

Financial Stewardship

Accountability

Transparency

# Port of Seattle Audit Committee

## Internal Audit Update

Glenn Fernandes - Director, Internal Audit

April 8, 2021

Remote Meeting

2:30 PM – 4:30 PM

Operational Excellence

Governance



# Internal Audit Director's Annual Communication

Annual communication required by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards) on:

- Organizational independence
- Internal Audit Charter
- Quality assurance and improvement program
- Open issue follow-up and monitoring process

# Independence Requirement

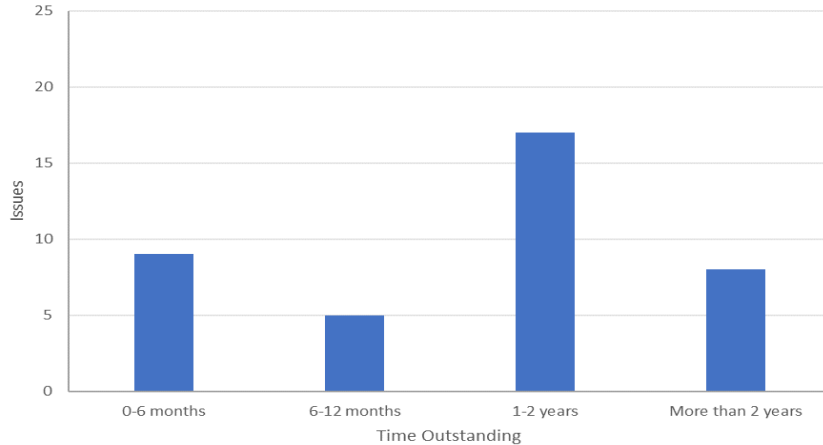
- IIA Standard 1110 requires annual confirmation of organizational independence.
- Internal Audit Department continues to maintain organizational independence by reporting functionally to the Audit Committee and administratively to the Executive Director.

# Quality Assurance Requirement

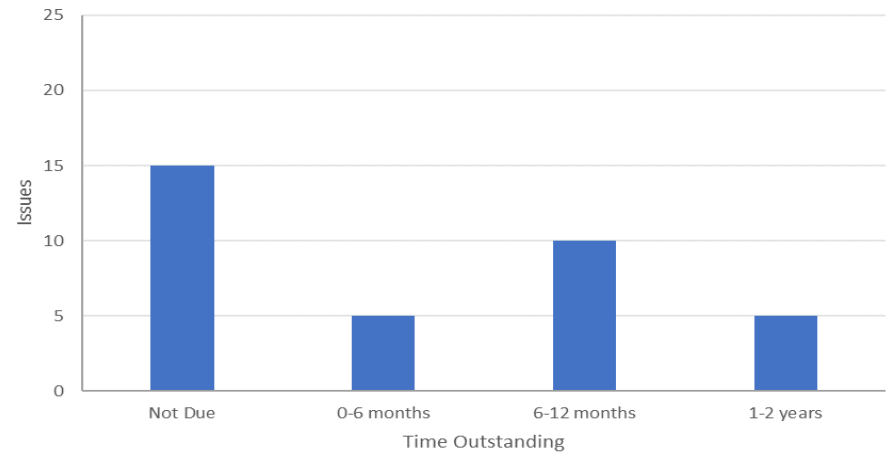
- IIA Standard 1300 requires both an internal and external quality assurance and improvement program. External assessments (Peer Reviews) need to occur at least every five years.
- Generally Accepted Government Auditing Standards / Government Accountability Office (GAO) requires an external assessment every three years.
- Most recently, in December 2018, an external assessment was conducted by the Association of Local Government Auditors (ALGA).
  - Due to COVID-19 Pandemic, the GAO has extended the peer review timeline for any affected audit organizations, for up to two years and three months beyond their review period.
- A self-assessment is conducted each year. It was last completed in August 2020.

# Open Issue Follow-Up Status – Aging Report as of April 8, 2021

39 Issues Outstanding (from Report Date)\*<sup>1</sup>



35 Issues Outstanding (from Target Date)\*<sup>2</sup>



\*<sup>1</sup> Eight issues outstanding for more than two years consist of:

- One issue - Fishing & Commercial Operations – Manual Billing Process at Risk of Error – To be built in house / Commission approved \$410,000 additional funding / implementation date, Q4 2021.
- Seven issues - IT Audits (Security Sensitive) - Exempt from Public Disclosure per RCW 42.56.420 – Issue Not Discussed in Public Session. They are: Disaster Recovery Capability (1), AV/M IT Change & Patch Management (1), AV/M Facilities & Infrastructure Data Centers (3), and Security of Personal Identifiable Information (2).

\*<sup>2</sup> Four IT issues do not have Target Dates and are not included in this chart. These issues are in the process of being addressed, however, they are more than two years past the Report Date.

See **Appendix A** for a detailed listing of outstanding issues aging as of April 8, 2021.

