

Financial Stewardship

Accountability

Transparency

# Port of Seattle Audit Committee

## Internal Audit Update

Glenn Fernandes - Director, Internal Audit

September 9, 2021

Remote Meeting

2:30 PM – 4:30 PM

Operational Excellence

Governance



# Internal Audit Budget - Key Elements

- Staffing (Payroll Costs)
- Outside Services – Some required by RCW 39.10.385 (11)
- Staff Training

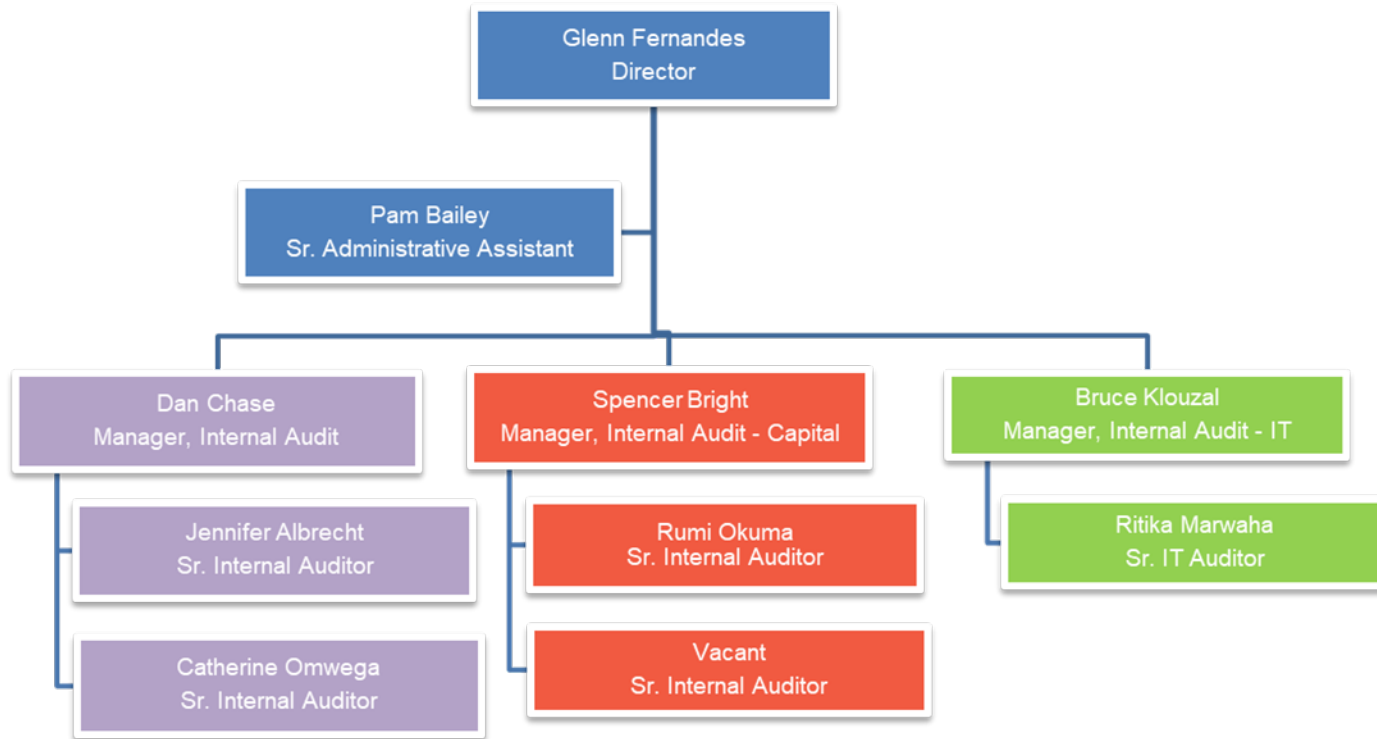
## 2022 Principles:

- Follow Port guidelines
- Leverage independent resources for RCW 39.10.385 (11) required audits
- Invest in staff training and development

# RCW 39.10.385 (11)

- Applies to general contractor/construction manager (GC/CM) projects.
- When in the best interest of the public, a GC/CM may select one or more subcontractors using alternative methods.
- When above \$3 Million, “An independent audit, paid for by the public body, must be conducted to confirm the proper accrual of costs.”
- The Port is initiating more projects using the GC/CM method.
- Internal Audit will lead management of these independent audits in 2022.
- Independent audit costs are viewed as part of the cost of the project and are capitalized with the project.

# Internal Audit Organization Structure



[Note: Two vacant positions need to be filled. One will be filled in 2022 and the other one will be deferred to the 2023 budget.]

