



INTERNAL AUDIT REPORT

Operational Audit
South King County Fund

January 2020 – January 2021

Issue Date: March 22, 2021
Report No. 2021-01

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Executive Summary

Internal Audit (IA) completed an audit of the South King County Fund (SKCF) program for the period January 2020 through January 2021. The audit was performed to determine whether a process was established and followed for selecting applicants and if a monitoring function was developed to validate that funds were used for their intended purpose.

The SKCF was created in November 2018 to provide up to \$10 million between 2019 and 2023 to address airport noise, environmental health, and sustainability in near-airport communities. The awards were designated for South King County nonprofit organizations that support communities of color and historically marginalized communities through environmental sustainability, small business capacity building, and economic recovery strategies. Due to COVID-19, the Commission added economic development as an approved use for the SKCF in April 2020.

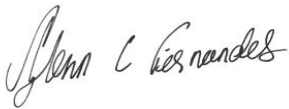
Between 2020 and the first quarter of 2021, the SKCF will award \$1.5 million, allocated to the following programs:

New Economic Recovery and Workforce Development Grants	\$1 million
New Environmental Grants Program	\$250,000
Port Gen (Overall Economic Recovery Strategy)	\$250,000

In general, Port management's compliance and monitoring aligned with policies and procedures. However, our audit identified an opportunity where internal controls could be enhanced or developed. This opportunity is listed below and discussed in more detail beginning on page six of this report.

1. Medium - Ownership for the South King County Fund should be co-sponsored by two executive leaders, each with a point person, to track funding and programs. The Port's website states that 10 South King County organizations were recommended to receive funding through the first cycle of the 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. Organizing the program under two executive leaders will facilitate effective governance by making sure approvals are obtained, organizations are selected, and the use of awarded funds are monitored to assure that they are used for the intended purpose.

We extend our appreciation to Port management and staff for their assistance and cooperation during this audit.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Pearse Edwards, Senior Director External Relations
Bookda Gheisar, Senior Director Equity, Diversity and Inclusion
Dave McFadden, Managing Director, Economic Development

Background

The Revised Code of Washington (RCW) 53.08.245 authorizes port districts to engage in economic development activity. The RCW states “it shall be in the public purpose for all port districts to engage in economic development programs.”

The South King County Fund (SKCF) was established and approved by Port Commission through Motion 2018-14 on November 27, 2018. With an initial amount of \$750,000 in 2019, \$10 million was budgeted between 2019 and 2023. The program provides resources and support for Sea-Tac International Airport area communities specifically benefiting South King County nonprofit organizations that support communities of color and historically marginalized communities through environmental sustainability, small business capacity building, and economic recovery strategies.

Uses for the SKCF may include support for addressing airport noise and for other projects that support environmental health and enhance sustainability.

On June 25, 2019, Port Commission approved Motion 2019-10, which included eight guiding principles of the SKCF (see Appendix B). The Motion also included an engagement strategy to ensure robust, multi-cultural stakeholder involvement to support equitable implementation. In addition, Commission included the following, in a statement of support of the Motion: *“The Commission intends to review a South King County Fund Policy Directive to guide the development of the SKCF program and a motion to instruct the implementation of pilot projects. As part of the policy direction, the Commission intends to retain review and approval authority for proposed projects and to retain the authority to approve funding of projects recommended by Port staff, as well as projects recommended through community input.”*

A subsequent motion (Motion 2020-10) was passed on April 28, 2020 to expand the use of the SKCF to include “Economic Development” to support the recovery for the region from the COVID-19 pandemic.

As of March 1, 2021, the following contracts were awarded:

Economic Development

Find Ventures	\$150,000
Highline Community College: Soundside Alliance	160,000
Economic Alliance Snohomish County	50,000
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	\$360,000

Economic Recovery

African Chamber of Commerce - PNW	\$100,000
African Community Housing & Development	99,902
Asian Counseling & Referral Services	100,000
Businesses Ending Slavery and Trafficking (BEST)	100,000
CARES of Washington	91,160
Chief Seattle Club's	100,000
El Centro de la Raza	99,985
Partners in Employment	100,000
Puget Sound Welcome Back Center	90,839
WA Maritime Blue	99,995
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Total \$981,881

Audit Scope and Methodology

We conducted this engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

The period audited was January 2020 through January 2021 and included the following procedures:

Process was established and followed for selecting awards

- Determined the fund was allowable per state legislation (RCW 53.08.245).
- Verified policies and procedures existed through review of Commission records and Central Procurement Office policies.
- Interviewed key personnel and performed walkthroughs on awarded contracts, including economic development and economic recovery contracts.
- Reviewed Commission records to determine if all contracts were approved by Commissioners.
- Obtained contract selection documentation and reviewed the process for awarding contracts.