# Approved 2021 Audit Plan

## Limited Contract Compliance

- Rasier, LLC
- Lyft
- Lenlyn Limited<sup>1</sup>
- Seattle-Tacoma Int'l Limousine Association (STILA)
- Dilettante Chocolate, INC
- Fruit & Flower, LLC (DBA Floret Authority)

## Operational

- Rent & Concession Deferral Recovery
- Capitalization of Assets
- Art Program
- Noise Monitor Data Accuracy
- South King County Fund

### Capital

- Central Terminal Infrastructure Upgrade (Construction and Closeout Phases)
- North Terminal Utilities Upgrade – Phase 1<sup>1</sup>
- Checked Baggage Recap/Optimization - Phase II
- Restroom Renovations Phase 3 Prototype

## Information Technology

- T2 Airport Garage Parking System Replacement<sup>1</sup>
- Malware Defenses – Aviation Maintenance
- Continuous Vulnerability Management
- Biometrics<sup>1</sup>
- Payment Card Industry (PCI) - Internal Security Assessor

<sup>1</sup> Moved to 2021 audit plan from 2020 due to COVID-19 Pandemic.

# Contingency Audits - if resources exist, at Internal Audit Director's discretion, these audits will be moved to the 2021 Audit Plan.

## Limited Contract Compliance

- Dufry – Seattle JV

## Operational

- Outside Services (Professional)<sup>1</sup>
- Architectural & Engineering Consultant Rates Follow-Up Audit

### Capital

- North Satellite (NSAT) Renovation & Expansion
- International Arrivals Facility

## Information Technology

- Data Recovery Capabilities
- Wireless Access Control

<sup>1</sup> Moved to 2021 audit plan from 2020 due to COVID-19 Pandemic.

## 2021 AUDIT PLAN STATUS

Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Raiser, LLC	Contract Compliance												
Lyft	Contract Compliance												
Lenlyn Limited <sup>1</sup>	Contract Compliance												
Seattle-Tacoma International Limousine Association (STILA)	Contract Compliance												
Dilettante Chocolate, INC	Contract Compliance												
Fruit & Flower, LLC (DBA Floret Authority)	Contract Compliance												
Rent & Concession Deferral Recovery	Operational												
Capitalization of Assets	Operational												
Art Program	Operational												
Noise Monitor Data Accuracy	Operational												
South king County Fund	Operational												
Central Terminal Infrastructure Upgrade (Construction and Closeout Phases)	Operational - Capital												
Restroom Renovations Phase 3 Prototype	Operational - Capital												
Checked Baggage Recap/Optimization - Phase II	Operational - Capital												
North Terminal Utilities Upgrade - Phase 1 <sup>1</sup>	Operational - Capital												
T2 Airport Garage Parking System Replacement <sup>1</sup>	IT												
Malware Defenses - Aviation Maintenance	IT												
Continuous Vulnerability Management	IT												
Biometrics <sup>1</sup>	IT												
Payment Card Industry (PCI) - Internal Security Assessor	IT												

<b>KEY</b>	Complete
	In Process
	Not Started

Note <sup>1</sup>: Moved to 2021 audit plan from 2020 due to COVID-19 Pandemic.



# Audits Completed:

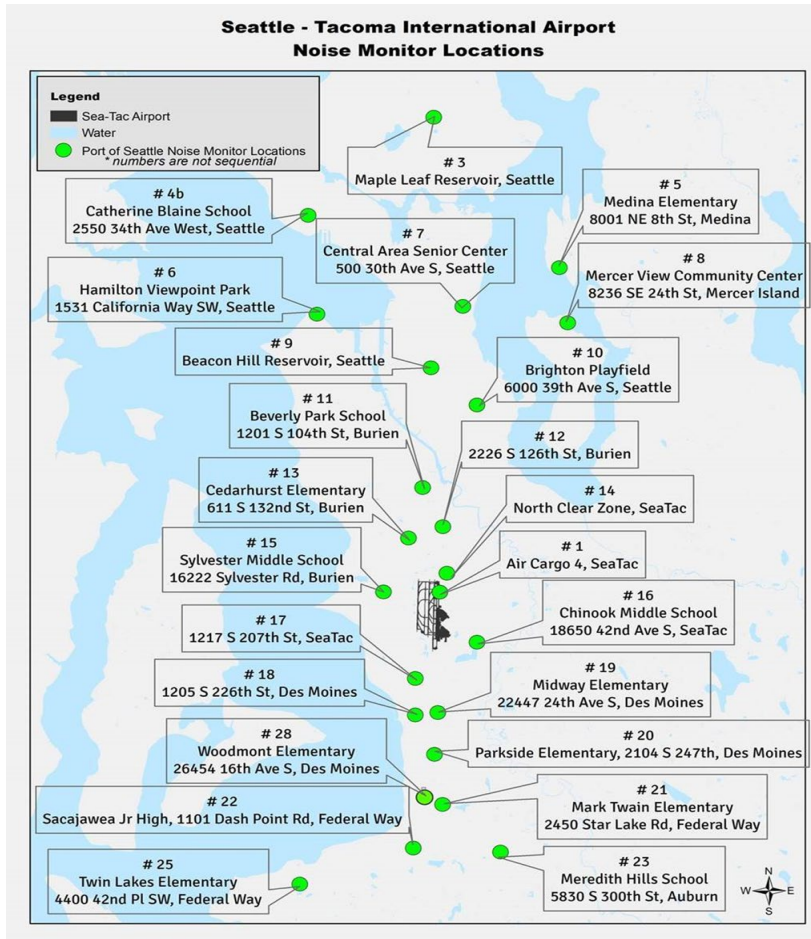
- 1) Noise Monitor Data Accuracy
- 2) South King County Fund
- 3) Central Terminal Infrastructure Upgrade  
(Construction and Closeout Phases)
- 4) Malware Defenses – Aviation Maintenance\*
- 5) Seattle-Tacoma International Association (STILA)

\* Security Sensitive – Exempt from Public Disclosure per RCW 42.56.420 – Report Not Discussed in Public Session.