# Department Overview

- Internal Audit, through an annual audit plan, provides assurance that the Port's controls are effective and efficient to mitigate business risks. The department provides the material for and facilitates quarterly public and non-public Audit Committee meetings each year.
- The department also provides advisory services to the Port, to the extent that it does not compromise its independence.
- The department maintains its independence and objectivity by reporting administratively to the Executive Director and functionally to the Audit Committee.

# New Budget Requests - Overview

Item No.	High-level Description	Priority (H/M/L)	One-Time (Y/N)	Request for FTEs	Amount Requested
1	External Peer Review	H	Y	N/A	\$15,000
2	GC/CM Independent Audit - Main Terminal Low Voltage System Upgrade Project*	H	Y	0	60,000
3	GC/CM Independent Audit - Airline Realignment Project*	H	Y	0	120,000
4	International Arrivals Facility - External Audit Resources	H	Y	0	100,000
<b>Total</b>				<b><u>0</u></b>	<b><u>\$295,000</u></b>

\*Required by RCW 39.10.385 (11)

# New Budget Requests - Details

## Item 1 - External Peer Review

- **Description:** This is an estimated cost for a Peer Review with the Association of Local Government Auditors (ALGA), as required every three years.
- **Justification:** Internal Audit has been certified by ALGA since 2012 and has passed every Peer Review. This verifies that Internal Audit is consistently following Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing.

## Items 2 & 3 – GC/CM Independent Audits

- **Description:** GC/CM Independent Audits per RCW 39.10.385 (11) - Main Terminal Low Voltage System Upgrade Project & Airline Realignment Project.
- **Justification:** RCW requires an independent auditor to perform an audit of subcontractor charges to the Port on GC/CM projects, where the subcontractor was selected through an alternative selection process and their contract exceeds \$3 Million.

# New Budget Requests - Details

## Item 4 – External Audit Resources

- **Description:** Capital Audit Expert Consulting Services for International Arrivals Facility (IAF) Project.
- **Justification:** The Audit Committee has requested a detailed review of costs related to the IAF project to identify any potential overbillings. Additionally, this project would identify process improvements, which the Port may utilize in future projects.



# Employee Training & Development Related

Travel & Other Employee Expenses	2021 Budget	2022 Budget	Notes
Air Fare	\$0	\$2,905	Travel for training
Lodging & Other Travel	0	3,580	
Employee Food & Beverage	0	1,200	
Local Transportation	360	770	Travel to audit sites & training
Registration/Seminar Fees	14,735	13,510	Training costs
Membership Dues & Fees	5,637	5,610	Professional memberships
Management Education Expense	0	0	
Subscriptions	0	120	Puget Sound Business Journal
Employee Recognition	0	0	
Retiree Recognition - HR Only	0	0	
Tuition Reimbursement - HR Only	0	0	
<b>Total</b>	<b>\$20,732</b>	<b>\$27,695</b>	

# Budget Overview

	2019	2020	2021	2022	Change from 2021 Budget	
Expense Category	Actuals	Actuals	Budget	Budget	\$	%
Salaries & Benefits	\$1,291,372	\$1,510,454	\$1,605,524	\$1,706,357	\$100,833	6.3%
Equipment	6,925	275	170	2,749	2,579	1517.1%
Supplies & Stock	649	70	351	1,000	649	184.9%
Outside Services	111,531	1313	1,558	297,090	295,532	18968.7%
Travel & Employee	30,858	19967	20,732	27,695	6,963	33.6%
Promotional	0	0	0	0	0	0.0%
General	2,680	-545	320	3,893	3,573	1116.6%
Telecom/ Workman's Comp	6,199	7974	7,911	8,890	979	12.4%
Total Charges to Capital	0	0	0	-180,000	-180,000	
<b>Total O&amp;M Expenses</b>	<b>\$1,450,214</b>	<b>\$1,539,509</b>	<b>\$1,636,566</b>	<b>\$1,867,674</b>	<b>\$231,108</b>	<b>14.1%</b>

Changes in certain Port-wide assumptions that drive entity-wide allocations, might cause small changes for certain line items.

# Approved 2021 Audit Plan

## Limited Contract Compliance

- Lenlyn Limited
- Seattle-Tacoma International Limousine Association (STILA)
- Dilettante Chocolate, Inc.
- Fruit & Flower, LLC d/b/a Floret

## Operational

- Rent and Concession Deferral Recovery
- Capitalization of Assets
- Art Program
- Noise Monitor Data Accuracy
- South King County Fund
- Lyft, Inc.<sup>3</sup>
- Rasier, LLC<sup>3</sup>

### Capital

- Central Terminal Infrastructure Upgrade (Construction and Closeout Phases)
- North Terminals Utilities Upgrade – Phase 1
- 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
- Payment Card Industry (PCI) - Internal Security Assessor
- Data Recovery Capabilities<sup>2</sup>

1: Due to implementation delays, this audit will be deferred to the 2022 Audit Plan.

