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THIS IS COMMISSIONER CHO CALLING TO ORDER THE PORT OF SEATTLE AUDIT COMMITTEE SPECIAL MEETING. TODAY IS FRIDAY, JUNE 17, AND THE TIME IS 02:04 PM. WE ARE MEETING TODAY IN PERSON FOR THE FIRST TIME SINCE PRE-PANDEMIC HERE AT THE PORT OF SEATTLE HEADQUARTERS COMMISSION CHAMBERS AND VIRTUALLY VIA THE TEAM'S PLATFORM. I DO HAVE TO ADMIT I'M EMBARRASSED TO SAY THAT I FORGOT THAT THIS WAS IN PERSON, EVEN THOUGH I WAS REMINDED SEVERAL TIMES BY STAFF. I THINK I JUST DEFAULTED TO TEAMS. SO I APOLOGIZE TO OUR COLLEAGUES FOR NOT BEING THERE IN PERSON. PRESENT WITH ME TODAY IS COMMITTEE MEMBER COMMISSIONER HAMDY MOHAMED AND OUR NEW PUBLIC AUDIT COMMITTEE MEMBER, SARAH HOLMSTROM. MS. HOLMSTROM IS A CERTIFIED PUBLIC ACCOUNTANT WITH OVER 15 YEARS OF EXPERIENCE WORKING WITH VARIOUS FEDERAL, STATE, AND LOCAL GOVERNMENT AGENCIES. SHE SERVES AS THE CHIEF FINANCIAL OFFICER FOR OVER TEN YEARS WITH TWO NATIVE AMERICAN ORGANIZATIONS IN WASHINGTON STATE. CURRENTLY, SHE IS A FINANCE LEADER FOR AMAZON WEB SERVICES, WORKING IN INFRASTRUCTURE, FINANCIAL PLANNING AND ANALYSIS. WE WELCOME YOU TO THE COMMITTEE, SARAH. WE ARE SO HAPPY TO HAVE YOU JOIN WITH US IN THIS COMMITTEE. WELCOME.

HOW DOES THAT AFFECT ANYTHING TO MAKE THIS MEETING MORE ACCESSIBLE TO THE PUBLIC? THE MEETING IS BEING LIVE STREAMED AND DIGITALLY RECORDED, AND MAY BE VIEWED OR HEARD AT ANY TIME ON THE PORT'S WEBSITE. A CALL-IN NUMBER TELEPHONE NUMBER IS ALSO PROVIDED FOR ANYONE WHO WOULD LIKE TO LISTEN TO THE MEETING. OUR FIRST ITEM OF BUSINESS IS APPROVAL OF OUR LAST MEETING MINUTES FROM APRIL 7, 2022.

ARE THERE ANY CORRECTIONS TO THE MINUTES SEEING NONE. ARE THERE ANY OBJECTIONS TO APPROVAL OF THE MINUTES AS PRESENTED HEARING? NONE MINUTES ARE APPROVED. GREAT. OUR NEXT ORDER OF BUSINESS IS THE MOSS ADAMS 2021 FINANCIAL STATEMENT AUDIT RESULTS AND A SERIES OF OTHER AUDITS THAT THEY'VE ALSO PERFORMED THAT ARE RELATED AND PART OF THE PROCESS. SO WITH THAT, I'LL HAND THE FLOOR OVER TO OGA AND MICHELLE, IF YOU COULD PULL UP THE DECK FOR OGA AND CONOR GO FROM THERE. THANK YOU, GLENN. GOOD AFTERNOON, MEMBERS OF THE AUDIT COMMITTEE. WE DO HAVE A SHORT PRESENTATION ON THE RESULTS OF THE 2021 FINANCIAL STATEMENT AUDIT OF THE PORT OF

SEATTLE, AND IF WE HAVE A SHORT AGENDA ON THE NEXT SLIDE THAT HIGHLIGHTS SOME OF THE KEY TOPICS OF OUR PRESENTATION. OKAY, PERFECT. WE'LL START OUT WITH JUST COVERING THE TYPES OF REPORTS THAT WE ISSUED. THERE ARE SEVERAL DELIVERABLES AS THE RESULT OF OUR AUDIT, SO WE'LL HIGHLIGHT WHAT EACH ONE OF THOSE REPORTS IS. IN AVIATION, WE'LL TALK ABOUT THE SIGNIFICANT AREAS OF AUDIT, GIVING YOU A LITTLE BIT OF AN INSIGHT INTO WHAT WE LOOK AT, AND SOME OF THE AREAS OF AUDIT WHERE WE SPEND SIGNIFICANT AUDIT EFFORT DURING OUR AUDIT, WE'LL TALK ABOUT INTERNAL CONTROLS. MATTERS AS INTERNAL CONTROLS IS AN INTRICATE PART OF OUR AUDIT, AND WE DO LOOK AT THE PROCESSES DURING THE AUDIT. AND THEN THERE'S A CERTAIN NUMBER OF ITEMS THAT ARE REQUIRED TO BE COMMUNICATED TO THOSE CHARGES, GOVERNANCE SUCH AS THE AUDIT COMMITTEE ON THE BOARD, WE'LL COVER THOSE AS WELL. AND WE'LL CONCLUDE OUR PRESENTATION WITH THE HIGHLIGHT OF THE UPCOMING ACCOUNTING PRONOUNCEMENTS THAT WILL BE EFFECTIVE FOR REPORTING IN THE NEXT COUPLE OF YEARS. THAT WILL TAKE QUITE A BIT UNDERTAKING TO IMPLEMENT. SO, WITH THAT, ON THE NEXT SLIDE, WE START WITH THE TYPES OF REPORTS THAT WE HAVE ISSUED. WE DID PERFORM THE AUDIT JUST FOR THOSE MEMBERS THAT ARE NEW TO THE AUDIT COMMITTEE. WE START OUR AUDIT PLANNING EFFORT IN SEPTEMBER. EACH YEAR. WE PERFORM SOME INTERNAL CONTROL AND PRELIMINARY WORK IN NOVEMBER, OCTOBER TIME FRAME, AND THEN WE COME BACK IN FEBRUARY, MARCH AND APRIL AND COMPLETE OUR AUDIT PROCEDURES. SO IT DOES TAKE QUITE A BIT OF EFFORT AND WE DID COMPLETE ALL OF OUR AUDIT PROCEDURES AND ISSUED OUR REPORTS IN APRIL. REPORTS WERE DATED APRIL 28. THE FIRST, OF COURSE, AND THE MOST IMPORTANT IS THE AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE PORT IT'S ENTERPRISE FUND. IT'S SEPARATELY WAREHOUSEMEN'S PENSION TRUST FUNDS, IT'S A FIDUCIARY FUND AND AN ENTERPRISE FUND AT THE PORT. THE OPINION IS UNMODIFIED, WHICH MEANS IT'S A CLEAN OPINION. IT'S A CLEAN BILL OF HEALTH, AS I LIKE TO CALL IT. DOESN'T CALL ANY EXCEPTIONS OR EMPHASIS OF THE MATTER IN ITS REPORT BECAUSE WE DO PERFORM THE AUDITS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS WHICH REQUIRE US TO REPORT ON INTERNAL CONTROLS OF THE ENTITY. SO, AS I MENTIONED, WE DO PERFORM PROCEDURES AND TESTING INTERNAL CONTROLS AND IF WE DO IDENTIFY ANY WEAKNESSES IN INTERNAL CONTROLS OR

SIGNIFICANT DEFICIENCIES, WE'RE REQUIRED TO REPORT THOSE IN THE REPORT. AND I'M PLEASED TO REPORT THAT THE REPORT ON INTERNAL CONTROL DOES NOT INCLUDE ANY MATERIAL WEAKNESSES OR FINDINGS. SO THAT'S ALSO GOOD NEWS.

THE ADDITIONAL COMPLIANCE AUDIT THAT WE PERFORM IS A COMPLIANCE OVER MAJOR FEDERAL PROGRAMS THAT THE PORT RECEIVES FROM FEDERAL GOVERNMENTS THROUGH DIFFERENT CHANNELS. SO WE ISSUE A COMPLIANCE REPORT OVER THE COMPLIANCE REQUIREMENTS OF THE AIRPORT IMPROVEMENT PROGRAM, THAT'S THE MAJOR PROGRAM THAT WE AUDIT, AS WELL AS A REPORT ON INTERNAL CONTROLS OVER COMPLIANCE OVER THAT FEDERAL PROGRAM. AND JUST TO HIGHLIGHT AND GIVE YOU AN IDEA, THERE WASN'T ONE MAJOR PROGRAM THAT WE AUDITED THIS YEAR AND THAT'S AS I MENTIONED, AIRPORT IMPROVEMENT PROGRAM. THE TOTAL RECEIPTS, THE FEDERAL RECEIPTS WERE 135.9 MILLION, OF WHICH OVER 100 MILLION WERE IN COVID 19 FUNDING THAT CAME THROUGH CARES ACT, CRSA AND A LITTLE BIT OF ARPA FUNDING THERE AS WELL. SO THAT WAS OUR FOCUS OF OUR COMPLIANCE AUDITS THERE. ON THE NEXT SLIDE, WE HAVE SOME MORE REPORTS THAT WE ISSUED. ADDITIONAL COMPLIANCE AUDIT THAT WE PERFORM IS SCHEDULE OF PASSENGER FACILITY CHARGES, RECEIPTS AND EXPENDITURES. THAT IS A REQUIRED REPORT THAT GOES TO FAA AND THAT'S FOR PASSENGER FACILITY CHARGE, THAT'S COLLECTED BY THE AIRLINES ON BEHALF OF THE PORT AND IT GETS REMITTED TO THE PORT TO USE FOR SPECIFIC APPROACH PROJECT. SO THAT REPORT WE ISSUED, IT HAD ONE FINDING AND INTERNAL CONTROLS THAT'S HIGHLIGHTED RELATED TO TRACKING SOME OF THE PFC REVENUES AND SOME OF THE ADJUSTMENTS THAT REQUIRED TO BE MADE TO THE SCHEDULE SUBMITTED TO FAA. AND I WILL COVER THAT FINDING A LITTLE BIT LATER IN MY PRESENTATION.

ADDITIONAL REPORT ON SCHEDULED NET REVENUES AVAILABLE FOR DEBT COVERAGE, DEBT SERVICE. THAT REPORT DIDN'T HAVE ANY EXCEPTIONS. AND THERE ARE TWO ADDITIONAL REPORTS THAT WE ISSUE AGREED UPON PROCEDURES THAT GOES TO DEPARTMENT OF ECOLOGY AND THE EPA. SO ALL OF THOSE REPORTS HAVE BEEN COMPLETED AND THERE'S NO FINDINGS IN THOSE REPORTS AND NO EXCEPTIONS IN THOSE REPORTS. WITH THAT, I'LL ASK CONNOR TO TALK ABOUT SOME OF THE AREAS OF EMPHASIS IN THE AUDIT THAT START ON THE NEXT SLIDE. YEAH, THANK YOU, OLGA. I'M CONNOR MCAULEY AND I WAS KIND OF IN CHARGING ON THIS ENGAGEMENT. AND SO THE AREAS OF AUDIT EMPHASIS WITH

ANY AUDIT INTERNAL CONTROLS ARE KIND OF VERY IMPORTANT TO THE PROCESSES THAT LEAD TO THE NUMBERS THAT GET PUT OUT INTO THE FINANCIAL STATEMENTS. AND SO WE SPEND QUITE A BIT OF OUR TIME IN SEPTEMBER AND THEN ALSO AT YEAR END LOOKING AT INTERNAL CONTROLS. A LOT OF THE AREAS THAT WE LOOKED AT FOR THESE CONTROLS INCLUDE CAPITAL ASSETS WITH PROJECT MANAGEMENT, CASH RECEIPTS AND RECEIVABLES, CASH DISBURSEMENTS AND PAYABLES, PAYROLL BONDS, INVESTMENT TRANSACTIONS IN GENERAL. THE OTHER ITEMS I'M GOING TO TALK ABOUT WITH OUR SUBSTANTIVE TESTING, ANOTHER AREA OF AUDIT EMPHASIS IS MANAGEMENT ESTIMATES. WITH ANY NUMBER THAT IS DERIVED FROM A MANAGEMENT ESTIMATE, THERE'S A LOT OF JUDGMENT THAT GOES INTO THERE. AND SO WE'RE GOING TO TAKE A KIND OF SPECIAL ATTENTION THERE BECAUSE IT CAN BE A LITTLE MORE HIGHER RISK. SOME OF THOSE ESTIMATES INCLUDE ALLOWANCE FOR DOUBTFUL ACCOUNTS, THE ENVIRONMENTAL REMEDIATION LIABILITY, SPECIAL ITEM RELATED TO THE HABITAT RESTORATION COST THIS YEAR, LEGAL CONTINGENCIES, INSURANCE RECOVERIES, COMPENSATED ABSENCES, AND SOME OTHER ACTUARIAL VALUATIONS AS WELL. THEN WE LOOK AT THE NORTHWEST SEAPORT ALLIANCE NWSA, THE JOINT VENTURE WITH THE PORT OF TACOMA, AND THROUGH THAT WE CONFIRM ONE THE PORT SHARE OF THAT JOINT VENTURE AS WELL AS THE NWSA. AUDITED FINANCIAL STATEMENTS COME OUT BEFORE WE ISSUE OUR REPORT AND WE COMPARE NUMBERS TO THAT TO MAKE SURE EVERYTHING IS IN LINE. ANOTHER AREA OF AUDIT EMPHASIS IS CAPITAL ASSETS, WHICH MAKES A LARGE PART OF THE PORT ASSETS. AND SOME OF THE MAJOR ITEMS WE LOOK AT THERE WOULD BE CAPITALIZATION POLICIES, TESTING OF ADDITIONS, RETIREMENT OVERHEAD, APPLICATION DEPRECIATION. AND THEN RECENTLY WE'VE PUT KIND OF A BIGGER ATTENTION TO THE CLASSIFICATION AND TIMING OF CLOSING OF CAPITAL IMPROVEMENT PROGRAMS INTO ASSET KIND OF MANAGEMENT SO THEY BEGIN TO BE DEPRECIATED AND ARE PROPERLY CLASSIFIED WITHIN THE BALANCE SHEET. AND THEN ON THE NEXT SLIDE, WE'VE GOT MORE AREAS ABOUT AN EMPHASIS. BOND ACTIVITY ALWAYS KIND OF A SENSITIVE TOPIC AND SO WE LIKE TO, ANYTIME THERE IS ACTIVITY, WE TAKE A LOOK THERE. WE TESTED THE FIVE NEW BOND ISSUANCES AND FOUR REFUNDING BONDS DURING 2021. WE'RE ALSO LOOKING AT ANY DEBT REPAYMENTS, ARBITRAGE, LIABILITY DISCOUNTS, PREMIUMS, COMPLIANCE WITH COVENANTS, AND JUST ALL THE OTHER KIND OF FACTORS