# Noise Monitor Data Accuracy

- The Port owns 24 permanent and 2 portable data monitoring terminals to capture airplane noise.
- Data from these terminals is provided to a third party, L3Harris, who, among other functions, correlates the information to Seattle-Tacoma International Airport (SEA) flight data.
- The data is then provided to the Port's Business Intelligence team, who generates reports for public viewing.

# Location of 24 permanent noise terminals



## 1) Rating: Medium

- Internal Audit identified instances where data was missing or appeared to be inconsistent, which indicated that the monitoring terminals were not working as intended or that internal processes did not process the data completely or accurately.
- This information is provided as a public service and no regulatory requirement exists for inaccurate or incomplete data. However, as a public agency, information that can be relied on should be available regardless of how it is used.

## Recommendation

- Management should develop a process to proactively identify and resolve system outages. This process should also include establishing criteria (i.e., frequency of breakdowns, variance analysis) to trigger servicing and replacement decisions, in line with the service response goals outlined in the agreement with L3Harris.

# Management Response

- The Noise Programs Office has taken many steps in recent years to provide as much information as possible to the public via our website. This includes (among other items) monthly complaint reports, late night operations information and monthly noise monitor data. It is very important to our team to provide the most complete noise data possible.
- This audit was a great opportunity to have a team that may not be familiar with noise monitoring systems evaluate our data and processes. This exercise and the auditors' recommendations have highlighted ways in which we can improve the reliability and completeness of our noise data. As a result, we have put into place measures that will greatly limit the possibility of data gaps and prolonged interruptions in the future.

# Management Response (continued) - Action Items

- A system report email to Noise Programs staff now arrives each morning from L3Harris displaying the status and performance of each monitor. This report is reviewed daily by Noise Programs staff to more proactively address any data interruptions. If flight track to noise correlations are missing from a normally busy monitor or if any electrical interruptions are shown, Noise Programs staff will immediately contact L3Harris support to initiate investigation and resolution.
- L3Harris has also instituted a process for daily internal checks of the monitor system and a more proactive response. We have seen this proactive process come to fruition in recent weeks as we have established our portable noise monitoring program.
- The Noise Programs staff will work with the Port's Business Intelligence staff to identify ways to improve the transfer of noise data to the external web Tableau site and establish checks for data completeness. As part of the auditor's recommendations, the Tableau site is now being updated to include public messaging on data and system issues.

**DUE DATE: Immediately**

(Full response in Audit Report No. 2021-05; Appendix B)

# South King County Fund

- Provides resources and support for SEA area communities, specifically benefiting South King County nonprofit organizations that support communities of color and historically marginalized communities through environmental sustainability, small business capacity building, and economic recovery strategies.
- Established and approved by Port Commission through Motion 2018-14 on November 27, 2018.
- \$10 million budgeted between 2019 and 2023.
- Motion 2019-10 - Commission retained review and approval authority for proposed projects.



## 1) Rating: Medium

- The Port's website states that 10 South King County organizations were recommended to receive funding through the first cycle of the South King County Fund (SKCF) Economic Recovery Grants Program and were approved by Port Commission on December 15, 2020. However, three additional Economic Development projects have been awarded from the SKCF, two\* of which did not receive commission approval.

\* Find Ventures \$150,000 and Economic Alliance Snohomish County \$50,000.

# Recommendation

- Establish ownership of the SKCF under two co-sponsors so it is clear what projects need to be provided to Commission for approval.
- Aligning project ownership with two executives will facilitate consistent oversight and requirements of the program.
- This will also assure that approvals are obtained, organizations are selected, and the use of awarded funds are monitored to assure that they are used for the intended purpose.

# Management Response

External Relations (ER) and the Office of Equity, Diversity and Inclusion staff agrees with the report findings. Moving forward, Pearse and Bookda continue as Executive Co-Sponsors of the South King County Fund. This partnership is working well and draws upon the strengths of each department in balancing the ER and Equity goals of the fund. Andy Gregory and Alison Beason continue as Co-Project Managers of the fund with weekly check-ins and clear working agreements.

To improve our internal process, the following actions are being adopted:

- Budget allocation and tracking for SKCF will be overseen by the Assistant to Sr. Director, ER. Co-Project Managers will approve invoices and track SKCF spending. Invoices will be submitted to [SKCFund@portseattle.org](mailto:SKCFund@portseattle.org) , which will be monitored by the Assistant to Sr. Director, ER and Co-Project Managers.
- Director, CPO, will be informed of annual funding allocation from SKCF, and be given detailed information for any contract and programs that will spend from it. Procurement checklist type document has been updated to ask for notification of any procurement that will utilize SKCF.
- Communications materials will be updated to reflect all program spending from SKCF and Economic Development Department staff will be informed of regular project communications meetings.

