



# Office of the Washington State Auditor

Pat McCarthy

## **Exit Conference: Port of Seattle**

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

### **Audit Reports**

We will publish the following reports:

- Accountability audit for January 1, 2019 through December 31, 2019 – see draft report.

### **Audit Highlights**

- We appreciate the Port's commitment to the safeguarding of public funds and developing control systems that ensure compliance with laws and regulations.
- The Port responded promptly to our requests and provided all documents necessary to complete the audit in a timely manner.
- We would like to thank Debbi Browning, Rudy Caluza, Glenn Fernandes, Don Kelley and Melanie O'Cain for participating in weekly status update meetings. It allowed for increased communication and kept the audit running smoothly.
- We appreciated Duane Hill, Karin Olmstead, Jenniann Kealin, Ann McClellan Brendalynn Taulelei and Lisa Drake and their staff for their assistance and timely responses during our payroll work.
- We would like to highlight Tiffany Burton, *Sr. Business Systems Analyst*, Aviation Maintenance, for developing Tableau reports to help Aviation Maintenance improve their time reporting process in the future.
- Karmeli Cayetano responded to questions about our credit card and travel and expense card work timely.
- We would like to thank Michael Tong, *Corporate Budget Director*, for his assistance and timely responses.
- We would like to highlight Lisa Lam and Rudy Caluza for their assistance and timely responses while reviewing the Port's Rent deferral payment plans.

### **Recommendations not included in the Audit Reports**

#### **Exit Items**

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

## **Work of Other Auditors**

A financial statement and single audit was performed by Moss Adams LLP of the Port. Professional audit standards require us to evaluate relevant work done by other auditors and communicate certain matters to the governing body.

- We performed procedures to ensure we could rely on the work of the external auditors and reference their audit in our audit report. These procedures included consideration of attendance at key meetings, evaluation of the firm's last peer review report, review of the other auditor's work, review of the other auditor's results and communications with the other auditor.
- We did not become aware of any instance in which the work of the other auditors gave rise to concern about the quality of their work.
- There were no limitations that restricted our analysis of the other audit(s).
- We did not become aware of any instance in which a material misstatement of the financial statements has or may have resulted from fraud or suspected fraud.

## **Finalizing Your Audit**

### **Report Publication**

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/SAOPortal/>

### **Management Representation Letter**

We have included a copy of representations received from management.

### **Audit Cost**

At the entrance conference, we estimated the cost of the audit to be \$113,000 and actual audit costs will approximate that amount.

### **Your Next Scheduled Audit**

Your next audit is scheduled to be conducted in Fall 2021 and will cover the following general areas:

- Accountability for Public Resources
- Review of CPA work papers

The estimated cost for the next audit based on current rates is \$113,000 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

## **Working Together to Improve Government**

### **Audit Survey**

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

## **Local Government Support Team**

This team provides support services to local governments through the Budget, Accounting, and Reporting System (BARS) and annual online filing technical assistance, provides accounting, reporting and BARS training. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions, updated BARS manuals, access to resources and recorded trainings, and additional accounting and reporting resources. Additionally this team assists with the online filing of your financial statements.

## **The Center for Government Innovation**

The Center for Government Innovation of the Office of the Washington State Auditor offers services designed to help you, help the residents you serve at no additional cost to your government. What does this mean? They provide expert advice in areas like building a Lean culture to help local governments find ways to be more efficient, effective and transparent. The Center also provides financial management technical advice and best practices and resources. These can be accessed from the “Improving Government” tab of our SAO website and help you act on accounting standard changes, comply with regulations, protect public resources, minimize your cybersecurity risk and respond to recommendations in your audit. The Center also offers the Financial Intelligence Tool, better known as FIT, to help you assess and monitor your finances and compare your financial operations to other local governments like you. You can email the Center for a personal training session to learn all the benefits using the FIT tool can provide. The Center understands that time is your most precious commodity as a public servant, and wants to help you do more with the limited hours you have. If you are interested in learning how the Center can help you maximize your effect in government, call them at (564) 999-0818 or email them at [Center@sao.wa.gov](mailto:Center@sao.wa.gov).

## **Questions?**

Please contact us with any questions about information in this document or related audit reports.