2: This is a contingency audit that was approved by the Audit Committee in December 2020.

3: Reclassified from Limited Contract Compliance to Operational.

## 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 Phases)	Operational - Capital												
Malware Defenses - Aviation Maintenance	IT												
Seattle-Tacoma International Limousine Association (STILA)	Contract Compliance												
Biometrics	IT												
Art Program	Operational												
Restroom Renovations Phase 3 Prototype	Operational - Capital												
Lenlyn Limited	Contract Compliance												
Rasier, LLC <sup>1</sup>	Operational												
Lyft, Inc. <sup>3</sup>	Operational												
Fruit & Flower, LLC d/b/a Floret	Contract Compliance												
Baggage Optimization - Phase 2	Operational - Capital												
Payment Card Industry (PCI) - Internal Security Assessor	IT												
Rent and Concession Deferral Recovery	Operational												
Continuous Vulnerability Management	IT												
Data Recovery Capabilities <sup>2</sup>	IT												
North Terminals Utilities Upgrade - Phase 1	Operational - Capital												
Capitalization of Assets	Operational												
Dilettante Chocolate, Inc.	Contract Compliance												
T2 Airport Garage Parking System Replacement <sup>1</sup>	IT												

**KEY**

Complete

In Process

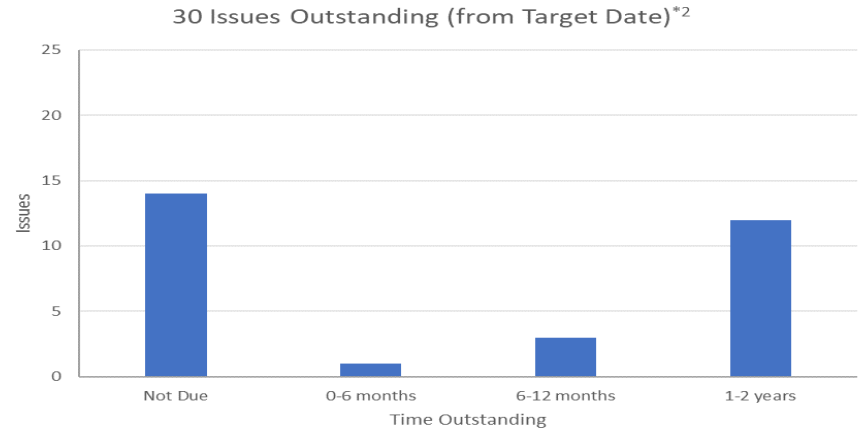
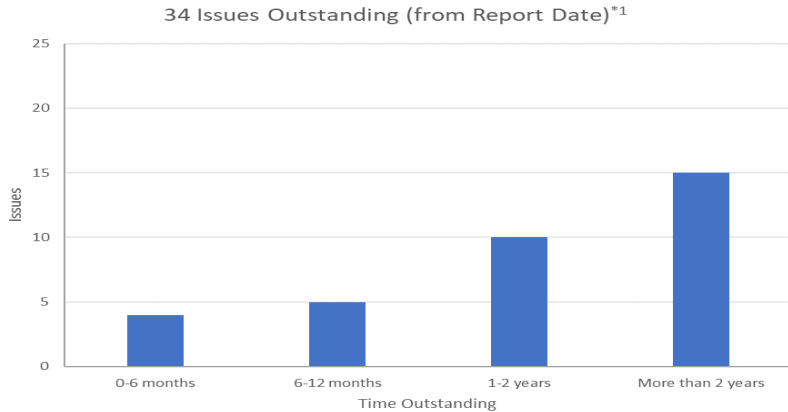
Deferred to 2022

1: Due to implementation delays, this audit will be deferred to the 2022 Audit Plan.

2: This is a contingency audit that was approved by the Audit Committee in December 2020.

3: Reclassified from Limited Contract Compliance to Operational.

# Open Issue Follow-Up Status – Aging Report as of September 9, 2021



\*1 Fifteen 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.
- Twelve 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), HIPAA Security (4), and Closed Network System Security (2).

\*2 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 September 9, 2021.

# Audits Completed:

- 1) Baggage Optimization Project – Phase 2
- 2) TNC (Lyft, Inc. & Rasier, LLC)
- 3) Fruit & Flower, LLC d/b/a Floret

# Baggage Optimization Project - Phase 2

The Baggage Optimization Project replaces six individual baggage screening systems and centralizes operations.