**DUE DATE: Immediately**

## Central Terminal Infrastructure Upgrade (Construction and Closeout Phases)

- The Central Terminal Infrastructure Upgrade project (CTIUP) provided an additional 10,000 square feet of airport, dining and retail space to the Central Terminal plus associated vertical circulation.
- CTIUP was audited in two parts: the first audit focused on the bid and design phases. The results of that audit were presented to the Audit Committee in December 2020. This audit focused on the construction and closeout phases.
- Osborne Construction was awarded the contract for \$9.3M. There were \$2.9M in executed change orders and potential cost risks, which increased the construction budget to \$12.2M.
- The original expected date of substantial completion was December 26, 2019. The Port approved 278 days that extended substantial completion to September 29, 2020.
- Substantially completed on December 31, 2020 with physical completion expected in April 2021.

## 1) Rating: High

The Port was overbilled approximately \$18,181 through Force Account change orders. These were primarily due to incorrect labor hours and billing rates submitted by Osborne and an inadequate review of documentation by the Port.

- Osborne documentation did not accurately support amounts billed to the Port in all the Force Account change orders we reviewed.
- Errors were primarily due to Osborne double counting labor hours, days that an employee was not on-site, and overtime billing rates for a salaried employee.
- Opportunity for Port management to improve the change order review process, and seek and recover any amount due to the Port from overbilling.

CO	CO Purpose	Name	Issue Description	Total Billed	Expected Amount	Difference: Over/(Under) Billed	
174	North Ceiling	Superintendent	12/9/2019- 12/18/2019 Timecard shows 64 hours worked at the regular rate. Daily Field Records show 94 hours worked (104 hours billed) at overtime rate. 12/18/19 FA field records double counted.	\$ 9,832.84	\$4,458.95	\$5,373.89	
174	North Ceiling	Carpenter	12/9/2019- 12/18/2019 Timecard shows 21 hours worked. 26 hours billed 12/9/2019 counted twice (Original signed Daily FA Sheet shows 5 hours while copy has 4 hours).	1,733.78	1,400.36	333.42	
174	North Ceiling	OCC Night Supervision	OCC original request- \$7,497.67. POS approved \$6,700.94, but OCC still billed \$7,497.67	7,497.67	6,700.94	796.73	\$ 6,504.04
176	COVID Reimb.	COVID 19 Safety Supervisor (OCC Emp)	Worked 4/27 and 5/1 for week ending 5/2/20. Port charged entire week. Onsite four hours on 4/27 (per parking receipt). Billed for 8 hours.	\$11,479.20	\$8,953.78	\$2,525.42	
176	COVID Reimb.	COVID 19 Safety Supervisor (OCC Emp)	Week ending 6/6/20- Worked three days (6/1, 6/2 & 6/3). Port billed for entire week.	9,183.36	8,265.02	918.34	
176	COVID Reimb.	COVID 19 Safety Supervisor (OCC Emp)	Did not work on July 3- Independence Day holiday. Port billed for this day.	9,183.36	8,724.19	459.17	
176	COVID Reimb.	COVID 19 Safety Supervisor (OCC Emp)	Only worked on 7/31 for week ending 8/1/20. Timesheet does not indicate that days were worked on the Project between 7/25 to 7/30.	11,479.20	9,183.36	2,295.84	
176	COVID Reimb.	COVID 19 Safety Supervisor (OCC Emp)	Did not work on CTIUP 9/1 - 9/3 for week ending 9/5/20. Port charged for entire week. Did not work on 9/7, Labor Day. Port billed.	10,560.86	8,724.19	1,836.67	\$ 8,035.44
137	HSS Beam Install in North CT	OCC Salaried Employee	9/20/2019 & 9/30/2019 - 10/3/2019 timecard shows 40 hours worked at the regular rate. Daily Field Records shows 60 hours worked at overtime rate.	\$ 4,686.00	\$2,386.60	\$ 2,299.40	
137	HSS Beam Install in North CT	OCC Hourly Employee	9/16/2019- 9/20/2019 Daily Field Records shows 25.5 hours worked at regular rate. 9/20/2019 Daily field records shows 12 hours worked, possible overpayment of 4 hours.	1,417.04	1,194.76	222.28	\$ 2,521.68
155	Scaffolding	OCC Hourly Employee	4 hours billed at overtime rate for 10/26/19. Per timesheet did not work on that day.	\$306.08	\$0	\$306.08	
155	Scaffolding	OCC Salaried Employee	8 hours billed at overtime rate for 10/26/19. Timesheet does not indicate time worked.	814.00	0	814.00	\$ 1,120.08
						<b>Total</b>	<b>\$18,181.24</b>

- The Port was billed at an overtime rate for a salary employee (Example 1).
- Hours reported on the Daily Force Account Field Documents were more than actual hours paid by Osborne to their employees. (Example 1).
- Multiple Daily Force Account Field Documents (12/9/2019 through 12/13/2019) appear to be copies with only the Port's Field Inspector's original signature (Example 1).
- Port was billed for days that the COVID-19 supervisor was not onsite (Example 2).