AROUND DEBT. AND THEN LOOKING AT KIND OF REVENUE AND SPECIFICALLY AT THE AIRLINE LEASE AND OPERATING AGREEMENTS, WE DO A LOT OF ANALYSIS OVER KIND OF COST CENTER CATEGORIES, TAKING A LOOK AT SELECTION OF SIGNATORY LEASES AND OPERATING AGREEMENTS, WHICH IS SLOW. AND THEN WE ALSO KIND OF LOOK AT SOME OF THE OTHER PORTIONS OF THERE, WHICH INCLUDE LANDING FEES, TERMINAL RENT, GATE FEES, AND BAGGAGE CLAIMS. AND THEN ON TOP OF THAT, WE ALSO CONFIRM DIRECTLY WITH SOME OF THE MORE SIGNIFICANT AIRLINES ON THE REVENUE AND INVOICES THAT WERE PROVIDED FOR THE YEAR. AND THEN WE ALSO HAVE THE FIDUCIARY ACTIVITIES AUDIT, WHICH IS OF THE WAREHOUSEMEN'S PENSION TRUST FUND, AND WE'RE LOOKING AT INVESTMENT BALANCES, CONTRIBUTIONS AND DISTRIBUTIONS THERE. AND THEN ON THE NEXT SLIDE, AGAIN, REVENUE RELATED TO LEASES AND THEN OTHER KIND OF FORMS OF REVENUE WE'RE ALWAYS TAKING A LOOK AT AND REVENUE RECOGNITION BECAUSE THERE ARE SO MANY DIFFERENT FORMS OF REVENUE, IT'S IMPORTANT THAT WE MAKE SURE THEY'RE BEING RECOGNIZED IN ACCORDANCE WITH GOVERNMENTAL ACCOUNTING STANDARDS. AND SO WE DO AN ANALYSIS OVER KIND OF THE REVENUE AND THEN WHAT DRIVES REVENUE TO MAKE SURE THAT KIND OF MAKES SENSE AND IS LINING UP WITH JUST THE ACTIVITY IN THE PORT FOR THE YEAR, WHICH INCLUDES LANDING WEIGHTS, LOOKING AT EMPLOYMENT, GATE USAGE, BOAT COUNTS, ITEMS LIKE THAT. WE ALSO LOOK AT OTHER REVENUES LIKE AD VALOREM, TAX LEVY, INVESTMENT INCOME, PASSENGER FACILITY CHARGES, AND CUSTOMER FACILITY CHARGES, AND THEN FEDERAL GRANTS, AS OLGA MENTIONED IN THE SINGLE AUDIT. AND I'LL TALK ABOUT THAT IN A SECOND AS WELL. AND THEN THE OTHER SIDE OF THAT WOULD BE THE AR AND COLLECTABILITY, WHICH WE ALSO LOOK AT TO MAKE SURE THAT WHAT IS COMING IN, I GUESS, WILL COME IN. WE ALSO HAVE OUR MOSS ADAMS IT SPECIALISTS THAT DO A FULL ON IT AUDIT EVERY YEAR, GENERAL COMPUTER CONTROLS. THEY LOOK AT STUFF LIKE TIMELINESS OF REMOVING ACCESS WHEN PEOPLE EITHER SWITCH POSITIONS OR LEAVE, AND TIMELINESS OF GRANTING ACCESS WHEN PEOPLE COME IN, AND OTHER CONTROLS LIKE THAT. WE DID NOT HAVE ANY CONTROL FINDINGS THERE WITHIN IT, SO IT'S GOOD. AND THEN WE ALSO LOOK AT THROUGH, AS OLGA MENTIONED IN OUR SINGLE AUDIT, WE'RE LOOKING AT FEDERAL AWARDS AND GRANTS. EACH GRANT HAS ITS OWN SPECIAL REQUIREMENTS. WE WANT TO MAKE SURE THAT THE PORT IS KIND OF FOLLOWING WITH WHAT

IS IN THE GRANT AGREEMENT. AND THIS YEAR WE SELECTED THE FAA AIRPORT IMPROVEMENT PROGRAM, WHICH CONTAINED THE MAJORITY OR ALL OF THE COVID RELIEF FUNDING. SO IT MADE UP ALMOST ALL OF FEDERAL AWARDS. YOU CAN SEE 100 MILLION OUT OF THE TOTAL, 137,000,000 THERE. AND I'LL PASS IT BACK TO OLGA. I'M NOT SURE IF YOUR MIC IS GONE. THE PORT STAFF IDENTIFIED ONE ISSUE RELATED TO THE INFORMATION THAT WAS SUBMITTED TO FAA IN THEIR QUARTERLY REPORTS WITH RESPECT TO SOME VERY SPECIFIC TRANSACTIONS THAT WEREN'T QUITE REPORTED CORRECTLY IN PREVIOUS YEARS AND IN 2021. SO THE PORT STAFF, IN THE PROCESS OF RECONCILING THE INFORMATION REPORTED TO THE FAA AND TO THE FUNDS THAT ARE SET ASIDE AND KEPT TRACKED SEPARATELY BY THE PORT, TRYING TO RECONCILE THOSE UNLIQUIDATED REVENUES THAT HAVE BEEN RECEIVED BY THE PORT, IDENTIFIED THIS ONE ISSUE. THE REASON THAT IT ROSE TO A LEVEL OF SIGNIFICANT DEFICIENCY BECAUSE IT WAS MATERIAL WITH RESPECT TO THE MATERIALITY THAT WE HAD ESTABLISHED FOR AUDIT OF THIS PARTICULAR PROGRAM, THE OVERALL ADJUSTMENT TO THE ANNUAL REPORT OF RECEIPTS AND EXPENDITURES SUBMITTED TO FAA WAS MADE IN THE AMOUNT OF 6.8 MILLION. THAT CORRECTION HAS BEEN MADE IN THE FINAL REPORT. THE PORT STAFF COMMUNICATED WITH FAA DIRECTLY AS WELL SELF IDENTIFYING AND NOTIFYING THEM OF THE ERRORS THAT HAVE BEEN PRESENTED IN THE PREVIOUSLY SUBMITTED REPORTS AND OVERALL RECEIVED A RECOMMENDATION FROM FAA AS TO HOW TO REPORT FUTURE AMOUNTS IN THE SUBMITTED PFC REPORTS. WE DID PROVIDE A RECOMMENDATION AS A RESULT OF THIS FINDING. HOWEVER, AS THE PORT STAFF IDENTIFIED THE ISSUE, THEY IMMEDIATELY PUT IN THE PROCESS IN PLACE TO REMEDY THE SITUATION. SO IT'S ALREADY IN PLACE AND BEING TRACKED CORRECTLY. I JUST WANTED TO HIGHLIGHT ONE MORE TIME THAT THIS WAS A SELF IDENTIFIED, SELF REPORTED ON THE PORT. ANY QUESTIONS ON THE FINDINGS OR ANY COMMENTS FROM THE PORT STAFF ON CLARIFYING THIS MATTER? LOOKS LIKE RUDY KALUZA HAS A QUESTION. RUDY, THANK YOU FOR RECOGNIZING THE COMMISSIONER CHO. I JUST WANTED TO PROVIDE CLARIFICATION AND MEMBERS OF THE AUDIT COMMITTEE THAT WE'RE VERY PROUD WITH REGARD TO THE AUDIT RESULTS IN TERMS OF THE KEY AREAS OF OUR FINANCIAL STATEMENTS AS WELL AS COMPLIANCE, INDUSTRY PRESCRIBED ACCOUNTING, FINANCIAL REPORTING STANDARDS, AS WELL AS FEDERAL REGULATORY COMPLIANCE. IN

THIS SITUATION ON GRANTS, IN THIS SITUATION OF PASSENGER FACILITY CHARGES. THIS HAS NOTHING TO DO WITH THE ADMINISTRATION OF THE FUNDS THEMSELVES. IT'S THE QUARTERLY REPORTING. AND THE PORT OF SEATTLE SELF IDENTIFIED SEVERAL NONSTANDARD TRANSACTIONS THAT WERE ACCURATELY RECORDED IN THE PORT'S FINANCIAL SYSTEMS, BUT ZERO NOS COMPILED CORRECTLY WHEN PREPARING THE REPORTS BECAUSE OF THE NONSTANDARD NATURE OF THE TRANSACTIONS. SO WE TOOK IMMEDIATE ACTION TO ASSESS THE COST AND IMPLEMENT A CORRECTIVE ACTIONS TO PREVENT RECURRENCE, PERIOD. IT'S NOT GOING TO OCCUR. WE FOUND OUT WHAT THE CAUSE WAS, IT'S THE COMPILATION OF THE DATA, IT RELATED TO NONSTANDARD TRANSACTIONS. SO WE ALSO SUPPORT SEATTLE MET, PROACTIVELY WITH AND INFORMED THE FEDERAL AVIATION ADMINISTRATION TO ENSURE FULL TRANSPARENCY WITH AAA AND THE OFFICIALS THERE INDICATED THAT THEY VIEW THE IMPACT OF THIS REPORTING ERROR AS INCONSEQUENTIAL AS THERE WAS NO IMPACT ON THE ADMINISTRATION OF THE PST FUNDS OR LOSS. THERE WAS A REPORTING ERROR ON A RECURRING REPORT, WAS PROACTIVE REACTIVELY, REMEDIATED, IMPROVED AND GOING FORWARD NOT TO RECUR AGAIN. SO I JUST WANTED TO PROVIDE THE CONTEXT HERE WITH WHICH WE EMBRACED THIS FINDING. IT'S PRETTY MUCH A REPORTING ERROR. WE HAVE FOUND THE CAUSE, IT WILL NOT RECUR AGAIN. THANK YOU. THANK YOU, RUDY, FOR PROVING THE CONTEXT AND CLARIFICATION. THANK YOU, MOSS-ADAMS AND YOUR TEAM FOR THE PRESENTATION. ARE THERE ANY OTHER QUESTIONS FOR COMMITTEE MEMBERS AT THIS TIME? I HAVE A QUICK QUESTION ABOUT THAT FINDING. ECHOING HAVE YOU SEEN SIMILAR FINDINGS IN PREVIOUS AUDITS HERE AT THE PORT OF SEATTLE SPECIFIC TO PFC? NOW, AS I MENTIONED, THIS WAS A RATHER UNIQUE TRANSACTION WHERE A PIECE OF LAND PURCHASED ORIGINALLY WITH PFC FUNDS WAS DISPOSED OF AND THE REPORTING WASN'T CORRECTLY CAPTURED. SO THERE WERE RATHER UNUSUAL TRANSACTIONS THAT REQUIRED A LITTLE EXTRA SPECIAL CARE AND REPORTING. SARAH, DID YOU HAVE A QUESTION? YEAH, I JUST WANTED TO CONFIRM THIS WAS SIGNIFICANT EFFICIENCY, NOT A MATERIAL WEAKNESS. IS THAT CORRECT? SO COULD YOU EXPLAIN WHY IT'S NOT A MATERIAL WEAKNESS, JUST SO EVERYONE KIND OF UNDERSTANDS THE LESSER IMPACT AND WHY? RIGHT. SO JUST TO GIVE A BACKGROUND A LITTLE BIT, THERE ARE THREE LEVELS OF FINDINGS THAT WE CAN REPORT. AND INTERNAL CONTROL DEFICIENCY IS LIKE THE

LOWEST LEVEL, A SIGNIFICANT DEFICIENCY IS THE SECOND. AND THEN MATERIAL WEAKNESS IS THE HIGHEST AND MOST AGREED WITH THE FENCE, IF YOU WILL. THE REASON THIS ONE IS WE CLASSIFY DETERMINED THAT IT WAS A SIGNIFICANT EFFICIENCY BECAUSE ONCE AGAIN, IT WAS MATERIAL TO THE SCHEDULE, TO THE PFC REPORTING SCHEDULE. AT THE SAME TIME IT WAS SELF IDENTIFIED BY THE PORT STAFF THROUGH THEIR PROCESSES THAT THEY'RE CONSTANTLY LOOKING AT AND REVISING. SO FOR THAT REASON, WE DETERMINED THAT IT WAS MOST APPROPRIATE TO BE SIGNIFICANT EFFICIENCY.

