

# Port of Seattle Audit Committee

## Internal Audit Update

Glenn Fernandes - Director, Internal Audit

June 17, 2021

Remote Meeting

2:30 PM – 4:30 PM

Revised on June 17, 2021: Added a note on Slide 6 and added Slides 16 – 18. The subsequent slide numbers changed, accordingly.

# 2021 Audit Plan – Guiding Principles

- Professional Standards – Attestation & Advisory (Consulting) Services
  - ✓ Generally Accepted Government Auditing Standards (GAGAS)
  - ✓ International Professional Practices Framework (IPPF)
- Internal Audit (IA) value proposition to respond to COVID-19 impact and associated business risks:
  - ✓ **Limited Contract Compliance Audits, and Operational Audit of Rent & Concession Deferral Recovery** - Direct relevance of Port's financial relief and repayment activities
  - ✓ **Capital Project Audits** – Incorporated COVID-19 related expenses and Change Orders into audits
  - ✓ **Cruise Terminals of America** – 2020 Cruise Season Rent Credit Review Memo
- Capital Project Audits - Recent RCW changes require an independent audit of final cost reconciliation of any subcontractor selected through an alternative process when the GCCM project delivery method is used. IA will manage this process and will contract required work to external firms.
- IT Audit – Payment Card Industry (PCI) assessment is being done in-house for 2021.

# Approved 2021 Audit Plan

## Limited Contract Compliance

- Rasier, LLC
- Lyft
- Lenlyn Limited<sup>1</sup>
- Seattle-Tacoma International 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 Terminals Utilities Upgrade – Phase 1<sup>1</sup>
- Baggage Optimization - Phase 2
- 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

1: Moved to 2021 audit plan from 2020 due to COVID-19 Pandemic.

## 2021 AUDIT PLAN STATUS

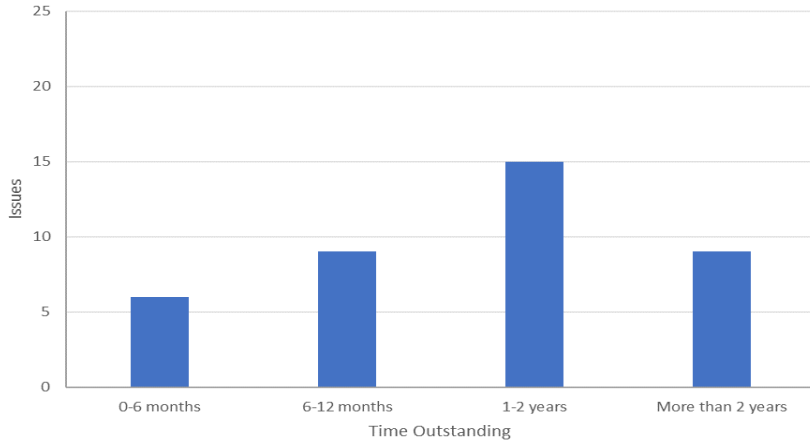
Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Noise Monitor Data Accuracy	Operational												
South king County Fund	Operational												
Central Terminal Infrastructure Upgrade (Construction and Closeout	Operational - Capital												
Malware Defenses - Aviation Maintenance	IT												
Seattle-Tacoma International Limousine Association (STILA)	Contract Compliance												
Biometrics <sup>1</sup>	IT												
Art Program	Operational												
Restroom Renovations Phase 3 Prototype	Operational - Capital												
Lenlyn Limited <sup>1</sup>	Contract Compliance												
Payment Card Industry (PCI) - Internal Security Assessor	IT												
Raiser, LLC	Contract Compliance												
Lyft	Contract Compliance												
Fruit & Flower, LLC (DBA Floret Authority)	Contract Compliance												
Baggage Optimization - Phase 2	Operational - Capital												
T2 Airport Garage Parking System Replacement <sup>1</sup>	IT												
Continuous Vulnerability Management	IT												
Rent & Concession Deferral Recovery	Operational												
Capitalization of Assets	Operational												
North Terminals Utilities Upgrade - Phase 1 <sup>1</sup>	Operational - Capital												
Dilettante Chocolate, INC	Contract Compliance												