# Example 1: Multiple Copies of Field Documents, Hours Billed Different than Paid, Port Billed Overtime Rates



ENGINEERING - CONSTRUCTION MANAGEMENT SERVICES

DATE:	12-9-2019	DAILY FORCE ACCOUNT FIELD DOCUMENTATION	
PROJECT NAME or WPR:	Osborne C.O.	FORCE ACCOUNT BID ITEM OR CO #:	F A C O #127
CONTRACTOR PERFORMING WORK:	Osborne C.O.	DATE WORK PERFORMED:	12-9-2019
REPORTED BY:		REPORT #:	
CONTRACTOR TRACKING #:	C.E.#189	CONTRACTOR TRACKING #:	C.E.#189
LOCATION:	Central terminal	DESCRIPTION:	North Public Corridor Ceiling - MEP Obstructions Scaffold inspection and deck clean up

LABOR NAME	TRADE/CLASSIFICATION	STRAIGHT TIME		OVERTIME		AMOUNT
		HOURS	RATE	HOURS	RATE	
[REDACTED]	Superintendent	12				
[REDACTED]	Carpenter	4				
TOTAL LABOR \$						

MATERIALS DESCRIPTION (Include Size, Type, Manufacturer, Etc.)	VENDOR	UNIT	QTY	PRICE	AMOUNT
TOTAL MATERIALS \$					

EQUIPMENT YEAR/MAKE/MODEL/YEAR	DESCRIPTION	HOURS IN USE	CONTR. OWNED	RENTED		AMOUNT
				BLUE BOOK RATE	RENTAL RATE	
TOTAL EQUIPMENT \$						0.00
SUBTOTAL \$						0.00
JOB MARKUP \$						0.00
TOTAL \$						0.00

**Typed Signature**  
 SUBMITTED BY: CONTRACTOR/PRINT NAME [REDACTED]  
 REQUIRED - OWNER REP / SIGNATURE & DATE: Joe Morton 12/13/19  
 GC SIGNATURE FOR SLIPS (optional)  
Owner Rep to Mark & Approve Work witnessed but entitlement to be paid as extra work has not been determined

The owners representative verifies that this is a fair and reasonable listing of the labor, material and equipment quantities used but it is not an authorization for payment until all backup for costs are submitted, verified and approved by the Resident Engineer.



ENGINEERING - CONSTRUCTION MANAGEMENT SERVICES

DATE:	12-10-2019	DAILY FORCE ACCOUNT FIELD DOCUMENTATION	
PROJECT NAME or WPR:	Osborne C.O.	FORCE ACCOUNT BID ITEM OR CO #:	F A C O #127
CONTRACTOR PERFORMING WORK:	Osborne C.O.	DATE WORK PERFORMED:	12-10-2019
REPORTED BY:		REPORT #:	
CONTRACTOR TRACKING #:	C.E.#189	CONTRACTOR TRACKING #:	C.E.#189
LOCATION:	Central terminal	DESCRIPTION:	North Public Corridor Ceiling - MEP Obstructions Scaffold inspection and deck clean up

LABOR NAME	TRADE/CLASSIFICATION	STRAIGHT TIME		OVERTIME		AMOUNT
		HOURS	RATE	HOURS	RATE	
[REDACTED]	Superintendent	12				
[REDACTED]	Carpenter	4				
TOTAL LABOR \$						

MATERIALS DESCRIPTION (Include Size, Type, Manufacturer, Etc.)	VENDOR	UNIT	QTY	PRICE	AMOUNT
TOTAL MATERIALS \$					

EQUIPMENT YEAR/MAKE/MODEL/YEAR	DESCRIPTION	HOURS IN USE	CONTR. OWNED	RENTED		AMOUNT
				BLUE BOOK RATE	RENTAL RATE	
TOTAL EQUIPMENT \$						0.00
SUBTOTAL \$						0.00
JOB MARKUP \$						0.00
TOTAL \$						0.00

**Typed Signature**  
 SUBMITTED BY: CONTRACTOR/PRINT NAME [REDACTED]  
 REQUIRED - OWNER REP / SIGNATURE & DATE: Joe Morton 12/13/19  
 GC SIGNATURE FOR SLIPS (optional)  
Owner Rep to Mark & Approve Work witnessed but entitlement to be paid as extra work has not been determined

The owners representative verifies that this is a fair and reasonable listing of the labor, material and equipment quantities used but it is not an authorization for payment until all backup for costs are submitted, verified and approved by the Resident Engineer.



ENGINEERING - CONSTRUCTION MANAGEMENT SERVICES

DATE:	12-11-2019	DAILY FORCE ACCOUNT FIELD DOCUMENTATION	
PROJECT NAME or WPR:	Osborne C.O.	FORCE ACCOUNT BID ITEM OR CO #:	F A C O #127
CONTRACTOR PERFORMING WORK:	Osborne C.O.	DATE WORK PERFORMED:	12-11-2019
REPORTED BY:		REPORT #:	
CONTRACTOR TRACKING #:	C.E.#189	CONTRACTOR TRACKING #:	C.E.#189
LOCATION:	Central terminal	DESCRIPTION:	North Public Corridor Ceiling - MEP Obstructions Scaffold inspection and deck clean up

LABOR NAME	TRADE/CLASSIFICATION	STRAIGHT TIME		OVERTIME		AMOUNT
		HOURS	RATE	HOURS	RATE	
[REDACTED]	Superintendent	12				
[REDACTED]	Carpenter	4				
TOTAL LABOR \$						


MATERIALS DESCRIPTION (Include Size, Type, Manufacturer, Etc.)	VENDOR	UNIT	QTY	PRICE	AMOUNT
TOTAL MATERIALS \$					

EQUIPMENT YEAR/MAKE/MODEL/YEAR	DESCRIPTION	HOURS IN USE	CONTR. OWNED	RENTED		AMOUNT
				BLUE BOOK RATE	RENTAL RATE	
TOTAL EQUIPMENT \$						0.00
SUBTOTAL \$						0.00
JOB MARKUP \$						0.00
TOTAL \$						0.00

**Typed Signature**  
 SUBMITTED BY: CONTRACTOR/PRINT NAME [REDACTED]  
 REQUIRED - OWNER REP / SIGNATURE & DATE: Joe Morton 12/13/19  
 GC SIGNATURE FOR SLIPS (optional)  
Owner Rep to Mark & Approve Work witnessed but entitlement to be paid as extra work has not been determined

The owners representative verifies that this is a fair and reasonable listing of the labor, material and equipment quantities used but it is not an authorization for payment until all backup for costs are submitted, verified and approved by the Resident Engineer.