ALL RIGHT, AND I JUST HAVE A FEW MORE BULLET POINTS RELATED TO SOME OF THE REQUIRED COMMUNICATIONS THAT START ON THE NEXT SLIDE. JUST A REMINDER THAT THE FINANCIAL STATEMENTS OF THE PORT OF SEATTLE ARE RESPONSIBILITY OF MANAGEMENT. THEY DO DRAFT THE ANNUAL REPORT, ALL OF THE SCHEDULES, AND ESTABLISH ALL OF THE INTERNAL CONTROLS FOR PROPER REPORTING WITH, OF COURSE, THE AUDIT COMMITTEES AND THE BOARD'S OVERSIGHT. OUR RESPONSIBILITY IS TO AUDIT THOSE STATEMENTS AND ISSUE AN INDEPENDENT OPINION. SO I JUST WANTED TO HIGHLIGHT THAT MANAGEMENT REALLY DOES TAKE THAT RESPONSIBILITY VERY SERIOUSLY. THROUGHOUT THE YEAR, WE WORK VERY CLOSELY WITH THE FINANCE AND ACCOUNTING DEPARTMENT IN TERMS OF TALKING ABOUT SIGNIFICANT TRANSACTIONS THAT HAPPEN THROUGHOUT THE YEAR. WHAT IS APPROPRIATE ACCOUNTING GUIDANCE, HOW TO HANDLE THESE DIFFERENT TRANSACTIONS. SO THEY DO TAKE THAT FIRST STEP ON DETERMINING THE ACCOUNTING TREATMENT FOR THE TRANSACTIONS, BRINGING IT OUT TO US AS AUDITORS, AND THEN MAKING SURE THAT WE'RE ON THE SAME TRACK. SO THAT ESTABLISHES THAT INDEPENDENCE THAT WE HAVE WITH THE PORT. AND BECAUSE WE HAVE THOSE CONVERSATIONS THROUGHOUT THE YEAR, WHEN WE DO PLAN OUR YEAR ON AUDIT, IT'S RATHER NON EVENTFUL. THERE'S NO SURPRISES THAT COME UP IN OUR AUDIT AND NOTHING THAT WE HAVE TO KIND OF CHANGE COURSE LAST MINUTE. SO IT'S VERY MUCH A COLLABORATIVE EFFORT IN GETTING THE AREA AND AUDIT DONE. THERE ARE SIGNIFICANT ACCOUNTING POLICIES DISCLOSURE, BUT NOT ONE TO THE FINANCIAL STATEMENTS. THOSE DESCRIBE HOW REVENUE IS RECOGNIZED, DEFINES WHAT CASH EQUIVALENTS ARE, AND VARIOUS OTHER POLICIES. WE DO EVALUATE THOSE POLICIES, MAKING SURE THEY'RE CONSISTENT FROM YEAR TO YEAR, OR IF THERE HAS BEEN A NEW POLICY IMPLEMENTED, WE MAKE SURE IT'S CONSISTENT WITH GAP. SO THE POLICIES THAT ARE INCLUDED IN



FOOTNOTE ONE THIS YEAR, THERE'S NOT ANY SIGNIFICANT CHANGES TO THOSE FROM PREVIOUS PERIODS, SO THEY'RE VERY CONSISTENT FROM PRIOR REPORTING, IN PART BECAUSE THERE WERE NOT SIGNIFICANT ACCOUNTING, NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN THE CURRENT YEAR.

WE DIDN'T HAVE ANY DISAGREEMENTS IN PERFORMING THE AUDIT. IF WE DID HAVE THOSE DISAGREEMENTS OR DIFFICULTIES IN GETTING AUDIT DONE, WE'RE REQUIRED TO REPORT THOSE TO YOU. AND I'M PLEASED TO REPORT THERE IS NOTHING THAT ROSE TO THAT LEVEL OF DISAGREEMENT. SO THAT'S GOOD NEWS AS WELL. SOME MORE INFORMATION ON THE NEXT SLIDE. WE'RE REQUIRED TO LET YOU KNOW IF THERE WERE ANY SIGNIFICANT EITHER POSTED AUDIT ADJUSTMENTS OR PROPOSED AND NOT POSTED AUDIT ADJUSTMENTS. PLEASED TO REPORT THERE WERE NONE THAT WE IDENTIFIED THAT HAD TO BE RECORDED BY MANAGEMENT OR THAT DIDN'T GET RECORDED BECAUSE OF MATERIALITY THAT SPEAKS HIGHLY, ONCE AGAIN, OF THE FINANCIAL RECORDS THAT THE PORT MAINTAINS. AND WHAT WE PROVIDED TO AUDIT IS OUR CLEAN RECORDS. AND OF COURSE, THAT'S THE INFORMATION THAT'S USED BY MANAGEMENT THROUGHOUT THE YEAR AND MAKING THE DECISION AND REPORTS TO THE BOARD AND TO YOU.

WE ARE NOT PERFORMING A FRAUD AUDIT, BUT WE ARE REQUIRED TO PERFORM SOME PROCEDURES TO DETERMINE IF THERE IS ANY INDICATION OF FRAUD IN THE AUDIT. THAT USUALLY INVOLVES COMMUNICATION WITH EXECUTIVES AND OTHER INDIVIDUALS THROUGHOUT THE ORGANIZATION, WHICH WE DO TALK TO A LOT OF PEOPLE, NOT JUST IN FINANCE, BUT OUTSIDE OF FINANCE AND INTERNAL AUDIT AND ACCOUNTING. SO WE DIDN'T IDENTIFY ANY ISSUES THAT COULD BE NON COMPLIANCE WITH LAWS OR REGULATIONS OR ANY AVIATION OF FRAUD. SO JUST WANTED TO LET YOU KNOW THAT. AND I THINK THERE'S JUST A COUPLE MORE THINGS ON THE NEXT SLIDE. I DID MENTION THAT THERE WERE NO SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN THE CURRENT YEAR. THIS WAS THE LAST PUGET YEAR FOR US, STARTING WITH 2022.

THE FIRST AND THE MOST SIGNIFICANT STANDARDS THAT WE HAVE BEEN WORKING WITH THE PORT STAFF FOR A NUMBER OF YEARS NOW IS THE LEASING STANDARD THAT WILL INCREASE THE AMOUNT OF LEASE ASSETS AND REVENUES. IT WILL CHANGE EVERYTHING IN THE FINANCIAL STATEMENTS, CHANGED QUITE A FEW THINGS BECAUSE OF JUST THE NUMBER OF REAL ESTATE AND LEASE TRANSACTIONS THAT THE PORT HAS. SO THAT'S THE BIGGEST ONE THAT, LIKE I SAID, MANAGEMENT HAS

BEEN WORKING ON THAT IMPLEMENTATION FOR QUITE SOME TIME. WE HAD REVIEWED SOME PRELIMINARY MEMOS AND ASSUMPTIONS FOR IMPLEMENTATION OF THAT STANDARD ALREADY, SO THAT WILL BE A BIG ONE FOR 22, AND THERE'S A NUMBER OF OTHER GAS FEES THAT WILL BECOME EFFECTIVE AS WELL THAT WILL JUST KEEP YOU UPDATED AS WE START IMPLEMENTATION OF THOSE. ALL RIGHT. AND THE NEXT, I THINK, IS MY LAST SLIDE TO LET YOU KNOW THAT AS I MENTIONED, THE AUDIT STARTS IN THE FALL AND GOES THROUGH LATE SPRING. SO WE DO COMMUNICATE AND STAY IN TOUCH WITH THE PORT THROUGHOUT THE YEAR. AND IN THAT PROCESS WE STAY IN REGULAR COMMUNICATIONS WITH THE PORT MANAGEMENT DURING THE FIELD WORK. AND AS WE'RE ISSUING THE FINANCIAL STATEMENTS OR OUR REPORT ON FINANCIAL STATEMENTS, WE HAVE REGULAR STATUS MEETINGS WHICH EVERYBODY ATTENDS TO MAKE SURE THAT WE'RE ALL ON THE SAME PAGE ABOUT ANY POTENTIAL FINDINGS OR ISSUES OR TRANSACTIONS OR QUESTIONS. SO THAT KEEPS THE AUDIT GOING AND ON TRACK. AND WE HAVE CONSISTENTLY ISSUED THE AUDIT REPORTS AT THE SAME TIME, YEAR AFTER YEAR. I DID MENTION THAT MANAGEMENT DOES TAKE THAT FIRST STEP IN IDENTIFYING THE APPLICABLE ACCOUNTING PRONOUNCEMENTS OR TRANSACTIONS THAT NEED TO BE ADDRESSED IN UPCOMING AUDITS. THEY DO DRAFT WHITE PAPERS FOR US TO REVIEW, WHICH IS GREAT. WE GET A NUMBER OF WHITE PAPERS THROUGHOUT THE YEAR THAT WE REVIEW AND MAKE SURE THAT ONCE AGAIN WE AGREE WITH THE ACCOUNTING APPLICATION THE PORT INTENDS TO HAVE. AND ONCE AGAIN, THAT'S NOT A SURPRISE AT THE END OF THE AUDIT, AS I MENTIONED, WE DO HAVE EXECUTIVE INTERVIEWS THAT WE HOLD THROUGHOUT OUR AUDIT AT ALL LEVELS FROM CEO DOWN TO THE DIFFERENT DEPARTMENT MANAGERS. AND I JUST WANTED TO HIGHLIGHT THE TONE AT THE TOP AND THE ATTITUDE OF MANAGEMENT TOWARDS THE APPROPRIATE FINANCIAL REPORTING AS WELL AS JUST MAKING SURE THAT THE PORT IS DOING THE RIGHT THING WHEN IT COMES TO MANAGING PUBLIC FUNDS AND EXECUTING ON THE PROGRAMS THAT THE PORT HAS UNDERTAKEN. IT HAS A VERY HIGH STANDARDS FOR THAT AND WE JUST WANT TO ACKNOWLEDGE THAT ONE OF THE AREAS OF FOCUS FOR THE BOARD OF DIRECTORS OR BOARD OF COMMISSIONER IN THE PAST OR STILL IS WORKING WITH THE COMPANIES THAT ARE DISADVANTAGED, EITHER MINORITY OWNED OR WOMEN OWNED, SMALL BUSINESS FIRMS. SO WE HAVE PARTNERED WITH THE PORT IN THE PAST TO PARTNER WITH SOME OF THESE SMALL FIRMS AND MAKE THEM PART OF

OUR AUDIT TEAM. WE'VE HAD IT FOR A NUMBER OF YEARS. THIS YEAR WE HAD TWO FIRMS WORKING WITH US AND TO WHOM WE PAID 14, ACTUALLY IT'S ALMOST 15% OF TOTAL AUDIT CONTRACT TO THESE TWO SMALL BUSINESSES THAT ARE WOMEN OWNED FIRMS. SO PART OF OUR TEAM, THAT'S OUR PLAN TO CONTINUE TO WORK WITH THEM AND HELP THEM KIND OF GROWING THEIR EXPERIENCE IN WORKING WITH A LARGE ENTITY SUCH AS SUPPORT, WHERE THEY MAY NOT BE ABLE TO DO SUCH A BIG AUDIT ON THEIR OWN. IT'S A GREAT PARTNERSHIP FOR US. AND OVERALL, I JUST WANTED TO SAY A HUGE THANK YOU TO THE PORT STAFF, THE INTERNAL AUDIT AND EVERYBODY THAT WE HAD TALKED TO DURING THE AUDIT AND ASKED QUESTIONS OF BECAUSE EVERYBODY HAS BEEN VERY HELPFUL AND VERY COLLABORATIVE WITH US DURING THE AUDIT AND IT'S BEEN ANOTHER GREAT AUDIT FOR US. THAT'S ALL I HAVE.

EXCELLENT THANK YOU SO MUCH FOR THAT PRESENTATION. GREAT WORK TO THE MOSS ADAMS TEAM AND TO THE PORT TEAM WORKING TOGETHER. AND I ALSO WANT TO JUST EXPRESS MY THANKS TO MOSS ADAMS FOR THEIR EFFORTS. AND INCLUDING SMALL MINORITY BUSINESSES IN THIS CONTRACT, PERCENT IS AN EXCELLENT PORTION OF THAT. SO THANK YOU SO MUCH. IF THERE ARE NO ADDITIONAL QUESTIONS FOR THE AUDIT TEAM OR MR. FERNANDEZ ON THIS ITEM, ARE THERE ANY QUESTIONS? GO AHEAD. THANK YOU, SAM.

I ECHO THE WORDS OF COMMISSIONER CHO. THANK YOU FOR THIS PRESENTATION AND THE HARD WORK THAT YOU GUYS HAVE PUT INTO THIS AUDIT. I JUST HAD ONE QUESTION.

AT OUR LAST COMMITTEE MEETING, WE LEARNED ABOUT THERE WAS AN ACCOUNT THAT GOT HACKED, THE ACH FRAUD. SO I WAS WONDERING, IN RELATION TO THAT, DID YOU GUYS LOOK AT THOSE INTERNAL CONTROLS? WHAT DID YOU THINK ABOUT THAT PARTICULAR SITUATION AND WHAT WERE SOME OF THE FINDINGS YOU SAW THERE AND THE GENERAL COMPUTER CONTROL IT GROUP? I'M INTERESTED IN KNOWING WHAT THEY THOUGHT ABOUT THAT AS WELL. YES, WE DID BECOME AWARE OF THAT AS WELL EARLY IN 2022 AS WE'RE STARTING THE FINAL FIELD WORK. THAT PARTICULAR FRAUD WAS MORE OF A HUMAN CONTROLS RATHER THAN ELECTRONIC CONTROLS. SO THE IT CONTROLS COULD HAVE PREVENTED IT SOMEWHERE, BUT NOT IT WAS MORE TRAINING OF PERSONNEL. I THINK SOME OF THE HACKING ATTACKS WERE SEEN, PARTICULARLY WHEN IT COMES TO PUBLIC AGENCIES ARE VERY SOPHISTICATED WHEN THE PROCESSORS CAN IMPERSONATE THE REAL VENDORS OR REAL EMPLOYEES OF THE COMPANY. SO WE DID