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

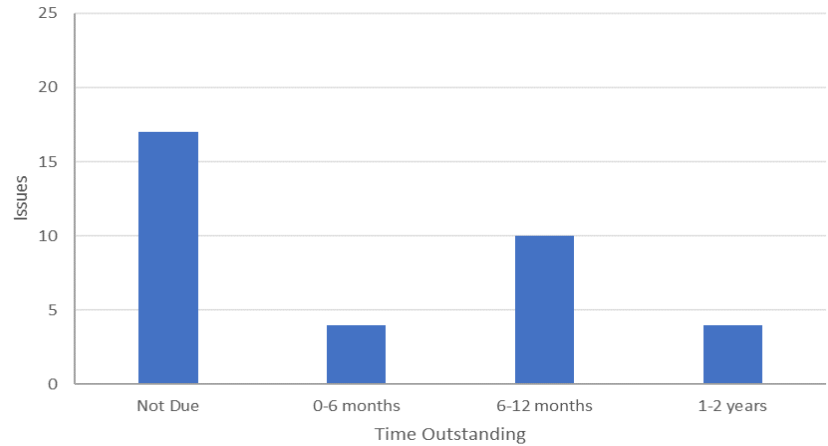
1: Moved to 2021 audit plan from 2020 due to COVID-19 Pandemic.

# Open Issue Follow-Up Status – Aging Report as of June 17, 2021

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



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



\*<sup>1</sup> Nine 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.
- Two issues – Marine Maintenance Shop - One issue related to keys/badges tracking and the other issue related to fleet and fuel internal controls.
- Six issues - IT Audits (Security Sensitive) - Exempt from Public Disclosure per RCW 42.56.420 – Issues Not Discussed in Public Session.

They are: Disaster Recovery Capability (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 June 17, 2021.

# Audits Completed:

- 1) Art Program
- 2) Restroom Renovations Phase 3 Prototype
- 3) Biometrics\* [Note: Slides 16 – 18 contain only the non-security sensitive contents from the audit report for discussion purposes.]
- 4) Lenlyn Limited

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

# Art Program

- The Port of Seattle (Port) has been an active proponent of art since the late 1960s as the first public airport to establish a civic art collection. In November 2019, the Port Commission approved the Arts and Cultural Program Policy Directive (Policy).
- The Policy aspires to position the Port as a national leader among its peers for art and cultural programming; promote programming throughout all Port and Port-related facilities; and engage the public.
- The Policy required that effective January 1, 2020, one percent of the capital construction project costs will be budgeted to art, less allowable exclusions. Prior to January 2020, one-half of one percent of design and construction costs were required to be allocated to the program.

## 1) Rating: Medium

Governance by the Port-Wide Arts and Culture Board (Board) and funding has not occurred as required by the Arts and Cultural Program Policy Directive. Staffing levels and resources may also not be sufficient to develop and sustain an art program at both the aviation and maritime divisions.

### Governance

The Board is comprised of nine members (two commissioners, four public members, and three executive leadership team members or designees from Aviation, Economic Development, and Maritime divisions). Due to complex scheduling requirements, governance meetings have not been occurring consistently, as scheduled.

### Staffing and Resources

Although internal resources and a contractor have recently been assigned, only one full-time aviation employee manages the art function.



## Funding (Issue continued)

For Aviation, a one-time increase of \$1.223 million was made as a retroactive adjustment in January 2021. This adjustment was for projects with an effective date of January 2017. In 2021, a \$1.453 million decrease occurred and represented a reconciling adjustment for a 2014 decrease to the art budget (no funds were spent for art acquisitions<sup>\*</sup>). For the International Arrivals Facility and North Satellite construction projects, the Aviation group procured art purchases directly out of the project budgets and did not use the art pool.

Year	Transfers In	Transfers Out
2017	\$10,000	-
2018	-	-
2019	-	-
2020	-	-
2021	\$1,223,000	\$1,453,034*

Maritime and Economic Development did not fund an art pool or make art purchases from the art pool between 2017 and 2021.

# Recommendations

## Governance

To assure meetings occur as scheduled, the Board should consider revising the requirements of who needs to be present for a meeting to proceed as scheduled.

## Funding

To reduce administrative burden and accounting transactions, funding requirements should be simplified to a one-time annual allocation based on a percentage of the capital budget.

## Staffing

The Board should review the Five-Year Strategic Plan including the resource assessment, performed by the Lumiere Group. Adjustments to the plan might be necessary based on committed resources.