## Key Elements of Phase 2 will:

- Replace conveyor systems to the north portion of the bag well.
- Construct the final baggage sortation matrix (make system more efficient).
- Move concession storage to their final locations.
- Move maintenance shop to its permanent location.
- Add screening capacity with more Explosive Detective System machines.

## Baggage Optimization Project - Phase 2 (continued)

- Engineer's Estimate was \$179,157,000.
- Winning bidder, Hensel Phelps, submitted a bid for \$293,937,000, 64% over the Engineer's Estimate.
- Due to the bids coming in high, the project received a negative vote on the Majority in Interest ballot from the Managing Airline partners at Seattle-Tacoma International Airport.
- After the expiration of a required 180-day period, the Port awarded the contract to Hensel Phelps.
- The Port reduced the time of the project by six months, by making various efficiency changes, but only received a \$2.6 Million deduct change order from Hensel Phelps.



# Estimator's (BNP Associates, Inc.) Explanation for High Bids

- Port's Project Labor Agreement with Unions was not factored into BNP's Estimate.
- Both bidders requested a one-year project extension during the bid process, which resulted in approximately 33% additional overhead costs. This additional year was not included in the estimate.
- Unproductive hours required by the Port (requirement for Contractor to move material in and out daily).
- Decrease in eligible contractors because of prequalification statements made by the Port.
- Cost of steel increase between Phase 1 and Phase 2.

## 1) Rating: Low

- The audit identified a discrepancy of \$29,156 had occurred because Hensel Phelps submitted a change order cost proposal to the Port for one of its subcontractors, that differed from the documented agreed-upon amount between Hensel and the subcontractor.
- According to Hensel, they did not keep adequate supporting documentation to justify the discrepancy.
- Hensel addressed the discrepancy during the course of the audit by initiating a change order with the subcontractor.

# Management Action Plan

No Action Plan is necessary. During the audit, Hensel Phelps remedied the discrepancy by initiating another change order with the subcontractor.

DUE DATE: Completed

# TNC (Lyft, Inc. & Rasier, LLC)

- Internal Audit (IA) completed an audit of Lyft, Inc. and Rasier LLC, referred to as Transportation Network Company (TNC), for the period April 2017 through March 2021.
- The Port entered into agreements with Lyft, Inc. and Rasier, LLC d/b/a Uber (TNCs) for the pick-up and drop-off of passengers from Seattle-Tacoma International Airport.
- TNCs connect passengers through a mobile application, which, among other things, provides information about the pick-up time and trip duration, and manages the payment process.
- TNCs' trip activities are captured through the interaction of the Port's geo-fence, the General Positioning System (GPS) and the TNC Apps.

# TNC (Lyft, Inc. & Rasier, LLC) (continued)

- TNCs' combined revenues for the audit period were as shown below:

2017 (Apr-Dec)	2018	2019	2020	2021 (Jan-Jul)
\$914,987	\$4,031,466	\$12,973,434	\$10,280,640	\$8,079,650

- Internal Audit conducted an independent match rate by collecting a sample of 126 pick-up trips on three different dates and tracing these observations to the TNCs' monthly reports.
- Five out of the 126 observations did not have an exact match. The match rate was between 96% to 98%.

## 1) Rating: Low

- Internal Audit identified an opportunity for the enhancement of internal controls to assess the accuracy of the TNCs' reported trip data.
- While management has implemented a control of performing a match rate between the Port's own observation of the TNCs' activities and the TNCs' self reported activities, no additional work was conducted to determine the root cause of the resulting variances and whether corrective measures were necessary.

# Recommendation

Management should:

- Understand the reasons for the variances and adapt processes to minimize them.
- Establish a tolerance threshold that would trigger when additional research is needed.

# Management Response

- Aviation Commercial Management staff agreed with the key elements of the audit recommendation, and a threshold and process will be developed with a targeted completion date of the end of October 2021.

**DUE DATE: 10/31/2021**

Management will discuss in detail. (Full response in Audit Report No. 2021-10 & 11)



# Fruit & Flower, LLC d/b/a Floret

- Lease Agreement established in 2016
- Gross revenue about \$7.5 million annually (prior to COVID-19)
- Concession fees paid about \$600,000 annually (prior to COVID-19)

## No Issues

- Internal Audit concluded that Fruit & Flower, LLC d/b/a Floret materially complied with the significant terms of the Agreement.