Funds disbursed were used for intended purpose

- Interviewed key personnel and obtained awarded contracts to confirm a monitoring process is in place and in compliance with RCW 53.08.245.

Schedule of Findings and Recommendations

1) Rating: Medium

Ownership for the South King County Fund should be co-sponsored by two executive leaders, each with a point person, to track funding and programs. The Port's website states that 10 South King County organizations were recommended to receive funding through the first cycle of the 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. Organizing the program under two executive leaders will facilitate effective governance by making sure approvals are obtained, organizations are selected, and the use of awarded funds are monitored to assure that they are used for the intended purpose.

The South King County Fund (SKCF) was established to support broad outreach that will ensure deep community engagement, leadership development, capacity-building and data collection in support of the fair and equitable distribution of the SKCF to near-airport communities.

Through Motion 2019-10, the Port of Seattle Commission (Commission) "intends to retain review and approval authority for proposed projects and to retain the authority to approve funding of projects recommended by Port staff, as well as projects recommended through community input." In alignment with the motion, on December 15, 2020, Commission approved the first cycle of 10 South King County organizations to receive funding. This cycle focused on COVID-19 economic recovery, serving communities most deeply impacted by the current economic crisis. The 10 organizations were interviewed and selected using a panel with both internal and external representation.

However, we identified two additional projects that didn't receive commission approval as stated in the motion:

- Find Ventures (\$150,000)
- Economic Alliance Snohomish County (\$50,000)

Recommendations:

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.

Management Response/Action Plan:

External Relations and the Office of Equity, Diversity and Inclusion staff agrees with the report findings. Moving forward, Pearse and Bookda continue as Executive Co-Sponsors of the South King County Fund. This partnership is working well and draws upon the strengths of each department in balancing the External Relations and Equity goals of the fund. Andy Gregory and Alison Beason continue as co-project managers of the fund with weekly check-ins and clear working agreements.

To improve our internal process, the following actions are being adopted:

- Budget allocation and tracking for SKCF will be overseen by Assistant to Sr. Director, ER. Co-Project Managers will approve invoices and track on spending out of SKCF. All invoices will be submitted to SKCFund@portseattle.org which will be monitored by Assistant to Sr. Director, ER and Co-Project Managers.
- Director, CPO will be informed of annual funding allocation from SKCF and be given detailed information for any contract and programs that will spend from it. Procurement checklist type document has been updated to ask for notification of any procurement that will utilize SKCF.
- Communications materials will be updated to reflect all program spending from SKCF and EDD staff will be informed of regular project communications meetings.

DUE DATE: Immediately

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Potential for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced to improve efficiency	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention

Appendix B: South King County Fund Principles

The eight South King County Fund principles were adopted by the Port Commission on June 25, 2019 through Motion 2019-10.

1. **The SKCF will be used to fund projects in the South King County area:** Defined as near-airport communities, with other locations considered on a case-by-case basis, depending on the merits and type of program or project.
2. **The SKCF will prioritize community input to inform Port decision making:** Recognizes the importance of community participation and the Port governance role.
3. **The SKCF will support Port equity policies and practices:** Gives underrepresented communities access to opportunities, and uses equity policies to evaluate potential initiatives and establish desired outcomes.
4. **The SKCF will provide added benefit:** Adds to current Port programs to address airport noise, increased environmental health, and sustainability.
5. **The SKCF will prioritize projects that are ready to proceed:** Prioritizes measures that we can implement now or within a short time frame.
6. **The SKCF will build on established programs and commitments to fulfill current obligations:** Sets priorities based on established programs and thresholds.
7. **The SKCF will promote innovation:** Provides the opportunity to explore innovative techniques that could lead to major longer-term benefits.
8. **The SKCF will encourage matching funds where possible:** In-kind or other funds to stretch dollars and impact.