# Management Response

## Aviation Response

The Aviation Division agrees with the recommendations and will work with the Executive Director and the Port-Wide Arts and Culture Board on the changes to the governance, funding and staffing resources necessary to implement the recommendations.

The Aviation Division supports the recommended once a year art budget allocation to the Aviation Art Pool rather than percent (%) allocation for each project when the construction budget is authorized.

## Maritime and Economic Development Response

The Maritime and Economic Development Divisions agree with the finding and recommendation related to the governance. With respect to funding, the Maritime Division agrees with the recommendation that funding and staffing/resources be aligned as well as simplified, however, we do not believe the same solutions will make sense to all divisions across the Port. We will work with the Executive Director and the Port-Wide Arts and Culture Board on the changes to the governance, funding and staffing resources necessary to address the findings in ways appropriate to our facilities.

**DUE DATE: 12/31/2021**

## Restroom Renovations Phase 3 Prototype

- The Project renovated and enlarged one public restroom set on Concourse D, which improved maintainability and accessibility.
- Construction phase of the Project included FAA entitlement funding that covered approximately 75 percent of the construction cost.
- Engineer's estimate was \$1.86 million. Two bids were received. The lowest was \$3.08 million, or 65 percent more than the estimate.
  - ✓ Internal Audit (IA) was told by the estimator, hired by the Port, that the estimate was an accurate reflection of what the Project's cost should have been for an airport in the Seattle market, based on the 100% complete designs that were provided. The estimator brought to IA's attention that the mechanical/plumbing subcontractor was the same for both companies who submitted bids and the possibility that if contractors are aware that there are few bidders, then it is likely bids will be higher.
  - ✓ Port staff indicated that the bids were higher than expected because only two bids were received, which had an impact on competitive pricing, higher than anticipated bids and difficulty obtaining bids from subcontractors, and that the estimator was not familiar with the Seattle market.

## Restroom Renovations Phase 3 Prototype (continued)

- PCL Construction Services was awarded the contract for \$3.08 million. There were approximately \$517K in executed change orders, which increased the construction budget to \$3.59 million.
- The initial expected date of substantial completion was June 2, 2020. The Port approved 83 days that extended substantial completion to August 28, 2020.
- PCL met the required substantial completion date and physical completion was achieved on December 16, 2020.

## 1) Rating: Medium

The Port was overbilled approximately \$12,314 through force account change orders. This occurred because of incorrect labor hours and billing rates submitted by PCL for COVID-19 supervisors.

- Errors were due to the Port being billed on a set rate for supervisors, instead of actual costs, and one day where the Port was billed for eight hours while the supervisor worked six hours.

Title	Hours Billed	Actual Hours	Billed Rate	Correct Rate	Rate Diff.	Hour Diff.	Markup	Overbilled/ (Underbilled)
Supervisor 1	424.0	424.0	\$107.31	\$110.59	\$(3.28)	0	20%	\$(1,668.86)
Supervisor 2	348.5	346.5	\$107.31	\$74.30	\$33.01	2	20%	13,983.09
<b>Total Overbilled</b>								<b>\$12,314.23</b>

Source: Timesheets received from PCL, Daily Force Account Sheets, and monthly summaries of the amount paid for COVID supervisors.

- We recommend that the Port seek and recover any amount due.

## Management Response

A deductive change order has been executed to recoup the amount that was overbilled by the Contractor and we are expecting repayment in June. Additional controls have been added to the Standard Operating Procedures (SOP) for Force Account work to specifically address verification of rates for non-labor (exempt) employees. The Port will reiterate to all our contractors the importance of verifying their information before submitting to the Port.

**DUE DATE: Completed**

# Biometrics

- This audit covered the period from January 2020 through May 2021.
- The audit was performed to evaluate the adequacy of internal controls related to secure data storage, privacy, and network security around the processes for creating, storing and transmitting biometric data for the Biometric Air Exit (BAX) project.
- In addition, Internal Audit reviewed compliance with the 49 requirements of the Port of Seattle's EX-23 Biometric Air Exit Policy and the U.S. Customs and Border Protection's (CBP's) Biometric Air Exit Business Requirements (v2.0).
- CBP is congressionally mandated to implement a biometric entry/exit system.