# Appendix

## A – Aging of Outstanding Issues as of September 9, 2021

# Appendix A – Aging of Outstanding Issues as of September 9, 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		Days Outstanding (from Target Date)	Months/Years Outstanding	
							(from Report Date)	(from Target Date)		(from Target Date)	(from Target Date)
Operational Audit	Fishing & Commercial Operations Maritime	Manual Billing Process at risk of error	High	2/23/2018	12/31/2021	1,294	More than 2 years	-113		Not Due	
IT Audit	AV/M Facility & Infrastructure Data Centers	Security Sensitive	High	12/4/2018	No date supplied	1,010	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	1,010	More than 2 years	N/A		N/A	
Operational Audit	Marine Maintenance Shop	Keys and badges tracking	High	6/14/2019	12/31/2023	818	More than 2 years	-843		Not Due	
Operational Audit	Marine Maintenance Shop	Fleet and fuel internal controls	High	6/14/2019	12/31/2023	818	More than 2 years	-843		Not Due	
IT Audit	HIPAA Security Audit	Security Sensitive	High	9/4/2019	7/31/2020	736	More than 2 years	405		1-2 years	
IT Audit	HIPAA Security Audit	Security Sensitive	High	9/4/2019	7/31/2020	736	More than 2 years	405		1-2 years	
Operational Audit	Architecture & Engineering	Determine fair and reasonable	High	12/9/2019	6/30/2020	640	1-2 years	436		1-2 years	
Operational Audit	Architecture & Engineering	Management review over max rates	High	12/9/2019	6/30/2020	640	1-2 years	436		1-2 years	
Operational Audit	Architecture & Engineering	Contract accuracy	High	12/9/2019	6/30/2020	640	1-2 years	436		1-2 years	
Operational Audit	Ground Transportation - Taxicabs	Reconciliation process	High	12/1/2020	12/31/2021	282	6-12 months	-113		Not Due	
IT Audit	Disaster Recovery Capabilities	Security Sensitive	Medium	11/29/2017	No date supplied	1,380	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	1,010	More than 2 years	N/A		N/A	
IT Audit	Security of Personal Identifiable Information	Security Sensitive	Medium	2/26/2019	12/31/2019	926	More than 2 years	618		1-2 years	
IT Audit	Security of Personal Identifiable Information	Security Sensitive	Medium	2/26/2019	3/31/2020	926	More than 2 years	527		1-2 years	
IT Audit	HIPAA Security	Security Sensitive	Medium	9/4/2019	7/31/2020	736	More than 2 years	405		1-2 years	
IT Audit	HIPAA Security	Security Sensitive	Medium	9/4/2019	7/31/2020	736	More than 2 years	405		1-2 years	
IT Audit	Closed Network Systems Security	Security Sensitive	Medium	9/5/2019	3/31/2020	735	More than 2 years	527		1-2 years	
IT Audit	Closed Network Systems Security	Security Sensitive	Medium	9/5/2019	6/30/2020	735	More than 2 years	436		1-2 years	
IT Audit	Inventory and Control of Hardware Assets	Security Sensitive	Medium	11/12/2019	6/30/2023	667	1-2 years	-659		Not Due	
Operational Audit	Architecture & Engineering	Governance	Medium	12/9/2019	6/30/2020	640	1-2 years	436		1-2 years	
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	12/31/2022	538	1-2 years	-478		Not Due	
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	9/30/2020	538	1-2 years	344		6-12 months	
IT Audit	Network Password Management	Security Sensitive	Medium	3/20/2020	12/31/2020	538	1-2 years	252		6-12 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	384	1-2 years	-113		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	384	1-2 years	-113		Not Due	
Lease and Concession Audit	Concourse Concessions, LLC	RE-2 policy review	Medium	9/10/2020	12/31/2020	364	6-12 months	252		6-12 months	
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	289	6-12 months	-113		Not Due	
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	289	6-12 months	-113		Not Due	
IT Audit	Inventory and Control of Software Assets	Security Sensitive	Medium	11/24/2020	12/31/2021	289	6-12 months	-113		Not Due	
IT Audit	Malware Defenses - Aviation Maintenance	Security Sensitive	Medium	3/17/2021	12/31/2022	176	0-6 months	-478		Not Due	
Lease and Concession Audit	Lenlyn Limited	Underreported Revenue	Medium	5/28/2021	6/30/2021	104	0-6 months	71		0-6 months	
Operational Audit	Art Program	Governance, Funding, Staffing/Resources	Medium	6/4/2021	12/31/2021	97	0-6 months	-113		Not Due	
Operational Audit	TNCs (Lyft, Inc. & Rasier, LLC)	Additional research on variances	Low	8/26/2021	10/31/2021	14	0-6 months	-52		Not Due	