NOT INCLUDE IT AS A SIGNIFICANT DEFICIENCY BECAUSE OF THE SCOPE OF IT. IT WAS RATHER IMMATERIAL WHEN IT COMES TO THE MATERIALITY OF THE FINANCIAL STATEMENTS OF THE PORT. BUT IT WAS DISCUSSED WITH THE PORT. THERE WERE PROCESSES PUT IN PLACE AS THE PORT HAD IDENTIFIED THAT ISSUE AS WELL THAT WE REVIEWED. THANK YOU FOR THAT QUESTION, COMMISSIONER MOHAMED, IT LOOKS LIKE RUDY'S HAND IS UP. IS THAT RESIDUAL HAND, RUDY? YES, PLEASE, COMMISSIONER, THANK YOU FOR RECOGNIZING ME. THANK YOU. AND I APOLOGIZE WHEN I SPOKE FIRST INTRODUCE MYSELF AND I SINCERELY APOLOGIZE. I'M RUDY KALUZA, THE COUNTY DIRECTOR, PORT OF SEATTLE, 21 YEARS. I JUST WANTED TO EMPHASIZE ONE THING VERY IMPORTANT TO THE COMMISSION, PORT OF SEATTLE AND THE PUBLIC IS THE STRONG POLICY DIRECTION THAT'S GIVEN BY OUR PORT COMMISSION TO EXECUTIVE AND STAFF WITH REGARD TO EMBRACING OPPORTUNITIES AND CREATING OPPORTUNITIES FOR WOMEN AND MINORITY OWNED BUSINESSES TO BE PART OF OUR CONTRACTING. AND MOSS ADAMS HAS BEEN A SIGNIFICANT PARTNER OVER THE RECENT YEARS AND JUST OVER THE PAST TWO YEARS. THE REPRESENTATION THAT OLGA HAD INDICATED IS REALLY DOUBLE THE REPRESENTATION. WE HAVE TWO WMBE FIRMS WORKING WITH MOSS ADAMS. AND ONE THING MOSS ADAMS IS VERY MODEST ABOUT, OLGA MENTIONED THAT THEY'RE INTEGRAL PART OF THEIR TEAM IN THE WAY IT'S SUBSTANTIVE, IT'S NOT A PART OF CARVING OUT OF THE PIECE OF THE CONTRACT. AND HERE YOU GO, HERE'S SOME OF THE MONEY IT'S REALLY BEING A PART OF THE MOSS ADAMS TEAM. THEY GET THE MOSS ADAMS COMPUTER, THEY GET THE LAPTOP AND THEY GET THE TRAINING AS WELL AS THE WHOLE SYSTEMATIC APPROACH IN TERMS OF HOW MOSS ADAMS APPROACHES AUDITS FROM A BIG REGIONAL COMPANY, NATIONAL AS WELL WITH REGARD TO THE MODEL. AND SO WHAT THIS REALLY ACCOMPLISHES, AND I THINK THIS IS VERY PROUD, WE SHOULD BE PROUD OF THIS IS THE PORT OF SEATTLE'S ACCOMPLISHING BUILDING SKILL SETS, BUILDING RESUME, BEING ABLE TO COMPETE AT A HIGHER LEVEL WITH REGARD TO SAYING, I'VE DONE THIS AUDIT WITH THE PORT OF SEATTLE. AND SO REALLY, IT'S REALLY ENRICHING THEIR OPPORTUNITIES WITH REGARD TO BEING ABLE TO COMPETE FOR BIGGER AUDITS. AND I JUST WANTED TO MAKE THAT ONE POINT AS WELL, THAT WE ARE EMBRACING THIS VERY SERIOUSLY AND MOS EDEN HAS BEEN A SIGNIFICANT PARTNER AND WE'RE MOVING AHEAD IN THAT CONTEXT AS WELL. SO I DO WANT TO SINCERELY APPRECIATE THE DIRECTION FOR THE PORT OF SEATTLE COMMISSION IN TERMS OF THE TONE

AT THE TOP THAT OLGA MENTIONED WITH REGARD TO FISCAL ACCOUNTABILITY AND FINANCIAL TRANSPARENCY AND ACCOUNTING FINANCIAL FOR THE INTEGRITY. WE EMBRACE THAT POLICY DIRECTLY. YOU GIVE TO THE EXECUTIVE AND STAFF VERY SERIOUSLY. AS YOU CAN SEE, THE AUDIT RESULTS SHOW THAT, AND THAT HAS SHOWN THAT CONSISTENTLY OVER THE YEARS WITH REGARD TO THIS. SO THANK YOU SO MUCH FOR RECOGNIZING OUR ACCOMPLISHMENTS AND I SINCERELY APPRECIATE YOUR SUPPORT IN TERMS OF BEING ABLE TO ACCOMPLISH WHERE WE ARE TODAY. AND WE SHOULD BE VERY PROUD IN THE EYES OF THE PUBLIC. THANK YOU. THANK YOU, RUDY. ALL RIGHT, I THINK WE WILL NOW MOVE ON TO THE NEXT TOPIC, ITEMS NUMBER FOUR AND FIVE. THANK YOU. THANKS, CONNOR. REGARDING POINTS WITH THE AUDIT PLAN AND OPEN ISSUES ITEMS, GLENN, CAN YOU PLEASE PROCEED WITH THE PRESENTATION? THANKS, COMMISSIONER. MICHELLE, IF YOU COULD DO THE HONORS. ONE MOMENT HERE. OKAY, VERY GOOD. LET'S MOVE TO THE NEXT SLIDE. WE'RE GOING TO JUMP TWO SLIDES. THE FIRST SLIDE IS ACTUALLY WE ENDED UP PUTTING 2022 AUDIT PLAN OUR GUIDING PRINCIPLES. THE COMMISSIONER, BEFORE I START MY PRESENTATION, SINCE WE'RE HERE IN PERSON, I'D LIKE TO ACKNOWLEDGE THE TEAM SITTING BEHIND ME BECAUSE THEY DO ALL THE WORK THAT MAKES THIS POSSIBLE. SO THANKS EVERYONE. FOR THOSE THAT ARE HERE, OUR GUIDING PRINCIPLES. I'M GOING TO GO OVER SOME BASIC STUFF. ALSO, SINCE WE HAVE A NEW AUDIT COMMITTEE MEMBER, SARAH, FOR HER BENEFIT AND THEY'RE KIND OF IMPORTANT TO HOW WE DO OUR WORK, WE FOLLOW TWO SET OF STANDARDS, THE GAGA OR GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, WHICH IS ALSO IN A YELLOW BOOK FOR GOVERNMENT STANDARDS, AND THE IPPF, OR INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK, WHICH IS IN A RED BOOK. SO WE CALL IT THE RED BOOK. AND THE YELLOW BOOK IPPF IS MORE ENTERPRISE. SO IF YOU LOOK AT THE INTERNAL AUDIT GLOBAL STANDARDS, LARGE CORPORATIONS AND ORGANIZATIONS GENERALLY USE THOSE, AND GOVERNMENT ORGANIZATIONS USE THE YELLOW BOOK. THE YELLOW BOOK WILL ALSO SUGGEST FOR SHOPS LIKE US. INTERNAL AUDIT SHOPS, THAT WE ALSO USE THE RED BOOKS BECAUSE THEY'RE KNOWN FOR THEIR BEST PRACTICES AND AUDITING AND THE STANDARDS THAT THEY SET UP. SOME OF THE THINGS THAT WE TRY TO DO IS IF SOMETHING CHANGES IN THE BUSINESS AND SOMETHING NEW COMES AROUND, WE TRY TO ADDRESS THAT AND BE A VALUE

ADD INTERNALLY AND ADDRESS EMERGENT RISKS. ONE EXAMPLE, COMMISSIONER MOHAMED, LIKE YOU MENTIONED, THE ACH FRAUD, WHEN THAT BROKE, WE TALKED TO THE AUTO COMMITTEE AND STARTED AN AUDIT ON THAT TO IDENTIFY THE CONTROL WEAKNESSES THAT CAUSE THAT OCCUR. ADDITIONALLY, EVEN NOW WITH ALL THE CYBERSECURITY RISKS FOR THE WAR IN UKRAINE AND RUSSIA AND THE AIRPORT BEING A VERY BIG TARGET, WE MAKE SURE THAT WE HAVE IT CONTROLS AND WE HAVE NOT A TEAM THAT FOCUSES ON IT RISK AND CYBERSECURITY. AND WE'VE DONE A WHOLE SERIES OF AUDITS THERE THAT WE TALK ABOUT IN NON PUBLIC SESSION AND WE'LL TALK ABOUT THOSE LATER TODAY. AND THEN FINALLY, WE'RE DOING A LOT OF CONSTRUCTION AT THE AIRPORT GCCM, OR GENERAL CONTRACTOR CONSTRUCTION MANAGER TYPE AUDITS TYPE PROJECTS.

AND WHILE THE LEGISLATURE HAS ALLOWED THOSE FOR GOVERNMENT ENTITIES, THEY DO REQUIRE, REQUIRE THAT INDEPENDENT AUDITS BE CONDUCTED OFF THESE GCCM PROJECTS FOR KEY SUBCONTRACTORS. AND THAT'S EVOLVED OVER THE YEARS AND NOW ALL SUBCONTRACTORS SELECTED THROUGH ALTERNATIVE MEANS HAVE TO BE AUDITED. SO WE'VE INTEGRATED THAT INTO OUR PROCESSES AS WELL. SO WE CAN SUPPORT THE BUSINESS AND CONSTRUCTION AT THE AIRPORT UNLESS EVERYONE KNOWS CONSTRUCTION IS EXPECTED TO BE QUITE LARGE IN THE YEARS TO COME.

MOVING ON TO THE NEXT SLIDE PLEASE. ONE OF THE THINGS THAT THE RED BOOK OR THE INSTITUTE OF INTERNAL AUDITORS REQUIRES IS THAT WHEN AUDIT ISSUES ARE IDENTIFIED, THAT THEY'RE NOT JUST PUT ON A SHELF AND NEVER ADDRESSED ANYMORE, THAT ONCE YOU COME TO AGREEMENT WITH YOUR AUDIT CLIENTS AS TO THIS IS WHAT THEY'RE GOING TO DO TO FIX THE ISSUE, THAT YOU PERIODICALLY FOLLOW UP WITH THEM AND MAKE SURE THAT THEY ARE ADDRESSING THESE ISSUES AND THEY ARE GETTING SYSTEMATICALLY FIXED.

IT'S GOOD FOR THE BUSINESS, IT'S GOOD FOR THE CONTROL ENVIRONMENT, AND IT'S GOOD FOR EVERYONE. SO IT'S A GOOD STANDARD. AND WE'VE INSTITUTED A PROCESS WHERE WE REPORT BACK IN EVERY AUTO COMMITTEE AS TO WHERE THESE FINDINGS ARE. ARE THEY GETTING ADDRESSED? ARE THEY SITTING OPEN FOR A LONG TIME? FOR THE MOST PART, I THINK THINGS ARE IMPROVING RIGHT NOW. WE HIT A LITTLE BIT FOR LULL DURING COVID WHERE THINGS SLOWED DOWN AND PEOPLE WEREN'T PUT ON THE SHELF FOR A LITTLE BIT OR THINGS SLOWED DOWN BECAUSE THERE WERE OTHER PRIORITIES WHEN COVID HIT, BUT NOW THAT WE'RE KING COUNTY OF COVID AND

BUSINESSES RESUMING MORE THAN NORMAL, WE ARE SEEING THESE GET ADDRESSED. THERE ARE SOME THAT ARE NOTED OVER HERE THAT ARE STILL OPENED, BUT THERE ARE PLANS TO ADDRESS SOME OF THESE AND OTHER ONES. WE'RE CONTINUING TO PRESSURE THE BUSINESS TO MAKE THEM A PRIORITY AGAIN AND ADDRESS THEM. SO THERE'S MORE DETAIL ON THESE OPEN ISSUES IN THE APPENDIX, WHICH LISTS OUT EVERYTHING. AND COMMISSIONERS AND MISS HOLSTROM, IF YOU DO HAVE QUESTIONS, JUST STOP ME AT ANY TIME AND MOVE FORWARD.

THERE ARE NO QUESTIONS ON FOLLOW UP. I WILL MOVE TO THE NEXT SLIDE, PLEASE.

MY QUESTION IS REGARDING WHEN YOU FIND SOME SORT OF ISSUE WITH A CONSTRUCTION CONTRACT. LET'S SAY, FOR INSTANCE, HYPOTHETICALLY, DURING THE PANDEMIC, THERE WAS JUST SO MUCH THAT WE WEREN'T EXPECTING UNPRECEDENTED TIMES. AND SO THERE COULD BE ISSUES AROUND LIKE CONTRACTS NOT HAVING ENOUGH TEETH IN THEM OR NOT RESPONDING TO THE PANDEMIC ITSELF. IN A CASE LIKE THAT, WHAT DO YOU GUYS DO WHEN YOU FIND THAT SORT OF FINDING? WHAT SOLUTIONS DO YOU PUT IN PLACE OR WHAT CONTROLS GET PUT IN PLACE TO HELP ADDRESS THAT?

COMMISSIONER, IF THERE'S A FINDING RELATED TO A CONTRACT SPECIFICALLY, OR IF WE HAVE A CONCERN WITH THE CLAUSE IN THERE OR NOT ENOUGH TEETH IN, AS YOU MENTIONED, WE WOULD FIRST SIT DOWN WITH LEGAL AND TALK ABOUT OUR CONCERNS AND GET THEIR BUY IN. AND AFTER WE AGREE WITH LEGAL, IT DEPENDS ON THE CONTRACT. WE GENERALLY THEN GO TO THE CONSTRUCTION MANAGEMENT FOLKS AND THEY'LL SET UP A MEETING WITH THE AGC, THE GENERAL CONTRACTOR GROUP, THE ASSOCIATION OF GENERAL CONTRACTORS, AND WE'LL SIT DOWN WITH THEM AND DISCUSS ADDING THESE CLAUSES OR CHANGING THE CONTRACTS. WE USUALLY COME TO SOME AGREEMENT THERE. I THINK IN THE PAST WE'VE DONE IT WHERE AN AUDIT CLAUSE WAS VERY RESTRICTIVE AND WE WANTED IT TO BE OPENED UP A LITTLE BIT MORE TO ALLOW US TO LOOK AT MORE SPECIFIC DATA. AND AFTER WE COME TO SOME AGREEMENT, THEN IT'S A MATTER OF LEGAL AND PROCUREMENT UPDATING THE CONTRACTS GOING FORWARD, AND THEN ALL CONTRACTS ARE UPDATED GOING FORWARD. BUT WE DO BRING THOSE TO THE COMMITTEE WHEN WE IDENTIFY THEM AS WELL. WE WILL SHARE THEM WITH YOU. THAT'S HELPFUL. THANK YOU.

