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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING APRIL 8, 2021**

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, April 8, 2021. The meeting was held remotely in accordance with the Governor's 'Safe Start' order and Proclamation 20-28. Committee members present included Commissioner Cho, Commissioner Bowman, and Christina Gehrke. Also present were Glenn Fernandes, Director, Internal Audit; Dan Chase, Internal Audit Manager; Aaron Pritchard, Commission Policy Manager; and Michelle Hart, Commission Clerk.

1. Call to Order:

The committee special meeting was called to order at 2:30 p.m. by Commissioner Bowman.

2. Approval of Audit Committee Meeting Minutes of January 29, 2021:

The minutes of the Audit Committee special meeting of January 29, 2021, were approved without objection.

3. External Audit – Director's Annual Communication – Independence, Internal Audit Charter, Quality Assurance, and Follow-Up

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- 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 issues follow-up and monitoring process.
- Independence requirements;
 - 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.
- Charter review completed last year;
- Overview of the 'Aging Report,' as of April 8, 2021, tracking eight issues outstanding for more than two years and four IT issues that do not have target dates and are not included as part of the chart presented.

Members of the Committee discussed the total number of issues being followed by the Internal Audit Department and the value associated with following up on internal audit recommendations.

4. 2021 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- Overview and status of the approved 2021 Audit Plan to-date;
 - Limited contract compliance.
 - Operational audits.
 - Information technology audits.
 - Contingency audits – if resources exist, at internal audit director's discretion, these audits will be moved to the 2021 audit plan.

Members of the Committee discussed what an audit of the North Satellite and Internal Arrivals Facility (IAF) would look like with respect to scope of the audits and the types of functions and activities that would be reviewed. Discussion ensued regarding the timeline of performing audits over these projects. Director Fernandes spoke regarding the programming of the audits and external consultant assistance that may be needed to assist in the future audits.

5. Operational Audit - Noise Monitor Data Accuracy

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- Noise monitor data accuracy;
 - Location of 24 permanent noise terminals.
 - 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.
 - 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's response.

Members of the committee discussed data collection integrity, providing the most accurate data as possible, and protocols to identify when equipment has failed to perform.

6. Operational Audit – South King County Fund

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- South King County Fund;
 - Ten 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.
 - 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's response – lessons learned, appreciation to staff, and partners in the fund.

Pearse Edwards, Senior Director of External Relations, and Bookda Gheisar, Senior Director of Equity, Diversity, and Inclusion, spoke regarding the review of the fund through the audit process and protocols put into place to manage the fund between their departments.

7. Operational Audit – Central Terminal Infrastructure Upgrade

Presenters:

Glenn Fernandes, Director, Internal Audit

Spencer Bright, Internal Audit Manager

Janice Zahn, Assistant Director of Engineering

The presentation addressed:

- Central Terminal Infrastructure Upgrade (construction and closeout phases);
 - 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.
 - Presents an opportunity for Port management to improve the change order review process and seek and recover any amount due to the Port from overbilling.
 - 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.
- 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's response.

Members of the Committee discussed better oversight of contractor billing records and protocols; meeting agreement milestones, making sure the responsibility for justifying any delays is the responsibility of the contractor; and informing the contracting community that these types of audits will be conducted.

9. Limited Contract Compliance Audits – Seattle-Tacoma International Limousine Association (STILA)

Presenters:

Glenn Fernandes, Director, Internal Audit

Jeff Hoevet, Senior Manager of Port Landside Operations

The presentation addressed:

- Seattle-Tacoma International Association (STILA);
 - STILA did not maintain the daily activity records, as required by the Agreement, which resulted in a scope limitation.
 - STILA is no longer an active business entity and has filed bankruptcy.
 - 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:
 - 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, Internal Audit was 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 (1) strengthen monitoring controls and (2) STILA back-owned

- minimum annual guarantee payments will be covered by STILA's surety.
- Recommendation – 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's response.

Members of the Committee and staff discussed:

- STILA length of operational term at the airport - for over ten years;
- The AVI system used to record vehicle activity for on-demand and also for pre-arranged rides;
- The Port's refinement of its process for tracking vehicle activity and reconciliation if another concession agreement for limousines at the airport is sought in the future;
- Record-keeping requirements of concession agreements - monitoring to be sure that records exist and are properly being kept per agreement;
- Developing a plan to ensure that record-keeping issues like this do not occurring in the future; and
- Looking at options other than self-reporting from operators.

10. Committee Comments

Members of the Committee thanked staff for the audit information.

11. Adjournment

There being no further business, the special meeting recessed for a ten-minute break at 4:04 p.m. and re-convened in a non-public session to address security-sensitive information technology audit information related to Malware Defenses – Aviation Maintenance for approximately 20 mins. The meeting adjourned immediately at the conclusion of the discussion.

Prepared:

Attest:

Michelle M. Hart, MMC, Commission Clerk

Stephanie Bowman, Audit Committee Chair

Minutes approved: June 17, 2021.