**Kelly Collins, CPA, Director of Local Audit, (564) 999-0807, [Kelly.Collins@sao.wa.gov](mailto:Kelly.Collins@sao.wa.gov)**

**Mark Rapozo, CPA, Assistant Director of Local Audit, (564) 999-0794 [Mark.Rapozo@sao.wa.gov](mailto:Mark.Rapozo@sao.wa.gov)**

**Joe Simmons, CPA, Program Manager, (206) 615-0555, [Joseph.Simmons@sao.wa.gov](mailto:Joseph.Simmons@sao.wa.gov)**

**Madeleine “Maddie” Frost-Shaffer, Assistant Audit Manager, [Madeleine.Frost-Shaffer@sao.wa.gov](mailto:Madeleine.Frost-Shaffer@sao.wa.gov)**

**Angela Funamori, Audit Lead, [Angela.Funamori@sao.wa.gov](mailto:Angela.Funamori@sao.wa.gov)**

**Preliminary Draft - Please do not duplicate, distribute, or disclose.**



**Office of the Washington State Auditor**  
**Pat McCarthy**

# Accountability Audit Report

## Port of Seattle

For the period January 1, 2019 through December 31, 2019

Published (Inserted by OS)

Report No. 1027693





**Office of the Washington State Auditor  
Pat McCarthy**

Issue Date – (Inserted by OS)

Board of Commissioners  
Port of Seattle  
Seattle, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Port operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Port's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff, and we value your cooperation during the audit.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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## AUDIT RESULTS

### Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Port operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

The Port reported a matter to us on December 19, 2019 that is currently under investigation.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

### About the audit

This report contains the results of our independent accountability audit of the Port of Seattle from January 1, 2019 through December 31, 2019.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Port's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – overtime and double-time
- Rent deferral payment plans – compliance with state law
- Credit cards – purchase cards and travel and expense cards
- Financial condition

## RELATED REPORTS

### Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

### Federal grant programs

A firm of certified public accountants evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Port's major federal programs. That firm's report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

**Preliminary Draft - Please do not duplicate, distribute, or disclose.**



## INFORMATION ABOUT THE PORT

The Port is a municipal corporation of the State of Washington (the State), organized on September 5, 1911, under the State statute RCW 53.04.010 et seq. In 1942, the local governments in King County, Washington (the County) selected the Port to build and operate the Seattle-Tacoma International Airport.

Port policies are established by a five-member Commission elected at-large by the voters of the County for four-year terms. The Commission appoints the Executive Director (ED), who oversees daily operations of the organization. Through resolutions and directives, the Commission sets policy for the Port. These policies are then implemented by the ED and his executive staff.

The Port is composed of three operating divisions, namely, Aviation, Maritime, and Economic Development. The Aviation Division manages the Airport. The Maritime Division manages industrial property connected with maritime businesses, recreational marinas, Fisherman’s Terminal, cruise, grain, and maritime operations. The Economic Development Division focuses on managing the Port’s industrial and commercial properties including conference and event centers, encouraging tourism, developing minority and/or women-owned business opportunities, and providing for workforce development in the aviation, maritime, and construction industries.

For 2019, the Port had total operating revenues of \$764.2 million, which represents a 10.8 percent increase from 2018. Total operating expenses increased from \$397.6 million in 2018 to \$443.1 million in 2019. The Port’s net operating income before depreciation increased \$29.3 million from 2018 to 2019.

<b>Contact information related to this report</b>	
Address:	Port of Seattle Attn: Don Kelley P.O. Box 1209 Seattle, WA 98111
Contact:	Don Kelley, AFR Senior Manager, General Accounting
Telephone:	(206) 787-7042
Website:	<a href="http://www.portseattle.org">www.portseattle.org</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Port of Seattle at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR’S OFFICE

The State Auditor’s Office is established in the state’s Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor’s Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor’s Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(564) 999-0950
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>

**LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD**  
*(USE THIS TEMPLATE FOR GAAP AUDITS)*

[Date ①]

Office of the Washington State Auditor  
700 Fifth Avenue, Suite 4144  
Seattle, WA 98104

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of the Port of Seattle for the period from January 1, 2019 through December 31, 2019. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

**General Representations:**

1. We have provided you with unrestricted access to people you wished to speak with and made available requested and relevant information of which we are aware, including:
  - a. Financial records and related data.
  - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
  - d. Communications from regulatory agencies, government representatives or others concerning possible material noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
  - e. Related party relationships and transactions.
  - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.

3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. Except as reported to you in accordance with RCW 43.09.185, we have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.

X

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Stephen P. Metruck  
Executive Director

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X

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Dan Thomas  
Chief Financial Officer

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X

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Rudy Caluza  
Director, Accounting and Finance Reporting

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Exit Recommendations  
Port of Seattle  
Audit Period Ending: 12/31/2019

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We are providing the following exit recommendations for management's consideration. They are not referenced in the audit report. We may review the status of the following exit items in our next audit.

