

INTERNAL AUDIT REPORT

Operational Audit

Federal Grant Administration – Aviation Division



January 2020 – September 2022

Issue Date: November 16, 2022

Report No. 2022 -14

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Executive Summary

Internal Audit completed an audit of Federal Grant Administration within the Aviation (AV) Division for the period January 2020 through September 2022. The audit was performed to evaluate if controls, to assure compliance with grant requirements, were designed effectively and operating as intended. Additionally, we assessed the awareness of grant requirements throughout the life of the grant, and in critical areas of the grant administration.

We also reviewed and leveraged the overall risk and control assessments, and audit work and related testing for certain areas (e.g., COVID-19 Relief grants) of the AIP grants, performed by Moss Adams, the Port of Seattle's (Port's) Independent Auditor. This is required as part of the 2021 Annual Single Audit, and is submitted to the Federal Aviation Administration (FAA).

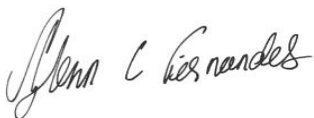
Additionally, we performed a follow-up on our 2019 audit of the Noise Insulation Program; more specifically on one issue related to inconsistent compliance with "Disadvantaged Business Enterprise" (DBE) and "Buy American" requirements, by the Highline School District (HSD), a sub-recipient of AIP grants through the Port. The Port has since strengthened monitoring controls and has provided reasonable assurance for compliance by creating a pass-through agreement and a self-certification process with HSD, and taking some other measures to address HSD's accountability for those requirements.

The Airport Improvement Program (AIP) is a major federal grant program, managed by the FAA, which provides funds to public-use airports for planning and development. Improvement projects relate to runways, taxiways, ramps, lighting, signage, weather stations, navigational aids, land acquisition, etc. Per the Port's Schedule of Expenditures of Federal Awards (SEFA), as of December 31, 2021, FAA AIP funding was \$135,865,813, including COVID-19 Relief funding of \$100,373,161. Such COVID-19 grants have been administered and provided by the FAA to eligible airports, including Seattle-Tacoma International Airport, through the existing AIP model, as a mechanism for expeditious fund distribution.

Through relevant document review and inquiries with 16 business leaders and staff, we identified monitoring controls that were important to the current processes. These controls included the FAA Airport District Office's (ADO) involvement in all phases of grant administration, Port Commission's review and approval of the annual capital improvement plan, Port Legal's agreement reviews, the Central Procurement Office's (CPO) construction contracting and procurement processes and protocols, and business leaders' ongoing monitoring engagement and grant coordination meetings internally and with the FAA. Finally, quality review and tracking of grants and claims, by AV Finance & Budget (F&B) and Accounting Financial Reporting (AFR), further strengthened controls.

Based on the work we performed, we concluded that controls were designed effectively and operating as intended. We also concluded that key stakeholders were aware of federal grant requirements throughout the life cycle of the AIP grants, and in the critical areas of grant administration.

We would like to thank AV F&B, AFR, CPO, AV Departments and other Departments that participated in information gathering, for their cooperation and partnership during this audit.



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Background

The Airport Improvement Program (AIP) is a major federal grant program, managed by the FAA, which provides funds to public-use airports for planning and development. Improvement projects relate to runways, taxiways, ramps, lighting, signage, weather stations, navigational aids, land acquisition, and some areas of planning. Funding for the program is provided from the Airport and Airway Trust Fund, which receives revenue from taxes on airplane tickets sold to the public and a tax on aviation fuel. The federal grant may cover between 75 and 95 percent of the eligible costs, depending on the type of improvement and the size of the airport. Both commercial and general aviation airports are eligible for AIP grants. The FAA issues guidance on grant requirements and changes via various resources, including the AIP Handbook, Advisory Circulars, grant FAQs on their website, and grant agreement provisions.

The Port of Seattle (Port) has typically used federal grants to fund construction projects. The AIP supports the following “Port Century Agenda” Strategic Goals:

- Position the Puget Sound region as a premier international logistics hub.
- Advance this region as a leading tourism destination and business gateway.

Per the Port's Schedule of Expenditures of Federal Awards (SEFA), as of December 31, 2021, FAA AIP funding was \$135,865,813, including COVID-19 Relief funding of \$100,373,161 (See Appendix A). New federal laws and regulations for COVID-19 Relief grants emerged during the pandemic and impacted the Seattle-Tacoma International Airport's (SEA) operations and concessionaires.

The following economic relief grants have been administered and provided by the FAA to eligible airports, including SEA, through the existing AIP model, as a mechanism for expeditious fund distribution:

Coronavirus Aid, Relief, and Economic Security (CARES) Act

On March 27, 2020, U.S. Congress passed the CARES Act, which included \$10 billion of funding to support U.S. airports that experienced severe economic disruption caused by the COVID-19 public health emergency. The funds were distributed to eligible airports to prevent, prepare for, and respond to the impacts of this emergency. SEA was awarded a \$192,133,000 federal grant to help lessen the significant economic stress affecting the airport. SEA received \$44,985,000 and \$147,148,000 in 2021 and 2020, respectively, in awarded federal grants.

Coronavirus Response and Relief Supplemental Appropriation (CRRSA) Act

On December 27, 2020, the CRRSA Act was signed into law. It included nearly \$2 billion of economic relief for eligible U.S. airports and airport concessions. SEA received a \$37,365,000 grant to lessen the economic stress affecting the airport. SEA also received \$5,355,000 of concession relief with which it provided tenant relief from rent and other minimum annual guarantee payments to on-airport car rental, on airport parking, and in terminal airport concessions.

