



P.O. Box 1209
Seattle, Washington 98111
www.portseattle.org; 206.787.3000

**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING
SEPTEMBER 9, 2021***

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, September 9, 2021. The meeting was held remotely in accordance with Senate Concurrent Resolution 8402 and Governor Inslee's Proclamation 20-28. Committee members present included Commissioner Cho (arrived at 2:56 p.m.), Commissioner Bowman (exited at 2:56 p.m.), and Christina Gehrke. Alternate Member Commissioner Ryan Calkins was also present.

1. Call to Order:

The committee special meeting was called to order at 2:30 p.m. by Commissioner Bowman. Without objection, Item No. 8, TNC (Lyft, Inc. & Rasier, LLC), was moved to the first item of business, and the agenda was approved as amended.

**Internal Audit Department presentation is found [here](#) and contains information for Agenda Items 4 through 9.*

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

Presenters:

*Glenn Fernandes, Director, Internal Audit
Dan Chase, Internal Audit Manager
Spencer Bright, Internal Audit Manager - Capital*

The presentation addressed:

- 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 geofence, the General Positioning System (GPS) and the TNC Apps.
- TNCs' combined revenues for the audit period were shared.

- 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%.
- 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.
- Internal Audit's recommendation here is that management should understand the reasons for the variances and adapt processes to minimize them and establish a tolerance threshold that would trigger when additional research is needed.
- The response given by management - 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.

Members of staff and the Committee discussed:

- having a longer-term goal of capturing a larger swath of vehicles in the data;
- modes and radio frequency tags and challenges presented with privately-owned vehicles, commercial activity vs. private activity, and challenges in vehicle turnover; and
- looking at best practices at other airports for tracking arrivals and more information on RFID was requested.

[Commissioner Bowman exited the meeting, Commissioner Calkins assumed the Chair, and Commissioner Cho joined the meeting at 2:56 p.m.]

2. Approval of Audit Committee Meeting Minutes of June 17, 2021:

The minutes of the Audit Committee special meeting of June 17, 2021, were approved without objection.

3. Office of the Washington State Auditor – Accountability Audit Opening ([presentation](#))

Presenters:

*Joseph Simmons, Program Manager
Angela Funamori, Assistant State Auditor
Maddie Frost-Shaffer, Assistant Audit Manager*

Internal Audit Director Glenn Fernandes introduced the audit team.

The presentation addressed the entrance conference for accountability from January 1, 2020, through December 31, 2020, for the Port of Seattle. The audit scope and other applicable audit information is found contained in this [memo](#).

Members of staff and the Committee appreciated the continuity on the continuance of the team.

4. APPROVAL of 2022 Proposed Budget

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes provided an overview of the function of the Internal Audit Division and spoke regarding new budget requests and peer review.

The motion, made by Commissioner Cho, to recommend approval of the 2022 Proposed Budget carried by the following vote: In favor: Cho and Calkins. (2)

Opposed: (0).

5. 2021 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed the approved 2021 Audit Plan and status of those designated audits.

Discussion ensued regarding whether or not there is any value to the committee thinking about an audit for Covid-related security protocols and emergency procurements.

6. Open Issue Follow-up

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes providing the Open Issues Aging Report as of September 9, 2021, noting that many of the open remaining issues are IT issues.

Committee Member Gehrke inquired if these open issues keep getting pushed out if management is accepting a risk for a period of time until the open issues are mitigated. She noted her concern for the number of outstanding issues that are over two years old and asked for a review to see if the issues are still valid at this time.

Mr. Fernandes noted that the Internal Audit team will bring the item forward for discussion at the December meeting or in the non-public session due to IT security issues.

7. Baggage Optimization – Phase 2

Presenters:

Glenn Fernandes, Director, Internal Audit

Dan Chase, Internal Audit Manager

Spencer Bright, Internal Audit Manager - Capital

The presentation addressed:

- Key elements of the project
 - 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.
- 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 SeattleTacoma 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.
- 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.
- 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.
- Internal Audit Recommendation; No action plan is necessary. During the audit, Hensel Phelps remedied the discrepancy by initiating another change order with the subcontractor.

Members of the Committee and staff discussed:

- understanding what types of change orders we are receiving associated with the pandemic,
- comparing with other projects we have which also have received Covid-19 change orders;
- the MII vote delay and if the Port reviewed the increase in the project because of the 180-day delay;
- monthly reporting of Covid-related costs incurred;
- there being a difference in the timeline, not just in the cost associated with the six-month delay; and
- making airline partners aware.

[Supplemental data provided in response to this topic discussion – [Audit Response.](#)]

9. Fruit & Flower, LLC d/b/a Floret

Presenters:

Glenn Fernandes, Director, Internal Audit
Dan Chase, Internal Audit Manager

The presentation addressed:

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

12. Adjournment

There being no further business, the special meeting adjourned at 4:04 p.m..

Prepared:

Attest:

Michelle M. Hart, MMC, Commission Clerk

Stephanie Bowman, Audit Committee Chair

Minutes approved: December 9, 2021.