## Example 2: Port Billed for Time Not Worked

Port   
of Seattle  
SEATTLE-TACOMA  
INTERNATIONAL AIRPORT

**EXIT  
RECEIPT**

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Transaction #: 8569845  
PIN #: 9933  
Parker #: None  
Parker Group: None  
In Date/Time: 04/27/20 05:39AM  
Out Date/Time: 04/27/20 09:27AM  
Parking Type: Terminal Direct  
Rate: - GENERAL RATE -

\$18.86 X 1	
Tax: Sales Tax	\$1.89
Tax: SeaTac Tax	\$3.25
Parking SubTotal:	18.86
Tax SubTotal:	5.14
Grand Total:	24.00

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MC (2803) 24.00

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## 2) Rating: Medium

Osborne did not meet critical milestones which resulted in the overall Project not being completed on time and the Port incurred additional costs to oversee the Project.

- Four critical milestones needed to be substantially complete by specific dates for the Project to remain on schedule. If Osborne failed to meet those milestones, the Contract provided the Port the ability to assess liquidated damages (LDs).
- When Milestones were not met, instead of assessing LDs, the Port issued Letters of Forbearance (LOFs). These letters provided Osborne additional time to complete a Milestone and submit proper documentation for justification.
- In all four Milestones, Osborne did not fully comply with the LOFs, by either not completing a particular Milestone by the forbearance date, and/or submitting proper documentation.

## Issue 2: Critical Milestones (continued)

- As of the report date, potential LDs amounted to approximately \$908k. Construction Management is currently reviewing documentation and will likely excuse days for each Milestone. LDs will potentially be decreased or eliminated based on the results of their review.
- Reconciling post project (example: two years after the completion of Milestone 1), potential exists that reliance will be placed, primarily on information provided by Osborne, and that some of the excused days would not have been approved during the Project.
- If the Port enforced critical milestone dates, or the requirements of the LOFs during the Project, Osborne may have been more diligent in completing the milestones, and ultimately the Project sooner, which would have resulted in a lower cost to the Port.

# Management Response – Issue 1

Key points from management’s response to the audit findings:

- The team agrees with Internal Audit’s recommendations. While we exercised due diligence in our oversight of the contractor’s change order documentation, our current procedures are based on reviewing contractor’s submitted records.
- The examples provided have identified what appears to be contractor submitting incorrect information for cost reimbursement, resulting in the Port overpaying for work not performed as well as potential underpayment for several construction workers performing overtime work.
- The team will review our overall management of Force Account change orders and make revisions regarding salaried versus hourly workers.
- The team will investigate any overpayments made to the contractor and issue a deductive change order to correct this issue. In addition, the team will investigate and ensure that the contractor pays the hourly workers any backpay that is required by law.
- The team will reinforce, with our contractors and at the next Port of Seattle/Association of General Contractor’s Best Practices committee meeting, the importance of submitting factually correct records and proper payment of wages for hourly construction workers.

**DUE DATE: 6/30/2021**

**Management will discuss in detail. (Full response in Audit Report No. 2021-03)**

# Management Response – Issue 2

Key points from management's response to the audit findings:

- The team agrees that reconciliation of actual milestone completion dates to the contract milestone completion dates is required and the contractor will be assessed liquidated damages for all unexcused delays to interim milestones, substantial completion and physical completion dates.
- The team agrees that management of milestones should be addressed in a timely manner during construction as required by our standard operating procedures. Management will reinforce with staff and provide a higher level of oversight to ensure staff understands the importance of timely actions related to schedule management and milestones.
- The team will also reinforce with the contractors the importance of timely submissions of documentation for schedule delays.

**DUE DATE: 6/30/2021**

Management will discuss in detail. (Full response in Audit Report No. 2021-03)

# Seattle-Tacoma International Limousine Association (STILA)

- Lease Agreement (Agreement) entered in March 2011 to allow STILA for the exclusive right to provide On-call Limousine service from SEA.
- Agreement term expired in February 2016; since operated in a month-to-month arrangement.
- Due to COVID-19 pandemic, STILA was given MAG deferral for April 2020 through July 2020, with repayment plans to follow without accrued interest.
- STILA was unable to make Minimum Annual Guarantee (MAG) payments for August 2020 through December 2020.
- STILA ceased operations in October 2020.
- In December 2020, STILA officially notified the Port of contract termination as of December 2020.
- STILA filed for Chapter 7 Bankruptcy on February 17, 2021.

Agreement Year (March – February)	Trip Counts	Additional Per Trip		
		MAG	Fees	Total Rent
2017	70,861	\$732,000	\$131,444	\$863,444
2018	69,007	\$732,000	\$124,028	\$856,028
2019	65,348	\$732,000	\$109,392	\$841,392
2020*	1,917	\$61,000*	\$0**	\$61,000

**Source:** STILA Monthly Trip Counts Reports, PeopleSoft Financials, and AFR Concession documents.

\*March 2020 – December 2020 (contract terminated December 31, 2020), STILA did not pay the required MAG for August through December of 2020.