I HAVE A QUESTION. LOOKING AT THE OPEN ISSUES STATUS REPORT, IT LOOKS LIKE SOME OF THESE YOU KIND OF KNOW FOLLOW UPS ARE HAPPENING, AND SOME OF THEM KIND OF SAY

THERE ISN'T SOMETHING HAPPENING. BUT WHEN I LOOK AT THE APPENDIX, THERE'S QUITE A FEW HERE, I GUESS. FROM YOUR PERSPECTIVE, IS THERE ANY OF THESE THAT YOU THINK WE SHOULD REALLY REVIEW CLOSELY OR THAT YOU GUYS ARE MORE CONCERNED ABOUT THAN OTHERS? OR IS THERE ANYTHING I GUESS YOU'D WANT TO HIGHLIGHT FROM HERE THAT'S PRETTY CONCERNING, THAT IS PAST ITS TARGET COMPLETION OR RESOLVED DATA. ARCHITECTURAL ENGINEERING WAS AN AUDIT THAT WAS BROUGHT UP. IT WAS CONTENTIOUS AUDIT FROM A FEW YEARS AGO. IT'S BEEN PUT IN THE BACK BURNER, AND A LOT OF PROGRESS HAS NOT BEEN MADE ON THAT. IT'S JUST SOMETHING TO NOTE. THE OTHER ONES ARE EITHER PARTIALLY DONE OR ARE IN THE PROCESS OF BEING DONE. SO I'M JUST LIKE TO HIGHLIGHT THE AME ON IT. COMMISSIONERS, MS. HOLSTROM, THIS SLIDE PROVIDES YOU WITH AN OVERVIEW OF OUR AUDIT PLAN AND IT'S JUST FOR TRANSPARENCY AND FOR A LITTLE BACKGROUND. WE PERFORMED THREE MAJOR TYPES OF AUDITS, LIMITED CONTRACT COMPLIANCE AUDITS. THOSE ARE CONCESSIONNAIRES AT THE AIRPORT AND WE TRY TO CYCLE THROUGH THEM PERIODICALLY BECAUSE IT'S A SIGNIFICANT AMOUNT OF REVENUE THAT GETS PAID TO THE PORT AND A LOT OF IT IS MORE OR LESS AN HONOR SYSTEM. SO THE KEY CONTROL IS US GOING IN AND AUDITING THEIR BOOKS AND RECORDS AND MAKING SURE THAT WHAT THEY REPORT TO THE PORT IS ACCURATE. AND WE DON'T ALWAYS SOMETIMES IT BENEFITS THEM IF THEY'RE OVERPAYING US, WE'LL SAY YOU'RE PAYING US INCORRECTLY AND WE HAVE OCCASIONALLY FOUND THAT. BUT IT ALSO KEEPS THEM HONEST AND MAKES SURE THAT THERE ARE A SECOND SET OF FIRES COMING IN TO LOOK AT THEM. AND WHATEVER THEY REPORT TO THE PORT WILL HAVE THE POTENTIAL OF GETTING AUDITED AND LOOKED AT. OPERATIONAL AUDITS. THESE INCLUDE CAPITAL AUDITS AND ALL THE CAPITAL AND CONSTRUCTION THAT WE DO. BUT THESE ARE DESIGNED AT THE BEGINNING OF THE YEAR THROUGH RISK ASSESSMENT AND THROUGH DISCUSSION WITH MANAGEMENT AND LOOKING AT SOME KEY PROCESSES THAT MIGHT HAVE GAPS AND EMERGING AREAS AS WELL. SO WE'VE GOT A FERRIES OF OPERATIONAL AUDITS AND THEN LAST BUT NOT LEAST, A WHOLE SLEW OF CONSTRUCTION AUDITS OR CAPITAL AUDITS. AND THOSE ARE JUST BECAUSE SOME OF THEM ARE REQUIRED, SUCH AS THE POST IF AIRLINE REALIGNMENT, THE C ONE BUILDING EXPANSION AND THE MAIN TERMINAL LOW VOLTAGE, THOSE ARE ALL GCCM PROJECTS. AND ALL GCCM PROJECTS PER THE RCW HAVE TO BE AUDITED BY AN INDEPENDENT AUDITOR



PERIODICALLY WELL THROUGH THE COURSE OF THE CONSTRUCTION PROJECT. SO WE'VE GOT THOSE IN OUR PLAN AND WE DO SEEK AN OUTSIDE FIRM TO PARTNER WITH US AND PERFORM THAT WORK. BUT WE DO REPORT BACK TO THE COMMITTEE AS TO THE FINDINGS AND THE IMPROVEMENTS THAT ARE SUGGESTED. AND IT'S JUST BECAUSE THERE'S JUST SO MUCH DETAIL AND PAY

APPLICATIONS THAT HAVE TO BE REVIEWED THAT THE LEGISLATURE RIGHTLY SO THOUGHT THAT IT'S IMPORTANT TO PUT THAT DOWN AS A REQUIREMENT THAT ALL OF THOSE PAY APPLICATIONS AND BILLINGS FROM SUBCONTRACTORS ARE REVIEWED FOR ACCURACY. AND THEN SOME OF THE OTHER PROJECTS THAT YOU SEE IN THE CAPITAL FRONT ARE JUST BECAUSE OF THE SIZE OR THEY'RE BEHIND SCHEDULE AND OVER PUGET. THOSE ARE SOME OF THE KEY ELEMENTS THAT WE LOOK AT WHEN WE SELECT THEM. AND THEN FINALLY, LAST BUT NOT LEAST, A LOT OF INFORMATION TECHNOLOGY AUDITS. THIS YEAR WE HAVE TWO INFORMATION TECHNOLOGY GROUPS, ICT INFORMATION AND COMMUNICATION TECHNOLOGIES THAT HANDLES MOST OF THE COURSE SYSTEMS AND FINANCIAL SYSTEMS. AND THEN WE ALSO HAVE AVIATION MAINTENANCE WHICH MANAGES A LOT OF THE TECHNOLOGY AT THE AIRPORT. THE CRITICAL CLOSED NETWORK SYSTEMS WHICH ARE LIKE THE BAGGAGE SYSTEM OR RUNWAY LIGHTS OR WASTEWATER TREATMENT, OTHER CRITICAL ARCHITECTURE AND SYSTEMS THAT WE AUDIT AS WELL. SO THERE'S A BIG ARRAY OF SYSTEMS THAT THE PORT MANAGERS THAT WE AUDIT AND WE ASSURE CONTROLS ARE ROBUST ON AND WE'LL TALK ABOUT THESE AUDITS IN NON PUBLIC SESSION LATER THIS AFTERNOON. NEXT SLIDE, PLEASE, MICHELLE.

SO, COMMISSIONERS, THIS GANTT CHART ESSENTIALLY TELLS YOU WHERE WE ARE IN OUR AUDITS. GREENS, WHAT WE'VE COMPLETED, YELLOW IS IN PROGRESS, AND THE BEIGE PINKISH COLOR IS WHAT'S NOT STARTED YET. SO YOU CAN SEE WE COVID ONE AUDIT TO NEXT YEAR PAYROLL CONTROLS AND IT WAS PRIMARILY BECAUSE MANAGEMENT REQUEST THAT THEY DIDN'T HAVE TIME TO SUPPORT THE AUDIT THIS YEAR AND ASKED IF WE COULD MOVE IT TO 2023 AND WE'LL KICK THAT OFF EARLY 2023. BUT IN LIEU OF THAT, WE DID PICK UP ACH AS AN AUDIT THAT WAS ADDED TO THE PLAN. AND IF WE HAVE CAPACITY TOWARDS THE END OF THE YEAR, WE DO HAVE A FEW CONTINGENCY AUDITS THAT WE CAN MOVE UP INTO OUR PLAN, BUT THIS LOOKS LIKE A REASONABLE WORKLOAD THAT WE SHOULD BE ABLE TO COMPLETE BY THE END OF THE YEAR. IN A NUTSHELL, THIS SLIDE SAYS WE'RE ON TRACK TO COMPLETE OUR AUDIT PLAN.

THANK YOU.  
THERE ARE NO QUESTIONS. I'M GOING TO MOVE TO AUDITS THAT WERE COMPLETED IN THE SECOND QUARTER OF 2022. SO THERE'S A TOTAL OF FIVE THAT WERE COMPLETED. WE'RE GOING TO DISCUSS FOUR IN NON PUBLIC SESSION HERE TODAY AND THE ONE IN RED, AUDIT LOG MANAGEMENT WILL DISCUSS LATER TODAY. WITH THAT, I'M GOING TO MOVE TO OUR FIRST AUDIT AND I'M GOING TO ASK SPENCER BRIGHT TO COME UP. SO, COMMISSIONER SPENCER BRIGHT IS OUR CAPITAL AUDIT MANAGER THAT MANAGES THE CAPITAL AUDITS. AND WHILE I'LL OPEN THIS, SPENCER WILL ADD A LITTLE MORE CONTEXT TO THE WORK THAT WAS DONE SINCE HE DOES MANAGE THESE PROCESSES. BUT AS I MENTIONED, RCW 39.10 REQUIRES AN INDEPENDENT AUDIT OF SUBCONTRACTORS WHEN THESE SUBCONTRACTORS ARE SELECTED THROUGH ALTERNATIVE MEANS. AND PRIMARILY THEY STARTED OFF BY FOCUSING ON THE MECHANICAL CONTRACTORS AND THE ELECTRICAL CONTRACTORS BECAUSE THOSE ARE THE LARGEST SUBCONTRACTORS. BUT NOW, AS OF LAST YEAR, THE RCW WAS UPDATED TO INCLUDE TO REQUIRE LOOKING AT ALL SUBCONTRACTORS, INCLUDING ANYONE THAT SELECTED THROUGH AN ALTERNATIVE METHOD, MEANING YOU DON'T BID THEM OUT. THE GENERAL CONTRACTOR SAYS, I LIKE WORKING WITH THIS PERSON, SO I'M GOING TO HIRE THIS PERSON. THE RCW REQUIRES YOU TO AUDIT EVERYTHING IN THAT CASE FROM THAT SELECTED SUBCONTRACTOR. THIS REPORT WAS DONE BY RL. TOWNSEND AND ASSOCIATES, WHICH IS A WIMPY FIRM, I'LL POINT THAT OUT, BUT ALSO VERY WELL REGARDED FIRM IN THE CONSTRUCTION AUDIT SPACE. AND THROUGH A COMPETITIVE PROCESS, THEY WERE SELECTED AND THEY'LL CONTINUE FOR A SERIES OF THESE AUDITS WITH US. THE KEY AREAS THAT THEY LOOKED AT, LIKE I MENTIONED, WAS THE MC AND EC, MECHANICAL AND ELECTRICAL. AND THEN SPENCER AND HIS TEAM ARE ALSO LOOKING AT THE OTHER SUBCONTRACTORS FOR THE NORTH SATELLITE BECAUSE IT WAS A REALLY LARGE PROJECT. IT WAS ABOUT 700+ MILLION DOLLARS AND THERE'S A LOT TO LOOK AT. SO WE'RE GOING IN AFTER THE FACT AND I THINK OUR KEY LEARNING IS IT'S BETTER TO BE INVOLVED DURING THE PROCESS BECAUSE YOU CAN STOP MISTAKES, WHEREAS IF YOU COME IN AFTER THE FACT, YOU'RE WORKING WITH THEM TO TRY TO CLEAN UP A LOT OF THAT STUFF AND RECOUP THINGS. BUT WE'LL REPORT ON THAT AUDIT IN THE THIRD QUARTER IN THE SEPTEMBER TIME FRAME,

SOME OF THE KEY AREAS THAT THEY LOOKED AT, AND IF YOU WANT TO JUMP IN, YOU CAN'T. THAT NORTH SAT WAS LOOKED AT BY THE INDEPENDENT AUDITOR, WAS JOB COST ACCOUNTING RECORDS. DID THEY LOOK AT SUBCONTRACTS FOR ALTERNATES? WHAT DO THEY DO? DID THEY GIVE THE WORK OUT TO SOMEONE ELSE? WERE THERE ALLOWANCES AND WERE THEY CORRECT IN UNIT RATES? UNIT RATES ARE WHEN YOU HAVE A CHARGE FOR SOMETHING AND THEY GO TO A TABLE AND THEY'RE SUPPOSED TO SAY, OKAY, I'M GOING TO CHARGE YOU \$100 FOR THIS PER OCCURRENCE. ARE THEY USING THE RIGHT TABLE AND ARE THEY CHARGING US THE RIGHT AMOUNT? AND THEN RL TOWNSEND AND ALSO LOOKED AT CHANGE ORDERS FOR SUPPORTING DOCUMENTATION WITH THE FEES, THE RATES CORRECT, WITH THEIR DUPLICATES MATH ERRORS, ANYTHING ALONG THOSE LINES. SO QUITE A BIT OF COMPREHENSIVE WORK. AND THE NEXT SLIDE WILL TALK A LITTLE BIT ABOUT WHAT THEY RECOUPED THROUGH THIS. BUT THESE ARE HUGE DOCUMENTS, HUNDREDS OF PAGES LONG THAT YOU'VE GOT TO GO THROUGH AND DOUBLE CHECK AND TIE EVERYTHING OUT TO TABLES AND MAKE SURE EVERYTHING'S CORRECT. IT'S THROUGH THAT, THAT YOU FIND ERRORS AND SAY, THIS IS A MISTAKE. WE'RE NOT PAYING YOU FOR THIS. THIS IS A MISTAKE, BECAUSE THOSE ERRORS CAN ADD UP. AND SPENCER WILL TALK A LITTLE BIT ABOUT THAT AS WELL. NEXT SLIDE, PLEASE. AND SPENCER, YOU CAN TAKE THIS IF YOU'RE COMFORTABLE WITH IT AND INTRODUCE YOURSELF AND TALK ABOUT WHAT THEY GOT BACK. THANK YOU, GLENN SPENCER, BRIGHT CAPITAL PROJECTS AUDIT MANAGER GOOD AFTERNOON, COMMISSIONERS AND MS. HOLMSTROM.