### **Payroll - Timesheet approvals**

During a controls meeting with central human resources, we were informed of a concern regarding the lack of oversight of timesheet approvals in the Aviation Division. Central human resources self-identified several instances of incorrect earn codes being approved on timesheets, which resulted to overpayments in paychecks:

- The Security department had two employees with a total overpayment of \$3,831
- The Maintenance department had two employees with a total overpayment of \$1,937
- The Operations department had one employee with a total overpayment of \$341

While the Port self-identified the incorrect earn codes, we recommend the Port establish a sufficient review process to ensure timesheets are accurate and complete when submitted to central payroll for processing.

### ***Port Response***

#### ***Aviation Security:***

*Several of the specific instances detailed above apply to other operations in the Aviation Division and are responded to accordingly following Aviation Security's response. Please find a response to the specific instances applicable to Aviation Security as follows.*  
*Fungchenpen – case facts:*

- *Employee submitted timecard for 80 hours straight time pay after only working 8 hours and calling in sick for 72 hours*
- *Aviation Security's normal payroll audit noted the discrepancy and the employee was advised via email for immediate correction.*
- *Fungchenpen requested to cover the time with sick leave one day after payroll had closed.*
- *A payroll correction was immediately submitted (approximately 24 hours later)*

#### *Aviation Security Actions:*

1. *Aviation Security will continue 100% auditing of timecards and all noted discrepancies will be sent to employee for immediate correction (current process)*



Exit Recommendations  
Port of Seattle  
Audit Period Ending: 12/31/2019

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2. *If we do not receive a response prior to payroll closeout, Aviation Security will now change straight time not worked to an LWOP status. (new process)*

*Agyeman – case facts:*

- *After receiving HR approval for PHEL the employee was advised to track the usage of approved hours. Note: All employees approved for PHEL are expected to track their available hours per HR policy*
- *Employee submitted timecard requesting pay for a combination of PHEL and EFMLA pay.*
- *Hours were not available, and overpayment occurred.*

*Aviation Security Actions:*

- *Aviation Security will continue 100% auditing of timecards and all noted discrepancies will be sent to employee for immediate correction (current process)*
- *Aviation Security will be granted access to the Labor Distribution Report. (new process)*
- *Aviation Security will randomly spot check employees with zero balance against their timecards (new process)*
- *If any employee has requested pay for hours not available Aviation Security will change the pay code to indicate LWOP (new process)*

**Aviation Operations**

*Jewell – case facts:*

- *Employee was overpaid FMLA hours on 1 shift*
- *Manager received conflicting reports on employees end date of FMLA*
  - *Response from Sedgewick with approved dates was received by Manager on 11/5, which was after the dates employee submitted eFMLA time*
  - *HR response denoted total hours available, but did not outline end date*

*Aviation Operations Actions:*

- *Aviation Operations will continue 100% auditing of timecards and all noted discrepancies will be sent to employee for immediate correction (current process)*
- *Aviation Operations will be granted access to the Labor Distribution Report. (new process)*
- *Proposed Future Action – Av/Operation payroll personnel would receive notification from HR when an employee has exceeded approved hours so corrective action can be taken immediately. In this case, there was no clear indication that hours had been exceeded*



Exit Recommendations  
Port of Seattle  
Audit Period Ending: 12/31/2019

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***Aviation Maintenance***

*In looking into the below cases regarding incorrect earn codes, the following actions will be taken by Aviation Maintenance to reconcile payroll processing moving forward:*  
*Esguerra - Miscoded Expanded FMLA hours.*

- *After receiving approval for EFMLA from HR, the employee will be advised to track the usage of hours as expected upon approval.*
- *AVM will address unapproved dates or hour overages by utilizing both internal reports from Maximo time reporting data and the Labor Distribution Report accessible in HCM.*
- *We anticipate no further discrepancies after 12/31/20 as the use of Extended FMLA has expired. Time code 217 will be removed from Maximo to avoid use in error. After communication with the employee, any misuse of time coding will be changed to LWOP or another Leave Type per direction from the employee or their Manager.*

*Lett - Shift differential report with Pd Parental Leave in error.*

- *AVM was just recently been notified that no shift differential is to be utilized in conjunction with Paid Parental Leave. AVM will take corrective action immediately to address this in our department payroll process.*
- *The AVM Payroll Administrator will audit PPL time report codes prior to approval each pay period via internal payroll reports.*
- *The Payroll Administrator will continue to contact the employee regarding any discrepancies for immediate correction.*