\*\*March 2020 – December 2020, Additional Per Trip Fees were not incurred as trip counts did not reach the 38,000 thresholds set forth by the Lease Agreement.

## 1) Rating: Medium

- STILA did not maintain the daily activity records, as required by the Agreement, which resulted in a scope limitation. Accordingly, Internal Audit was unable to obtain sufficient and appropriate audit evidence to provide reasonable assurance that the additional per trip fees, billed solely on STILA self-reported trip counts, were accurate and complete.
- As an additional procedure, Internal Audit compared STILA's self-reported monthly trip counts to Automatic Vehicle Identification (AVI) system trip data and noted the following:

# Issue 1: Need for Strengthened Monitoring Controls (Continued)

- AVI trip count data generally shows variances with STILA reported monthly trip counts to the Port, as it captures, not only on-call limousine service provided under STILA operations, but also pre-arranged limousine services provided by certain independent operators that belong to STILA.
- For March 2020 through December 2020, STILA reported trip counts were less than the AVI data (21.1% at aggregate level). This could potentially be due to STILA operators providing more pre-arranged limousine trips. However, we were not able to verify this since STILA was unable to provide us with any records.
- Regular monitoring and reconciliation of variances between the STILA self-reported monthly counts and AVI trip data had not formally been established.

## **Recommendation - For broader consideration for the AVI System and for Ground Transportation as a whole.**

- Strengthen monitoring controls by:
  1. Formalize the review of supporting documents; such as, daily activity records, for self-reported monthly counts for accuracy and completeness.
  2. Formalize and regularly review and reconcile variances beyond acceptable thresholds, between self-reported monthly counts and AVI trip data.



## 2) Rating: Low

- Due to a significant decrease in ridership caused by the COVID-19 Pandemic, STILA was unable to make its Minimum Annual Guarantee (MAG) payments after the MAG deferral ended on July 31, 2020. This resulted in approximately \$157,284 owed to the Port, which will be covered by STILA's surety.

Description	Month	Amount
Deferred	April - July 2020	\$ 51,425.73*
Delinquent	August - December 2020	\$ 101,410.06*
Late Fees & Interest Charges	August - December 2020	\$ 4,448.18
<b>Total Due to the Port</b>		<b>\$ 157,283.97</b>
Diff. (To be refunded to STILA)		\$ 27,585.88
<b>Surety on Hand</b>		<b>\$ 184,869.85</b>

Source: PeopleSoft Financials and AFR outstanding balance calculation spreadsheet by the Aviation Property Manager.

\*Adjusted based on declined enplanement passenger data for each month per the Lease Agreement Section 7.D.

## Recommendation

As planned, in consultation with the Port's Legal Department, seek and recover the total outstanding balance of \$157,284 (estimate), utilizing the rent security on hand.

# Management Response – Issue 1

1. Internal Audit recommends that Ground Transportation strengthen monitoring controls by reviewing on-demand limousine records that support self-reported monthly counts.

Since STILA is no longer serving SEA, Commercial Management will revise future Port contracts to ensure that any new on-demand limousine contract(s) will include improved operational and accounting controls for both the Operator and the Port. This will include, but is not limited to, monitoring and reviewing daily and monthly trip counts and ensuring accuracy.

# Management Response – Issue 1 (continued)

2. Internal Audit recommends that Landside Operations formalize a regular review and reconciliation of variances (between the self-reported monthly activity and AVI trip activity) that are beyond acceptable thresholds.

While, on the surface, the variance of 21% may seem high, we believe it is rational due to the sudden decline of STILA's on-demand business and vehicles also being used for pre-arranged transportation, which were not included in scope of this audit. The Port will evaluate whether allowing an operator to use the same AVI tag for two different types of operations should be sustained in the future. Whether we used STILA's monthly reported totals or the AVI tags, in no case did STILA come close to the 38,000 trips that would result in additional pre-trip charges in 2020.

Ground Transportation has traditionally and consistently reviewed the variance between STILA's self-reported and monthly activity reports and the AVI system. In the future, we will identify an appropriate Port of Seattle oversight partner for reconciling on-demand limousine services.

DUE DATE: N/A

## Management Response – Issue 2

Aviation Commercial Management staff will continue to work with the Port's Accounting and Legal departments to complete the closeout of the agreement and recover the outstanding balance owed to the Port. As noted in this report, the Port currently maintains a cash security deposit in excess of the total amount due. However, the Port was made aware that STILA has filed for Chapter 7 bankruptcy and we are actively working with Port Legal to ensure our ability to complete the agreement close-out process, including the application of available security, is preserved.