American Rescue Plan (ARP) Act

On March 11, 2021, the ARP Act was signed into law providing additional relief for the pandemic. The ARP included \$8 billion of funding for U.S. airports to cover costs of operations, personnel, cleaning, and also included additional rent relief and mitigation for other costs incurred by airport concessionaires. SEA was granted \$154,374,000 of ARP funding to lessen the economic stress affecting the airport. SEA was also granted \$21,419,000 of concession relief, which provide tenant relief from rent and minimum annual guarantee payments to in-terminal airport concessions. As of December 31, 2021, SEA applied and received \$12,714,000 of the awarded grants with the remaining amount allocated to 2022 and 2023.

The AV Finance & Budget (F&B) team, staffed by a full-time, dedicated Grants Program Manager plays an integral role in the federal grant administration for the AV Division. The Accounting Financial

Reporting (AFR) General Accounting team is responsible for the grant reimbursement claim process, maintains/tracks federal grants summary, and prepares the year-end SEFA. Other key stakeholders in the federal grant administration processes for the AIP include: AV Departments - Project Management Group, Construction Management, and Commercial Management; AFR Revenue Services; Legal; Central Procurement Office (CPO); and External Relations – Government Affairs.

Through relevant document review and inquiries with 16 business leaders and staff, Internal Audit identified monitoring controls that are important to the current processes, including the following:

- FAA Airport District Office's (ADO's) involvement in all phases of grant administration (i.e., annual planning, application approval, progress reporting, claims/reimbursements, and close-out).
- Port Commission's review and approval of the annual capital investment plan, budget, and status briefings.
- Legal department's agreement reviews.
- CPO's construction contracting and procurement processes and protocols.
- Business leaders' ongoing monitoring engagement and grant coordination meetings internally and with FAA.
- Quality review and tracking of grants and claims by AV F&B, and AFR, which respectively possess subject matter expert knowledge.

Audit Scope and Methodology

We conducted the 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 audit scope was for the Port of Seattle’s (Port’s) Aviation (AV) Division’s administration of the grants under one major federal program – the Airport Improvement Program (AIP), which included COVID-19 Relief funding. The AIP is administered by the Federal Aviation Administration (FAA).

In some cases, we used a judgmental method to determine the samples selected for our audit test work. In those cases, the result of the work is not representative of the population of a whole, as we did not select a statistical based random sample.

We reviewed and leveraged the overall risk and control assessments, and audit work and testing, for certain areas (e.g., COVID-19 Relief grants) of the AIP grants, performed by Moss Adams, the Port’s Independent Auditor, as part of the 2021 Annual Single Audit.

We reviewed key requirements from the Office of Management and Budget (OMB) Compliance Supplement for Single Audits, the Government Finance Officers Association’s grant administration best practices publication, and the Washington State Auditor Office’s grant administration risk assessment checklists. We identified, through our research, the following critical processes:

- Grant Programs Administration and Operation
- Financial Management of Grants
- Systems and Methods to Support Grants
- Risk Assessment and Internal Control System
- Sub-recipient Monitoring
- Continuous Communications and Information Flows
- Documentation, Reporting, and Auditing

The period audited was January 2020 through September 2022 and included the following procedures:

Interviews & Process Walkthroughs

Interviewed 16 Port managers and staff to gain an understanding of current processes and controls, and opportunities for improvement in the above-noted, key areas.

Document Review

Reviewed the following key documents associated with the federal grant administration:

- FAA and Single Audit Standards, Guidance, and Reports
- Port Grant Administration Process, Policies, Procedures, and Tools
- Port Commission Records and Budget Documentation
- Grant Specific Documents and Forms

In addition, we performed a follow-up on our 2019 operational audit of the Noise Insulation Program (Report No. 2019-04); more specifically, on one issue related to inconsistent compliance with “Disadvantage Business Enterprise” (DBE) requirements (49 U.S. Codified Federal Regulations Part 26) and the “Buy American” requirements (49 U.S. Code, §50101), by the Highline School District, a sub-recipient of AIP grants through the Port.

Appendix A: Port of Seattle - Schedule of Expenditures of Federal Awards (SEFA), as of December 31, 2021

**PORT OF SEATTLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021**

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Grantor Identifying Number	Assistance Listing Number	Federal Expenditures	Passed Through to Subrecipients
Department of Interior Pass-through Washington State Parks and Recreation Commission Clean Vessel Act	CV 719-381	15.616	\$ 15,581	\$ -
Total Department of Interior			<u>15,581</u>	<u>-</u>
Department of Justice Equitable Sharing Program		16.922	6,821	-
Total Department of Justice			<u>6,821</u>	<u>-</u>
Department of Transportation Federal Aviation Administration COVID-19 Airport Improvement Program		20.106	100,373,161	-
Airport Improvement Program		20.106	35,492,652	14,781,461
Total Airport Improvement Program			<u>135,865,813</u>	<u>14,781,461</u>
Office of the Secretary National Infrastructure Investments		20.933	1,096,307	1,096,307
Total Department of Transportation			<u>136,962,120</u>	<u>15,877,768</u>
Department of Homeland Security Federal Emergency Management Agency Pass-through from Washington State Military Department COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	D20-478	97.036	276,224	-
Total Department of Homeland Security			<u>276,224</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 137,260,746</u>	<u>\$ 15,877,768</u>

[Source: Port of Seattle Single Audit Report for FY2021.]

Appendix B: 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	Moderate probability for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention