciate the observation shared on this. The instances noted of not having documented follow-up procedures to confirm the validity of requests for changes to vendor bank account information, reflected a lack of compliance to established procedures. We appreciate the observation shared and took timely action during the course of the audit to emphasize to staff the importance of and requirement to document all actions taken to validate any requested changes to vendor information.

The Port values the independent assessment provided by the SAO on the protocols and internal controls established by the Port to effectively administer electronic payments at a time when cyber crime continues to rise. We value and have timely implemented the SAO's exit recommendations and are also proud that the audit resulted in no findings related to the effectiveness of the Port's internal controls and administration of electronic payments. The Port administers over \$1 billion annually in payments with about 70% through electronic means. The Port assures the public that the internal controls and protocols in place, which are proactively strengthened in response to ever-evolving cyber-crime exposures, have protected public funds from any occurrence of fraudulent payments.

State Auditor Exit Recommendation: Day Labor Used for Public Works

RCW 53.08.135 states Port districts shall determine if any construction forty thousand dollars can be accomplished less expensively by contracting out. If contracting out is less expensive, the port district may contract out such project.

The Port's process to demonstrate compliance with state law is to complete a Port Crew Analysis for self-performed work exceeding \$40,000. Our audit found the Marine Maintenance Department did not consistently complete the Port Crew Analysis for self-performed work exceeding \$40,000 as required by the Port's internal process. We recommend the Port consistently complete a formal evaluation.

Port of Seattle Response:

The Port implemented a new centralized database which includes an electronic approval workflow process to manage the completion of the port crew analysis. The workflow includes approval by the Director of Marine Maintenance. This also serves as the centralized filing location for all port crew analysis for Marine Maintenance.