**DUE DATE: 3/31/2021**

# Appendix

## A – Aging of Outstanding Issues as of April 8, 2021

# Appendix A – Aging of Outstanding Issues as of April 8, 2021

## Operational, Capital, Information Technology, and Limited Contract Compliance Audits

Type	Audit	Description	Rating	Report Date	Target Date	Days Outstanding (from Report Date)	Months/Years Outstanding (from Report Date)	Days Outstanding (from Target Date)	Months/Years Outstanding (from Target Date)
Operational Audit	Fishing & Commercial Operations Maritime	Manual Billing Process at risk of error	High	2/23/2018	12/31/2021	1140	More than 2 years	-267	Not Due
IT Audit	AV/M Facility & Infrastructure Data Centers	Security Sensitive	High	12/4/2018	No date supplied	856	More than 2 years	N/A	N/A
IT Audit	AV/M Facility & Infrastructure Data Centers	Security Sensitive	High	12/4/2018	No date supplied	856	More than 2 years	N/A	N/A
IT Audit	HIPAA Security	Security Sensitive	High	9/4/2019	7/31/2020	582	1-2 years	251	6-12 months
IT Audit	HIPAA Security	Security Sensitive	High	9/4/2019	7/31/2020	582	1-2 years	251	6-12 months
Operational Audit	Architecture & Engineering	Determine fair and reasonable	High	12/9/2019	6/30/2020	486	1-2 years	282	6-12 months
Operational Audit	Architecture & Engineering	Management review over max	High	12/9/2019	6/30/2020	486	1-2 years	282	6-12 months
Operational Audit	Architecture & Engineering	Contract accuracy	High	12/9/2019	6/30/2020	486	1-2 years	282	6-12 months
Operational Audit	Ground Transportation - Taxicabs	Reconciliation process	High	12/1/2020	12/31/2020	128	0-6 months	98	0-6 months
Capital Audit	Central Terminal Infrastructure Upgrade (Construction & Closeout)	Overbilling by contractor	High	3/24/2021	6/30/2021	15	0-6 months	-83	Not Due
IT Audit	Disaster Recovery Capability	Security Sensitive	Medium	11/29/2017	No date supplied	1226	More than 2 years	N/A	N/A
IT Audit	AV/MIT Change and Patch Management	Security Sensitive	Medium	12/4/2018	6/30/2019	856	More than 2 years	648	1-2 years
IT Audit	AV/M Facility & Infrastructure Data Centers	Security Sensitive	Medium	12/4/2018	No date supplied	856	More than 2 years	N/A	N/A
IT Audit	Security of Personal Identifiable Information	Security Sensitive	Medium	2/26/2019	12/31/2019	772	More than 2 years	464	1-2 years
IT Audit	Security of Personal Identifiable Information	Security Sensitive	Medium	2/26/2019	3/31/2020	772	More than 2 years	373	1-2 years
Operational Audit	Marine Maintenance Shop	Keys and badges tracking	Medium	6/14/2019	12/31/2023	664	1-2 years	-997	Not Due
Operational Audit	Marine Maintenance Shop	Fleet and fuel internal controls	Medium	6/14/2019	12/31/2023	664	1-2 years	-997	Not Due
IT Audit	HIPAA Security	Security Sensitive	Medium	9/4/2019	7/31/2020	582	1-2 years	251	6-12 months
IT Audit	HIPAA Security	Security Sensitive	Medium	9/4/2019	7/31/2020	582	1-2 years	251	6-12 months
IT Audit	Closed Network System Security	Security Sensitive	Medium	9/5/2019	3/31/2020	581	1-2 years	373	1-2 years
IT Audit	Closed Network System Security	Security Sensitive	Medium	9/5/2019	3/31/2020	581	1-2 years	373	1-2 years
IT Audit	Closed Network System Security	Security Sensitive	Medium	9/5/2019	6/30/2020	581	1-2 years	282	6-12 months
IT Audit	Inventory and Control of Hardware Assets	Security Sensitive	Medium	11/12/2019	6/30/2023	513	1-2 years	-813	Not Due
Operational Audit	Architecture & Engineering	Governance	Medium	12/9/2019	6/30/2020	486	1-2 years	282	6-12 months
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	12/31/2022	384	1-2 years	-632	Not Due
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	9/30/2020	384	1-2 years	190	6-12 months
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	12/31/2020	384	1-2 years	98	0-6 months
IT Audit	Secure Configuration for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers	Security Sensitive	Medium	8/21/2020	12/31/2021	230	6-12 months	-267	Not Due
IT Audit	Secure Configuration for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers	Security Sensitive	Medium	8/21/2020	12/31/2021	230	6-12 months	-267	Not Due
IT Audit	Malware Defenses	Security Sensitive	Medium	9/4/2020	6/30/2021	216	6-12 months	-83	Not Due
Capital Audit	AOA Perimeter Fence	Liquidated damages	Medium	9/8/2020	12/31/2020	212	6-12 months	98	0-6 months
Lease and Concession Audit	Concourse Concessions LLC	RE-2 policy review	Medium	9/10/2020	12/31/2020	210	6-12 months	98	0-6 months
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	135	0-6 months	-267	Not Due
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	135	0-6 months	-267	Not Due
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	135	0-6 months	-267	Not Due
IT Audit	Malware Defenses - Aviation Maintenance	Security Sensitive	Medium	3/17/2021	12/31/2022	22	0-6 months	-632	Not Due
IT Audit	Malware Defenses - Aviation Maintenance	Security Sensitive	Medium	3/17/2021	6/30/2021	22	0-6 months	-83	Not Due
Capital Audit	Central Terminal Infrastructure Upgrade (Construction & Closeout)	Critical milestones not met	Medium	3/24/2021	6/30/2021	15	0-6 months	-83	Not Due
Lease and Concession Audit	Seattle-Tacoma International Limousine Association (STILA)	MAG payments	Low	3/18/2021	3/31/2021	21	0-6 months	8	0-6 months