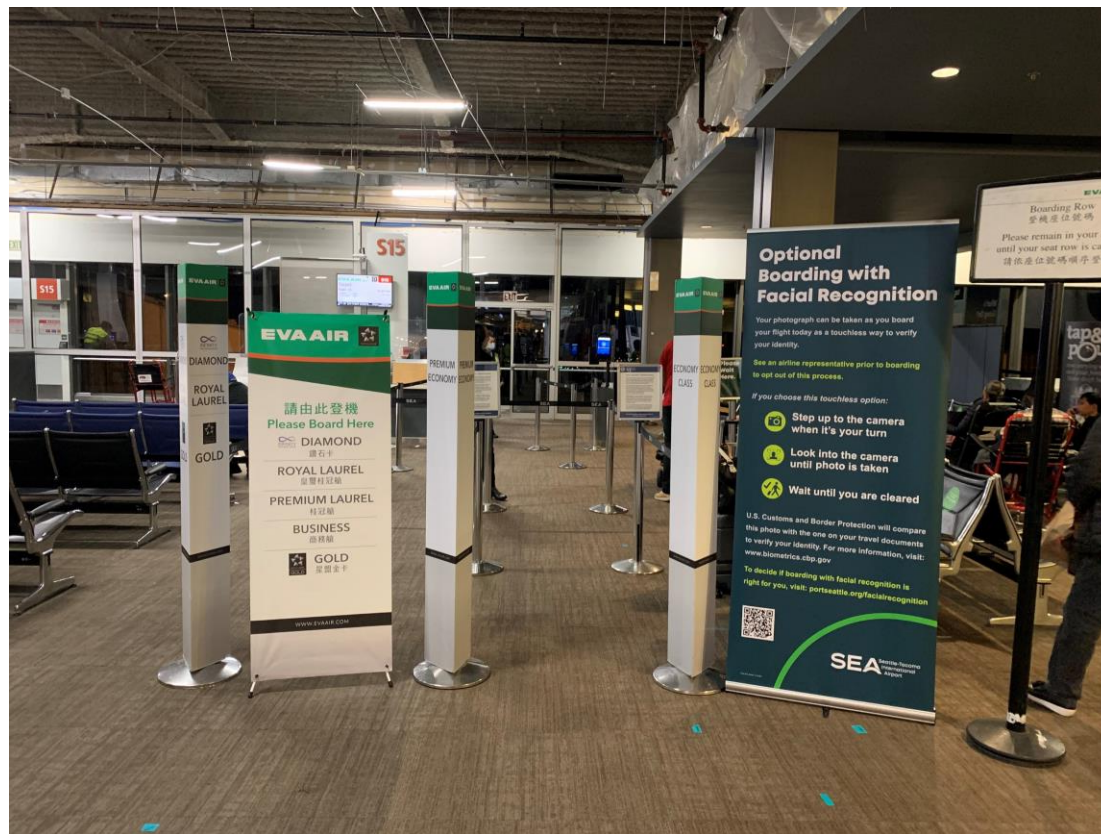


## Biometrics (continued)

- The Port of Seattle (Port) Commission, on March 10, 2020, directed staff to implement new policies governing the implementation of Biometric Air Exit at SEA.
- **Based on the work we performed, and the information gathered, Internal Audit concluded that the BAX program has achieved reasonable compliance with both CBP and Port policy requirements.**

## Biometrics (continued)

- By implementing BAX, the Port was able to control the training of airline personnel and require that the training included sensitivity for dealing with passengers who might be concerned with facial recognition.
- Additionally, the Port was able to receive approval from CBP to develop and use its own signage at the departure gates to allow for considerably larger signs, with language that more clearly explains the passengers' rights for accepting or declining to use facial recognition.