SO ON OUR SLIDE ON THE TABLE HERE, AS LYNN MENTIONED, RL. TOWNS AND AN ASSOCIATE PERFORMED SOME AGREED UPON PROCEDURES. AND IN ADDITION TO THE STANDARD REQUIREMENTS OF RCW, THE CONSTRUCTION MANAGEMENT TEAM ALSO HAD TOWNS AND REVIEW SOME OF THE PAY APPLICATIONS DURING THE COURSE OF THE PROJECT AND PROVIDE RECOMMENDATIONS ON DOCUMENTATION AND QUESTIONS FOR THE CONSTRUCTION MANAGEMENT FOLKS PRIOR TO APPROVAL OF THOSE PAY APPLICATIONS. AND SO ON THE TABLE HERE, THE AGREED TO CREDIT AMOUNT OF \$1 MILLION CAME FROM COST RECONCILIATION WORK PERFORMED BY THE EXTERNAL AUDIT FIRM. THEY WORKED WITH THE MCCM AND THE ECCM. SO THIS AMOUNT LISTED HERE WAS AGREED TO AND THE PORT WAS CREDITED FOR THAT AMOUNT. FOR THE COST AVOIDANCE TABLE. THAT NUMBER, THE 1.1 MILLION,

CAME FROM THE PAY APPLICATION REVIEW. THAT AVOIDANCE WAS ACHIEVED PRIOR TO PAYMENT. SO THE PORT ACTUALLY NEVER PAID THAT AND THEY WORKED WITH THE SUBCONTRACTORS TO REMEDY THOSE PAY APPLICATIONS BEFORE PAYMENT. SPENCER, COULD YOU ALSO PROVIDE A LITTLE INSIGHT AS TO WHAT WAS SOME OF THE EXCEPTIONS THAT THEY FOUND AND HOW? YES, SOME OF THE LARGEST ON THE RECONCILIATION HAD A LOT TO DO WITH THE SALARIES, THE SALARIES AND BENEFITS THAT ARE BILLED TO THE PORT. A GOOD EXAMPLE THAT AMOUNTED TO MOST OF THIS WAS FEDERAL UNEMPLOYMENT TAXES AND STATE UNEMPLOYMENT TAXES. THOSE PARTICULAR ARE BASED ON A PERCENTAGE UP TO A CERTAIN SALARY AMOUNT FOR EMPLOYEES AND THEN THE EMPLOYER NO LONGER HAS TO COLLECT THOSE TAXES. TAXES OFTEN TIMES WE NOTICED THROUGH CONSTRUCTION PROJECTS IS THAT IT'S EASIER TO SUBMIT A CONSTANT BILLABLE RATE, IT'S EASIER FOR THE REVIEWER ON THE OWNER SIDE AND IT'S EASIER FOR A CONTRACTOR TO SUBMIT. HOWEVER, WHEN THE ACTUAL COSTS ARE RECONCILED, IT CAN BECOME AN EXPENSIVE AMOUNT THAT AN OWNER IS PAYING, ESPECIALLY OVER A MULTI YEAR PROJECT SUCH AS THE NORTH SATELLITE. AND SO THAT WAS A BIG PORTION OF THIS CREDIT AMOUNT. I HAVE A QUESTION ON THE TIMING OF HOW WE DO THESE. SO I WOULD ASSUME WE WANT TO CAPTURE ALL OF THE COSTS THAT WE PAID. SO MY TWO QUESTIONS ARE WHEN DO WE START DOING AN AUDIT LIKE THIS ON A BIG PROJECT LIKE THIS TO TRY AND CAPTURE ALL OF THE COSTS SO THAT WE'RE NOT COMING BACK? OR ARE WE HAVING TO DO LIKE A FINAL RECONCILIATION MAYBE BEFORE WE PAY OUT RETAINERS OR SOMETHING TO MAKE SURE THERE'S NO MORE COST LIKE ADDITIONAL THINGS LIKE THIS, OR PAYROLL TAXES THAT STILL NEED TO BE CORRECTED BEFORE WE CLOSE OUT THE PROJECT ENTIRELY. SO HOW DOES THE TIMING OF THAT WORK HERE? THESE ARE STARTING AT THE BEGINNING OF THE PROJECT, RIGHT WHEN CONSTRUCTION COSTS START FROM THE DESIGN PHASE TO CONSTRUCTION, WE'RE GETTING THESE FIRMS IN EARLY ON TO WORK CLOSELY WITH CONSTRUCTION MANAGEMENT THROUGH THE LIFECYCLE OF THE PROJECT. SO MS. HOLSTROM, TO ADD TO THAT. ALSO, THERE'S AN EVOLUTION HERE AND SPENCER AND HIS TEAM ARE GETTING MORE AND MORE INVOLVED IN THE BEGINNING OF PROJECTS. SO ALTHOUGH IN COMPLIANCE WITH THE RCW, THE INDEPENDENT ORDER, WE GET THEM STARTED RIGHT AWAY. WE HAVE A

FERRIES STARTING IN 2022 AND WE'VE GOT THE INDEPENDENT ORDER LINED UP TO START WITH THE PROJECT WHEN THE PROJECT STARTS AND BE WELL INVOLVED. BUT IT'S A CONTINUOUS PROCESS WHERE WE WANT TO GET OUR TEAMS OUT THERE WORKING WITH THEM AND CONTINUOUSLY IDENTIFY THINGS AT THE BEGINNING AND BE MORE INVOLVED. AND YOUR SECOND QUESTION, YOU STILL HAVE THAT? OR IS IT JUST ONE THAT WAS KIND OF AT THE BEGINNING AND THEN END? LIKE HOW DOES THE TIMING WORK?

COMMISSIONERS MOHAMED AND COMMISSIONERS JOE, ANY QUESTIONS IN THIS AUDIT OR ANY COMMENTS?

NO, NOT AT THIS TIME. THANKS.

OKAY, VERY GOOD. THANK YOU, SPENCER.

WE'LL MOVE TO THE NEXT. THANK YOU.

AND FOR THE RECORD, THIS IS ITEM NUMBER SEVEN ON THE AGENDA. YES, WE'RE AN ITEM NUMBER SEVEN ON THE AGENDA. IT'S HERE,

EMERGENCY PROCUREMENT. AND ACTUALLY I'M GOING TO ASK DAN CHASE, OUR OPERATIONAL AUDIT MANAGER, TO COME UP AND HAVE A SEAT. SO DAN AND HIS TEAM ACTUALLY WORKED IN THIS AUDIT. AND ALTHOUGH I'LL WALK THROUGH IT, DAN CAN CHIME IN AND PARTNER WITH ME ON THIS, ESPECIALLY SINCE HE AND HIS TEAM DID ALL THE WORK ON IT.

THIS AUDIT WAS REQUESTED BY THE COMMISSION PRIMARILY BECAUSE THE COMMISSION GRANTED STEVE THE AUTHORITY AND WHEN STEVE DECLARED THE EMERGENCY STEVE METRUCK IS THE EXECUTIVE DIRECTOR OF THE PORT FROM PUBLIC. SO IN MARCH 16, 2020, WHEN EMERGENCY WAS DECLARED, BECAUSE OF COVID, CERTAIN RULES AND REGULATIONS WERE BYPASSED. AND IN ORDER TO PUGET TO EXPEDITE THE PURCHASE OR PROCUREMENT OF GOODS AND SERVICES, PRIMARILY HAND SANITIZER, MASKS, CLEANING SUPPLIES, CLEANING CONTRACTS. TO KEEP TSA UP AND RUNNING, WE HAD TO SPEED UP AND RESPOND TO THINGS, BUT RELATIVELY QUICKLY. THE SPEND WASN'T THAT MUCH, BUT IT DEPENDS. IT'S ALL PERSPECTIVE. IT WAS CLOSE TO \$5 MILLION ON CLEANING SUPPLIES AND CLEANING CONTRACTS, BUT IT'S PART OF RUNNING A BIG AIRPORT.

WHEN THE EMERGENCY WAS BASICALLY ANNOUNCED, WE WAIVED COMPETITIVE REQUIREMENTS AND EXPEDITED THE PROCUREMENT PROCESS. SO PART OF WHAT WE DID ALSO WHEN WE DID THIS IS NOT ONLY DID WE LOOK AT DID WE COMPLY WITH ALL THE RULES AND REGULATIONS AND BUY THINGS THAT WE WERE SUPPOSED TO. AND THE PURPOSE OF THIS AUDIT IS REALLY TO PROVIDE ASSURANCE WHETHER WE DID OR DIDN'T. IN THIS CASE,

WE'RE PROVIDING INSURANCE THAT WE DID,  
BUT WE'LL MOVE ON.  
IT WAS ALSO TO MAKE SURE  
THAT WE GOT A FAIR PRICE FOR SOME OF  
THESE PRODUCTS. ALSO DID WE GET GOUGED  
ON PRICING. SO GIVEN  
THE ENVIRONMENT WASN'T AS CHEAP AS YOU'D  
EXPECT TO BUY SANITIZER AND MASKS  
EARLIER ON THE PANDEMIC, BUT GIVEN THE  
ENVIRONMENT, THEY WERE REASONABLE. SO WE  
DID LOOK AT THAT ALSO. MICHELLE, NEXT  
SLIDE, PLEASE. SO,  
AS I MENTIONED, THIS TABLE REFLECTS  
COSTS OF SOME OF THE ITEMS THAT WE DID  
BUY CLEANING SERVICES, MASKS,  
SANITIZERS SUPPLIES.  
NOT REALLY THAT LARGE GIVEN THE  
PANDEMIC, BUT STILL DEPENDING ON  
PERSPECTIVE.  
MICHELLE, THE NEXT SLIDE. ANOTHER THING  
I WANT TO POINT OUT THAT WE DIDN'T PICK  
UP IN THIS AUDIT, BUT WE ARE PICKING UP  
IN OUR CAPITAL AUDITS ARE COVID-19  
CHANGE ORDERS. SO PART OF THE RCW AND  
ACTUALLY THE GOVERNOR'S ORDER IN ORDER  
TO KEEP CONSTRUCTION RUNNING WAS TO HAVE  
A COVID SUPERVISOR AND HAD SOME OTHER  
PROCEDURES IN PLACE. SO WE INCURRED  
SOME COVERT SAFETY COSTS AND WE'LL  
CONTINUE TO INCUR THOSE AND WE'LL  
CONTINUE TO AUDIT AND LOOK AT THOSE AND  
REPORT BACK TO THE COMMITTEE BASED ON  
WHAT WE SEE IN THOSE CAPITAL AUDITS. SO  
8.7 MILLION, PROBABLY A LITTLE MORE  
RISKIER AND LITTLE MORE OPPORTUNITIES,  
BUT WE ARE ADDRESSING THESE AND THEY  
WERE NOT PART OF THIS. NEXT SLIDE,  
PLEASE. MICHELLE AND DAN, I'LL LET YOU  
READ OUT THE CONCLUSION IF YOU WANT THE  
NEXT SLIDE, IT'S ESSENTIALLY OR ANY  
COMMENTS, IF YOU MIGHT. SO WE DIDN'T  
HAVE ANY ISSUES ON IT. THANKS. CLAN IN  
A NUTSHELL, THE WORK WE COMPLIED,  
IT WAS REALLY SAYING EVERYTHING WE DID  
AT THE PORT MET THE REQUIREMENTS, WERE  
PROVIDING ASSURANCE BACK TO THE  
COMMITTEE THAT WE COMPLIED WITH THE  
REQUIRED RCW. THE ONE THING I WOULD SAY  
IS THAT WHEN WE MET WITH THE CPO AND THE  
AUDIT, WE TALKED ABOUT THE  
REASONABLENESS OF THE COST, AND REALLY  
THE PURPOSE OF THE EMERGENCY  
PROCUREMENT PROCESS WAS TO PROCURE  
GOODS THAT ARE IN HIGH DEMAND, RIGHT?  
SO WE EXPECTED THAT THE PRICE WOULD BE A  
LITTLE BIT HIGHER, BUT IT LOOKED  
FAIRLY REASONABLE AND THE SPEND WAS A  
LITTLE BIT LOWER THAN WE ACTUALLY  
THOUGHT IT MIGHT BE. I THOUGHT IT WAS  
GOING TO BE HIGHER THAN, WHAT, 4.5  
MILLION. SO RELATIVELY SMALL.  
SO NO ISSUES. THAT'S THE CONCLUSION. I  
HAVE A QUESTION FOR YOU.

THESE NUMBERS LOOK REALLY GREAT, AND IT'S GREAT THAT THERE WSDOT ISSUES FOUND. DO YOU LOOK AT OTHER PORTS AND AIRPORTS AND WHAT THEY'RE DOING? AND DO YOU EVER COMPARE THAT? WELL, WE DIDN'T IN THIS AUDIT. WE WILL FROM TIME TO TIME REACH OUT TO SEE WHAT OTHER AIRPORTS ARE DOING AND INTERNAL AUDIT GROUPS. WE'VE DONE THAT WITH OUR GROUND TRANSPORTATION FOLKS, BECAUSE GROUND TRANSPORTATION IS CONSISTENT ACROSS AIRPORTS AND HOW THEY MONITOR TRAFFIC AND TRACK ACTIVITY, TAXIS, THAT SORT OF THING. SO NOT IN THIS AUDIT, BUT IT'S SOMETHING THAT WE COULD DO. IT MIGHT BE KIND OF TOUGH TO DO IT IN THIS ENVIRONMENT WITH THE COVID EMERGENCY PROCUREMENT PIECE, JUST DEPENDING ON THE NEED AND ALL THAT. BUT IT'S DEFINITELY SOMETHING WE DIDN'T DO IN THIS AUDIT, BUT WE HAVE DONE IN OTHERS. THAT'S HELPFUL. THANK YOU.