# Lenlyn Limited

- A seven-year, Lease Agreement (Agreement) took effect in April 2014, to allow Lenlyn Limited to offer foreign currency exchange services at four locations - Concourse A, Baggage Claim 6, South Esplanade, and South Satellite at the Seattle-Tacoma International Airport (SEA).
- During COVID-19 pandemic, Lenlyn Limited was given a temporary suspension (elimination) of Minimum Annual Guarantee (MAG) from March through December 2020. The MAG amount paid for the month of March 2020 was retroactively credited to the tenant's account.
- Agreement term expired in April 2021; since then operating in a month-to-month arrangement; and currently, negotiating a contract renewal.
- The table below reflects Gross Revenues as reported by Lenlyn Limited, and the MAG and percentage fees as billed by the Port:

<b>Agreement Year (April – March)</b>	<b>Gross Revenue</b>	<b>MAG</b>	<b>Percentage Fees</b>	<b>Total Rent</b>
2017/2018	\$16,752,045	\$1,000,000	\$317,763	\$1,317,763
2018/2019	16,658,466	1,317,763	70,302	1,388,065
2019/2020	14,907,553	1,317,763	15,334	1,333,097
<b>Total</b>	<b>\$48,318,064</b>	<b>\$3,635,526</b>	<b>\$403,399</b>	<b>\$4,038,925</b>

Source: Lenlyn Limited Monthly Revenue Reports; PeopleSoft Financials, and AFR Concession documents.

## 1) Rating: Medium

Lenlyn Limited underreported \$324,836 in foreign currency and other service gross revenues, which resulted in approximately \$12,023 in additional percentage fees owed to the Port. Furthermore, the Lease Agreement did not specify the customary five percent late fee, resulting in \$4,260 in potential lost revenue to the Port.

## Under-reported Gross Revenue: (Issue continued)

**Purchase Commission** - The foreign currency gross revenue calculation erroneously subtracted Purchase Commission, resulting in \$305,839 unreported revenue for the audit scope, or \$12,023 percentage fees due to the Port.

Agreement Year	Purchase Commission	Under Payment
April 2017 - March 2018 (Four)	\$109,304	\$10,930* <sup>1</sup>
April 2018 - March 2019 (Five)	105,096	1,093* <sup>1</sup>
April 2019 - March 2020 (Six)	91,439	N/A* <sup>2</sup>
<b>Total</b>	<b>\$305,839</b>	<b>\$12,023*<sup>1</sup></b>

Source: Lenlyn's recalculation worksheets supported by its original monthly rent calculation worksheets, P&L and GL reports, etc.

\*<sup>1</sup> Under payments subject to recovery.

\*<sup>2</sup> For Agreement Year Six, MAG, which was greater than the total percentage fees, was used instead for the annual true-up to determine the under/over payments per the Agreement (Section 4.2). Therefore, the additional Purchase Commission per recalculation did not have any impact on the annual under/over payment determination.

**Other Services** - SIM card sales of \$18,997 were omitted from the reported revenue to the Port in Agreement Year Six.\*<sup>2</sup>

**Late Payment Fees** - A five percent late fee of \$4,260 in total for two late payments was not assessed, because the Agreement did not specify the customary late fee language.

# Recommendations

Management should:

1. Pursue collection of the additional percentage fees of \$12,023 (estimate).
2. Define and specify in a new Lease Agreement, the foreign currency gross revenue calculation method/components, and gross revenue inclusion and exclusion items more clearly and thoroughly reflecting the foreign currency exchange concession.
3. Specify five percent late fees in the Late Charges section of a new Lease Agreement.

# Management Response

- Management has engaged the tenant to address the outstanding balance for the additional percentage fees of \$12,023. The tenant has a credit on their account, which covers the outstanding balance, and they have requested that the outstanding balance be cleared via the application of the credit. In the preparation of a new Agreement, Management has engaged Lease Administration, Accounting, and Legal to ensure a clear understanding of the revenue reporting language of the contract for ease of administrations, and the late fee charges have been reinstated within the new Agreement as well.

# Appendix

## A – Aging of Outstanding Issues as of June 17, 2021



# Appendix A – Aging of Outstanding Issues as of June 17, 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	1210	More than 2 years	-197	Not Due
IT Audit	AV/M Facility & Infrastructure Data Centers	Security Sensitive	High	12/4/2018	No date supplied	926	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	926	More than 2 years	N/A	N/A
IT Audit	HIPAA Security	Security Sensitive	High	9/4/2019	7/31/2020	652	1-2 years	321	6-12 months
IT Audit	HIPAA Security	Security Sensitive	High	9/4/2019	7/31/2020	652	1-2 years	321	6-12 months
Operational Audit	Architecture & Engineering	Determine fair and reasonable	High	12/9/2019	6/30/2020	556	1-2 years	352	6-12 months
Operational Audit	Architecture & Engineering	Management review over max rates	High	12/9/2019	6/30/2020	556	1-2 years	352	6-12 months
Operational Audit	Architecture & Engineering	Contract accuracy	High	12/9/2019	6/30/2020	556	1-2 years	352	6-12 months
Operational Audit	Ground Transportation - Taxicabs	Reconciliation process	High	12/1/2020	12/31/2021	198	6-12 months	-197	Not Due
IT Audit	Disaster Recovery Capability	Security Sensitive	Medium	11/29/2017	No date supplied	1296	More than 2 years	N/A	N/A
IT Audit	AV/M Facility & Infrastructure Data Centers	Security Sensitive	Medium	12/4/2018	No date supplied	926	More than 2 years	N/A	N/A
IT Audit	Security of Personal Identifiable Information	Security Sensitive	Medium	2/26/2019	12/31/2019	842	More than 2 years	534	1-2 years
IT Audit	Security of Personal Identifiable Information	Security Sensitive	Medium	2/26/2019	3/31/2020	842	More than 2 years	443	1-2 years
Operational Audit	Marine Maintenance Shop	Keys and badges tracking	Medium	6/14/2019	12/31/2023	734	More than 2 years	-927	Not Due
Operational Audit	Marine Maintenance Shop	Fleet and fuel internal controls	Medium	6/14/2019	12/31/2023	734	More than 2 years	-927	Not Due
IT Audit	HIPAA Security	Security Sensitive	Medium	9/4/2019	7/31/2020	652	1-2 years	321	6-12 months
IT Audit	HIPAA Security	Security Sensitive	Medium	9/4/2019	7/31/2020	652	1-2 years	321	6-12 months
IT Audit	Closed Network System Security	Security Sensitive	Medium	9/5/2019	3/31/2020	651	1-2 years	443	1-2 years
IT Audit	Closed Network System Security	Security Sensitive	Medium	9/5/2019	3/31/2020	651	1-2 years	443	1-2 years
IT Audit	Closed Network System Security	Security Sensitive	Medium	9/5/2019	6/30/2020	651	1-2 years	352	6-12 months
IT Audit	Inventory and Control of Hardware Assets	Security Sensitive	Medium	11/12/2019	6/30/2023	583	1-2 years	-743	Not Due
Operational Audit	Architecture & Engineering	Governance	Medium	12/9/2019	6/30/2020	556	1-2 years	352	6-12 months
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	9/30/2020	454	1-2 years	260	6-12 months
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	12/31/2020	454	1-2 years	168	0-6 months
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	12/31/2022	454	1-2 years	-562	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	300	6-12 months	-197	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	300	6-12 months	-197	Not Due
IT Audit	Malware Defenses	Security Sensitive	Medium	9/4/2020	6/30/2021	286	6-12 months	-13	Not Due
Capital Audit	AOA Perimeter Fence	Liquidated damages	Medium	9/8/2020	12/31/2020	282	6-12 months	168	0-6 months
Lease and Concession Audit	Concourse Concessions LLC	RE-2 policy review	Medium	9/10/2020	12/31/2020	280	6-12 months	168	0-6 months
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	205	6-12 months	-197	Not Due
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	205	6-12 months	-197	Not Due
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	205	6-12 months	-197	Not Due
IT Audit	Malware Defenses - Aviation Maintenance	Security Sensitive	Medium	3/17/2021	6/30/2021	92	0-6 months	-13	Not Due
IT Audit	Malware Defenses - Aviation Maintenance	Security Sensitive	Medium	3/17/2021	12/31/2022	92	0-6 months	-562	Not Due
Capital Audit	Central Terminal Infrastructure Upgrade (Construction & Closeout)	Critical milestones not met	Medium	3/24/2021	6/30/2021	85	0-6 months	-13	Not Due
Lease and Concession Audit	Lenlyn Limited	Underreported revenue	Medium	5/28/2021	6/30/2021	20	0-6 months	-13	Not Due
Operational Audit	Art Program	Governance, Funding, Staffing/Resources	Medium	6/4/2021	12/31/2021	13	0-6 months	-197	Not Due
Lease and Concession Audit	Seattle-Tacoma International Limousine Association (STILA)	MAG payments	Low	3/18/2021	3/31/2021	91	0-6 months	78	0-6 months