QUESTION, MOHAMED, JUST IF I CAN ADD SOMETHING IN ACTUALLY A COUPLE OF WEEKS, DAN AND I, LESS THAN TWO WEEKS, WE'LL BE MEETING WITH ALL THE AIRPORT AUDITORS FROM A VARIETY OF DIFFERENT AIRPORTS FROM ALL OVER THE US. AND SOME GLOBALLY ALSO. SO WE WILL POSE THAT QUESTION TO THEM AND ASK AROUND AND SEE WHAT THEY WOULD DO AND COMPARE. AND I'LL LET YOU KNOW IN OUR NEXT MEETING. THAT'D BE GREAT. YEAH, IT'D BE GOOD TO KNOW WHAT SOME OF THEIR BEST PRACTICES WERE AND WHAT THEY'VE DONE AND WHAT WE'VE DONE AND TO COMPARE THAT, ESPECIALLY DURING THE PANDEMIC. THANK YOU. YEAH, I JUST HAVE TWO COMMENTS. THE FIRST ONE IS THAT I THINK THIS EXPERIMENT, SO TO SPEAK, WITH THE TIMES THAT WE WENT THROUGH JUST NOW WITH THE PANDEMIC AND THE EMERGENCY AUTHORITY, YOU HAD MENTIONED THAT SOME OF THE COSTS CAME IN LOWER THAN WHAT WE EXPECTED. AND I THINK THAT'S A TESTAMENT TO THE ADAPTIVENESS AND THE AGILITY THAT WE HAD IN PROCUREMENT. BECAUSE OFTENTIMES IN COMPETITIVE LANDSCAPES LIKE PPE, FOR INSTANCE, IT WAS EXTREMELY HARD TO PROCURE THESE NEEDS WHEN OTHER GOVERNMENT AGENCIES, QUITE FRANKLY, STATES, WERE COMPETING WITH EACH OTHER. AND SO I THINK FOR US TO HAVE CUT DOWN ON SOME OF THE BUREAUCRATIC PROCESS BETWEEN THE EXECUTIVE OFFICE AND THE COMMISSION OFFICE AUTHORIZING CERTAIN PROCUREMENTS, IT REALLY HELPED US TO KEEP THOSE COSTS DOWN AND PROVIDE THAT STREAMLINED PROCUREMENT PROCESS. SECONDLY, ONE THING THAT I WOULD ASK THE STAFF, AND MAYBE GLENN TO CONTEMPLATE IS THE COMMISSION IS GOING TO CONSIDER A REVISION

OF THE DELEGATION OF AUTHORITY TO EXECUTIVE DIRECTOR. THAT INCLUDES POTENTIALLY LOOKING AT THE AUTHORITY AMOUNT THAT WE MIGHT PUGET TO THE EXECUTIVE DIRECTOR. RIGHT NOW, IT STANDS AT \$300,000. AND WITHIN THE CONTEXT OF WHAT WE WENT THROUGH IN THE LAST THREE YEARS, IF THE STAFF IN PARTICULAR, GLENN, IF YOU COVID STAY ENGAGED WITH US AS COMMISSIONERS ON WHAT THE LESSONS LEARNED ARE, AND IF THERE ARE ANY LESSONS LEARNED THAT WE SHOULD BE TAKING INTO ACCOUNT DURING THE REVIEW OF THE DELEGATION REPORT INTO EXECUTIVE DIRECTOR, THAT'D BE REALLY HELPFUL. AH, YES, COMMISSIONER YES, CHO I WILL DEFINITELY DO THAT. JUST FOR THE RECORD, WE DID PERFORM AN AUDIT ON THIS A COUPLE OF YEARS AGO. IT WAS MORE OF A CONSULTATIVE ENGAGEMENT WHERE WE LOOKED AT THE DELEGATION OF AUTHORITY. WE LOOKED AT COMMUNITIES, KING COUNTY SOUND TRANSIT, CITY OF SEATTLE AND OTHER MUNICIPALITIES ACROSS THE REGION. AND WE CONCLUDED THAT WE ARE THE TIGHTEST AND WE DO HAVE AN OPPORTUNITY. BUT THAT REPORT IS AVAILABLE, AND I'M HAPPY TO PARTNER WITH THE COMMISSION AND THE EXECUTIVE DIRECTOR AS WE MOVE FORWARD WITH THIS PROCESS. AND LET'S GET THEM A COPY OF THAT REPORT. IT'S A HELPFUL REPORT TO READ. I WOULD LOVE THAT. WILL DO. OKAY, EXCELLENT. IS THAT ALL FOR THIS ITEM? GLENN THAT IS ALL FOR THIS ITEM. WITH THAT WILL MOVE TO THE NEXT ITEM ON THE AGENDA, WHICH IS ITEM NINE, THE HERTZ CORPORATION AUDIT. ON THAT ITEM EIGHT, AUDIT LOG MANAGEMENT, WILL BE DISCUSSED IN NONPUBLIC SESSION LATER THIS AFTERNOON. OKAY. COMMISSIONERS AND MS. HOLSTROM. SO WITH HERTZ, WE ENTERED INTO A LEASE AGREEMENT, ALTHOUGH IT NAYS JULY 2008 UP THERE IN THE SCREEN, HERTZ HAS BEEN AROUND A LOT LONGER. IT'S JUST THE LATEST AGREEMENT THAT WE SIGNED WITH HERTZ WAS SIGNED IN ITS CURRENT FORM IN 2008. AND PART OF THAT IS WE HAVE A NEW PARKING STRUCTURE THAT WAS BUILT, A NEW RENTAL CAR FACILITY. PRIOR TO THAT, I REMEMBER BEING ABLE TO GO DOWN TO THE BASEMENT OF THE PARKING GARAGE RIGHT WHEN YOU GOT OFF THE AIRPLANE AND GET YOUR RENTAL CAR AND DRIVE OFF. SO A LOT CHANGED, AND A LOT OF THE AGREEMENTS CHANGED AROUND WHEN THAT NEW FACILITY WAS BUILT. BUT THE LATEST AGREEMENT WAS SIGNED IN 2008, AND IT REQUIRED A MINIMUM ANNUAL GUARANTEE, WHICH DURING COVID, WE WAIVED A LOT OF THESE. SO THE PRIOR'S AMOUNT THAT YOU PAID TO US,



YOU'VE GOT TO PAY US AT LEAST 85% OF THAT. AND EVERYONE SAID, WAIT A MINUTE, WE CAN'T DO THAT. COVID HAS JUST SHUT OUR BUSINESS DOWN. SO WE WAIVED A LOT OF THOSE DURING COVID AND RELIED ON JUST A PERCENTAGE FEE, A PERCENTAGE OF THEIR REVENUE, AND THE CUSTOMER FACILITY CHARGE FEES. SO DURING THE COURSE OF OUR AUDIT, OR THE BULK OF OUR AUDIT, THE CUSTOMER FACILITY CHARGE WAS \$6 PER VEHICLE TRANSACTION, AND IT'S NOW RATE INCREASED TO SIX POINT \$50. I ALSO WANT TO POINT OUT THAT IN 2018 TO 2019, THE AGREEMENT YEAR GOES FROM JUNE TO MAY. THAT HURT PAID US ABOUT \$11 MILLION. A LITTLE OVER THAT. IN 2019 TO 2020, THAT NUMBER WENT DOWN FROM ELEVEN TO ABOUT 9 MILLION. SO REMEMBER, IN EARLY 2020, WE HAVE THE PANDEMIC BY 2021, JUNE 2020 TO MAY 2021, THAT NUMBER HAD DROPPED FROM THE HIGH OF 11 MILLION DOWN TO 3 MILLION. SO THEY'VE TAKEN A BIG HIT ON THEIR BUSINESS. AND ALTHOUGH THEY'RE RECOVERING NOW, THE PANDEMIC WAS HARD AND A LOT OF CONCESSIONNAIRES. NEXT SLIDE, PLEASE, MICHELLE. WE HAVE ONE ISSUE ON CONCESSION, THE CFC AND THE CUSTOMER FACILITY CHARGE. AND DAN WILL TALK A LITTLE BIT ABOUT THIS. BUT BEFORE WE GO INTO THIS, I ALSO WANT TO POINT OUT THAT ON THE PERCENTAGE FEE REVENUE THAT THEY PAY US BASED ON A PERCENTAGE OF THEIR REVENUE, THAT WAS ACCURATE. WE TIED THAT OUT. WE FOUND SOME DISCREPANCIES ON THE CUSTOMER FACILITY CHARGE, AND DAN AND HIS TEAM DID A LITTLE BIT OF WORK THERE, AND THEY'LL TALK ABOUT IT. YEAH. AND ACTUALLY, THE CUSTOMER FACILITY CHARGE IS NOW \$7. I THINK JANUARY OF THIS YEAR, IT WENT TO \$7. SO THE CUSTOMER FACILITY CHARGE, THERE'S A DAILY CHARGE, AND IT'S CHARGED TO EACH RENTAL VEHICLE, REGARDLESS OF WHETHER IT WAS COLLECTED AND PAID. THE HERTZ COLLECTS IT AND THEY PASS IT THROUGH TO US. SO WHAT WE DID ON THIS AUDIT IS A LITTLE BIT PRIOR TO THAT, WE WORK WITH OUR BUSINESS INTELLIGENCE GROUP. THEY'RE THE FOLKS THAT HAVE LOTS OF KNOWLEDGE OF COMPUTERS, EXCEL, HOW TO BUILD FORMULAS, THAT SORT OF THING. WE DEVELOPED A TOOL USING TABLEAU, AND SO WE'RE ABLE TO TEST 100% OF THE TRANSACTIONS DURING THE SCOPE PERIOD. SO TO GIVE YOU SOME CONTEXT FOR HERTZ, THERE WERE 458,000 RENTAL TRANSACTIONS, INDIVIDUAL LINE ITEMS, RIGHT? SO ONE TRANSACTION COULD BE ONE DAY, IT COULD BE 20 DAYS. SO WHAT WE DID IS WE RAN THIS TOOL, AND IT'S LITERALLY

SECONDS, AND IT GOES THROUGH THE CHECK IN DATE, THE CHECKOUT DATE AND THE TIME, AND CALCULATE, USING THEIR DATA, WHAT THE CSE SHOULD HAVE BEEN. WE COMPARE THAT TO WHAT THEY ACTUALLY PAID US, AND WE CAN DRILL DOWN ON THE EXCEPTIONS. IN THIS CASE, WE FOUND \$173 WORTH OF CSC THAT APPEARED THAT YOU MEAN 173,000 OF CFC DOLLARS THAT WE FEEL SHOULD HAVE BEEN PASSED THROUGH TO US. AND SO WE'VE GONE BACK TO HERTZ. WE TALKED WITH JEFF FOSTER AND JEFF WOLF, WHO ARE WITH OUR AVIATION BUSINESS DEVELOPMENT TEAM, WHO KIND OF HAVE THE RELATIONSHIP WITH HERTZ, THE ONGOING RELATIONSHIP. SO WE'VE HAD SOME DISCUSSIONS WITH THEM. HERTZ CAME BACK AFTER SOME BACK AND FORTH AND SAID, WE AGREE THAT \$9,000 IS OWED TO YOU. WHAT THEY'VE ASSERTED TO US IS THAT THE REMAINING \$164,000 IS FOR INSURANCE REPLACEMENT RENTALS. AND SO THEREFORE, THEY'RE EXCLUDED FROM PAYING THE CSC. SO LET'S SAY I WRECKED MY CAR. MY INSURANCE COMPANY CAN SEND ME DOWN TO THE PORT, AND I CAN RENT A CAR. I'M NOT USING THE AIRPORT FACILITY, SO I'M EXEMPT FROM PAYING THAT CFC. RIGHT. SO THAT'S WHAT THEY'RE ASSERTING. WE HAVEN'T SEEN DOCUMENTATION THAT ILLUSTRATES THAT WE'RE GOING TO BE REQUESTING THAT. AND SO IN THE NEXT MONTH OR TWO, I THINK WE'LL PROBABLY HAVE A PRETTY GOOD IDEA OF WHAT THE DOCUMENTATION LOOKS LIKE, IF THERE'S ANYTHING. IF THERE'S NO DOCUMENTATION, WE'RE PROBABLY GOING TO ASK THE AUDIT COMMITTEE OR GLEN WILL DECIDE KIND OF WHAT APPROACH WE'LL TAKE AT THAT POINT. IF THEY DON'T HAVE THE DOCUMENTATION, THEY'RE UNABLE TO SUBSTANTIATE WHY THE TRANSACTIONS ZERO NOS PAID, THEN WE WILL PROCEED WITH COLLECTING. BUT I THINK MORE LIKELY THAN NOT, I WILL GIVE THEM THE BENEFIT OF THE DOUBT AT THIS POINT AND SAY, WE AGREE. IF YOU SAY THEY'RE INSURANCE RENTALS, THAT'S FINE, BUT YOU NEED TO PROVIDE US WITH THAT DATA. WE CAN'T JUST TAKE YOUR WORD ON IT. WE WOULD LIKE TO SEE SOME SORT OF BACKUP. AND THEY'VE ACKNOWLEDGED THAT HERTZ HAS ACKNOWLEDGED THAT THEIR SYSTEMS NEED TO BE IMPROVED. THEY'VE GOT OPPORTUNITIES TO IMPROVE ON THEIR END AND THAT THEY'RE STRUGGLING TO GET THE DATA, BUT THEY'RE GOING TO HAVE TO ESSENTIALLY DIG THROUGH THEIR SYSTEMS AND FIGURE OUT HOW TO GET THE DATA. BECAUSE IF THEY DON'T, THEN WE'VE GOT TO MAKE THAT DECISION AT THAT POINT, WHICH WE WILL. AND I WILL

SAY THAT MAURA OMUEGA, WHO'S OUR SENIOR AUDITOR, USED THE TOOL BY HERSELF.

I WASN'T INVOLVED WITH IT. I HELPED BUILD THE TOOL. BUT SHE DID IT. SHE'S NOT HERE. BUT SHE DOES DESERVE THE CREDIT FOR DOING THIS. SO I'LL HAVE TO GO BACK AND LISTEN TO THE PRESENTATION. SHE CAN VALIDATE THAT SHE GETS CREDIT FOR IT.

I HAVE A QUICK QUESTION ABOUT THE FEE INCREASE. IS THAT DONE THROUGH THE CFC, THE CUSTOMER FACILITY CHARGE INCREASE? YOU SAID IT WENT FROM \$650. YEAH. SO IT WENT FROM SIX DOLLARS TO SIX HUNDRED AND FIFTY DOLLARS, I THINK, OF BEGINNING OF 2021. HOW ARE THOSE RATES SET?

I DON'T KNOW. I'M NOT SURE. I'M NOT INVOLVED WITH THAT. I DON'T KNOW IF JEFF FOOL OR JEFF FOSTER ON THE LINE, BUT THEY COULD PROBABLY ANSWER THAT FOR YOU. YES, I SEE. JEFF FOSTER, JEFF COVID.

YOU ANSWER THAT? POSSIBLY? YES. GOOD AFTERNOON, COMMISSIONERS AND PUBLIC MEMBER. MY NAME IS JEFF OSR. I'M THE INTERIM SENIOR MANAGER FOR AVIATION BUSINESS DEVELOPMENT. SO TO ANSWER YOUR QUESTION, SPECIFICALLY ON THE CFC RATE, IT'S A PROCESS WE GO THROUGH EACH YEAR DURING THE BUDGET PROCESS. WE WORK WITH OUR RENTAL CAR PARTNERS, LOOKING AT THE CFC BALANCE, WHAT OUR ONGOING COMMITMENTS ARE GOING TO BE FOR BOTH CAPITAL IMPROVEMENTS, BOND DEBT COVERAGE, WHICH IS THE PRIMARY PURPOSE FOR THE CFC, AS WELL AS THE OPERATION EXPENSES FOR OUR COMMON TRANSPORTATION SYSTEM, AKA THE BUSES THAT PASSENGERS TAKE TO AND FROM SCA TERMINAL AND THE RENTAL CAR FACILITY. SO IT'S THROUGH THAT PROCESS LOOKING AT WHAT THE NEXT FEW YEARS ARE GOING TO BE AND HOW MUCH MONEY WE NEED TO ENSURE THAT THE CFCS HAVE ENOUGH CUSHION. WE WENT THROUGH A LEARNING PROCESS WITH COVID WHERE IT TESTED HOW MUCH WE HAD IN THAT WE WERE FINE. WE DIDN'T HAVE ISSUES WITH THAT. SO WE DO LOOK AT THAT. WE TALK WITH OUR RENTAL CAR PARTNERS BECAUSE WE'RE ALSO MINDFUL THAT THESE ARE THE CUSTOMERS THAT ARE PAYING THIS AS MANDATED BY COMMISSION RESOLUTION AND OUR LEASE AGREEMENT THAT THE RENTAL CAR COMPANIES ARE REQUIRED TO CHARGE THE CUSTOMERS. SO WE ARE MINDFUL OF THAT. AND THERE IS A RESOLUTION THAT COMMISSIONER HAS ESTABLISHED, RESOLUTION 3624, THAT GIVES THE EXECUTIVE DIRECTOR GUIDANCE FOR SETTING THOSE RATES. GREAT, THAT'S REALLY HELPFUL. AND IT SOUNDED LIKE, IF I UNDERSTOOD YOU CORRECTLY, THAT SOME OF THOSE FEES WERE WAIVED. DID I UNDERSTAND THAT CORRECTLY? WE DID NOT WAIVE ANY OF

THE CFC FEES.

EACH LEASE AGREEMENT HAD PROVISIONS FOR EXCEPTIONAL CIRCUMSTANCE WHEN IT CAME TO THEIR MINIMUM ANNUAL GUARANTEE, WHICH IS ON THE LEASE SIDE, THIS IS ON THE CONCESSION SIDE. SO WE DID LOOK AT THE MINIMUM MANUAL GUARANTEE. THERE WERE SOME MODIFICATIONS TO THAT. WE DID ALLOW SOME DEFERRALS AS PART OF OUR GENERAL TENANT RELIEF THAT WAS SPEARHEADED BY THE ENTIRE AVIATION DIVISION THAT WAS OFFERED TO ALL OF OUR TENANTS.

SO THAT APPLIED TO ALSO TNC DRIVERS. I'M ASSUMING WE OFFERED IT TO THE TNC COMPANIES BECAUSE THE TNC COMPANIES ARE THE ONES THAT PAY THE PER TRIP FEES ON A MONTHLY BASIS. NO TNC COMPANY SIGNED UP FOR THE DEFERRAL PROGRAM, BUT IT WAS OFFERED. INTERESTING.

THANK YOU JEFF, WHILE WE HAVE YOU COVID YOU ALSO, IS THERE ANY COMMENT OR ANYTHING YOU WANT TO ADD TO YOUR MANAGEMENT RESPONSE? IT'S PRETTY CLEAR HERE. ONE THING I JUST WANTED TO SAY IS FROM OUR PERSPECTIVE, KIND OF ECHOING WHAT GLENN AND DAN WERE TALKING ABOUT IS HERTZ IS MAKING THE CONTENTION THAT SO MUCH MONEY OF THE CFC THAT WAS FOUND IS ACTUALLY DUE TO INSURANCE. OUR POSITION IS THEY NEED TO PROVE IT, OTHERWISE WE WILL GO AFTER THE FULL AMOUNT. SO I JUST WANTED TO MAKE THAT PERFECTLY CLEAR THAT THE ONUS IS ON THEM TO PROVE TO US THAT THOSE ARE NOT CFC EXPENSE OR ELIGIBLE TRANSACTIONS.

AND WE WILL CONTINUE TO WORK WITH DAN, MAURA AND GLENN AS WE GET THAT DOCUMENTATION.

I HAVE A QUESTION ON THE MINIMUM ANNUAL GUARANTEES THAT WE DELAYED OR DIDN'T REQUIRE DURING COVID. MAKES SENSE BECAUSE THEY WEREN'T MAKING AS MUCH MONEY. SO WHAT'S OUR PLAN COMING NOW OUT OF THAT? ARE WE GOING TO GO BACK TO LIKE PRE-PANDEMIC REVENUE TO MEASURE AGAINST THAT 85% OR HOW ARE WE MANAGING THAT GOING FORWARD? I GUESS SO, JUST AS A CLARIFIER. SO WE NEVER WAIVED OR STOPPED COLLECTING MINIMUM ANNUAL GUARANTEE. SO WHAT WE DID IS THE EXCEPTIONAL CIRCUMSTANCE PROVISION OF THEIR LEASE, WHICH REQUIRES US TO CALCULATE IT BASED OFF OF THE DROP OF EMPLOYMENT. SO IN SOME CASES THE MAG DROPPED PRETTY SIGNIFICANTLY, ESPECIALLY EARLY ON IN THE PANDEMIC AS WHEN PASSENGER TRAVEL FELL SIGNIFICANTLY. SO IN A SENSE, MINIMUM ANNUAL GUARANTEE WAS WAIVED IN THAT REGARD, BUT IT WAS BASED OFF OF THE LEASE PROVISION. SO WE STILL CALCULATE THEIR MAG ON AN ANNUAL BASIS BASED OFF OF 85% OF THEIR PRIOR YEAR'S REVENUE DUE

TO THE PORT, WHETHER IT BE THE PRIOR YEAR'S MAG OR CONCESSION FEES. SO THAT HAS NOT CHANGED AND THAT WILL CONTINUE GOING FORWARD. OKAY, SO JUST TO CLARIFY, WHEN THEIR REVENUES WERE WAY DOWN, THEY'RE USUALLY 50 MILLION AND THEY WERE ONLY 10 MILLION. WE'RE ONLY SAYING YOU HAVE TO GIVE US 85% OF 10 MILLION. SO REALLY THE NUMBERS WAY DOWN, BUT WE'LL CORRECT FOR THAT ONCE WE GET MORE OF A YEAR POST COVID. YEAH, THE MINIMUM ANNUAL GUARANTEE DID DROP SIGNIFICANTLY IN THE YEAR, THE FIRST, ESSENTIALLY 2021. HOWEVER, THEY WERE STILL HAVING TO PAY US 10% OF THE GROSS REVENUES, WHICH FAR EXCEEDED WHAT THE MINIMUM MANUAL GUARANTEE WAS. SO WE STILL COLLECTED A SIGNIFICANT NUMBER OF REVENUE, ESPECIALLY IN 2021. IT WAS JUST THAT THE FLOOR OF THE MINIMUM MANUAL GUARANTEE WAS SET MUCH LOWER. AND JEFF, WOULD IT BE FAIR TO SAY THAT NOTHING WAS WAIVED, IT WAS DEFERRED? CORRECT. COMMISSIONERS, IF THERE'S NO FURTHER QUESTIONS THAN THAT. THANKS JEFF. AND TO STEVE. FOR ALL THEIR PARTNERSHIP, I THINK WE HAVE A GREAT WORKING RELATIONSHIP WITH HIS TEAM AND WE REALLY GET A LOT DONE THERE. SO IT WORKS OUT WELL. MOVE ON TO THE NEXT. YOU'RE WELCOME TO SIT AND WE'LL GET ONE MORE AUDIT. SO, COMMISSIONER, IS THE LAST AUDIT THAT WE'RE GOING TO TALK ABOUT. AND AS I MENTIONED TODAY IS A RELATIVELY LIGHT SCHEDULE. WE'VE GOT INTERSPACES ITEM TEN ON THE AGENDA, WHICH IS AGAIN A CONCESSION AUDIT, AND IT'S A CLEAN AUDIT REPORT. SO I'LL JUST GIVE YOU A LITTLE BACKGROUND ON INTERSPACES. CLEAR CHANNEL. THEY GO BY THE NAME OF CLEAR CHANNEL. THEY DO THEIR BUSINESS AS CLEAR CHANNEL. THAT'S WHAT THE DBA STANDS FOR, DOING BUSINESS AS. AND YOU SEE ALL THE BILLBOARDS AT THE AIRPORT, THE BIG ELECTRONIC ONES, AND SIGNAGE, ADVERTISING, BECAUSE THEY DO THAT. AND AS WITH ANYTHING ELSE, THEY PAY US A PERCENTAGE OF THEIR REVENUE. QUITE A BIG SHIFT FOR THEM AS WELL OVER THE LAST FEW YEARS, EVEN THOUGH THIS SLIDE SAYS THE LAST BULLET, THAT THEIR PERCENTAGE FEES WERE 13 MILLION AND THEIR CONTRACT RENT WAS A MILLION OVER THE COURSE OF THE AUDIT. SO THAT'S A THREE YEAR PERIOD. IF YOU LOOK AT IT ON A YEAR TO YEAR BASIS, THEY WENT FROM 7 MILLION IN REVENUE AND PAYMENTS TO THE PORT. SO THEY PAID THE PORT 7 MILLION IN 2019, AND BY 2021 THAT HAD DROPPED

TO LIKE THREE AND A HALF MILLION. AND  
2020 WAS ALL SET, ABOUT 4 MILLION TO  
2020. 2021, HUGE DROPS IN THEIR  
REVENUE AND THEIR PAYMENTS TO THE PORT.  
THE IMPACT OF COVID, OF COURSE, AND  
THEY'RE STARTING TO RECOUP AND GET BACK  
TO NORMAL AS THE AIRPORT GETS BUSY.  
BUT JUST LIKE THE RENTAL CAR  
AGREEMENT. THIS TELLS YOU THERE'S  
MINIMUM ANNUAL GUARANTEE AND WHAT THEY  
HAVE TO PAY US THERE ARE DEFERRALS. AND  
FORGIVE ME, BUT I'M NOT SURE IF THEY  
TOOK ADVANTAGE OF THE DEFERRALS, BUT I  
THINK EVEN IF THEY DID, I DO RECALL THAT  
THIS IS ONE OF THE VENDORS THAT HAVE  
COME HOME AND PAID US BACK AND  
THE PERCENTAGE FEE IS STATED, YOUR  
PERCENTAGE OF THEIR GROSS SALES.  
SO, YEAH, QUITE A  
LARGE AMOUNT. ANYWAYS, MOVE TO THE NEXT  
SLIDE. WE DID LOOK IN QUITE A  
LOT OF DETAIL THROUGH A LOT OF THE WORK  
THAT THEY'VE DONE, THEIR BOOKS AND  
RECORDS, THEIR FINANCIAL STATEMENTS AND  
WHAT THEY PAID US. AND WE TIED  
EVERYTHING BACK. AND WE'RE HAPPY TO  
CONCLUDE THAT THEY MATERIALLY COMPLIED  
WITH ALL SIGNIFICANT TERMS OF THE  
AGREEMENT AND PAID US ACCURATELY. SO  
THIS, IN ESSENCE, CONCLUDES MY REPORT  
BACK TO THE AUTO COMMITTEE.  
COMMISSIONER MOHAMED, COMMISSIONER CHO,  
AND MS. HOLSTROM, IF YOU HAVE ANY  
QUESTIONS, WE'LL TAKE THEM AT THIS  
POINT. OTHERWISE IT'S BACK TO YOU,  
COMMISSIONER CHO. EXCELLENT. ANY  
QUESTIONS FOR STAFF?  
I CAN'T SEE ANY HANDS BECAUSE NO  
HANDS UP AND THEIR MOVEMENTS.  
NO QUESTIONS. IN THAT CASE, THAT  
CONCLUDES OUR PUBLIC MEETING BUSINESS  
AGENDA. SO WE'LL MOVE TO CLOSING  
COMMENTS AT THIS TIME AND THEN PROCEED  
TO OUR SECURITY SENSITIVE ITEM  
DISCUSSION. MR. FERNANDEZ, DO YOU HAVE  
ANY CLOSING COMMENTS? I DO NOT. I JUST  
WANT TO SAY THANKS TO THE TEAM.  
WELCOME TO MISS HOLSTROM AGAIN AND THANK  
YOU TO THE COMMITTEE FOR GOOD  
QUESTIONS AND FOR YOUR SUPPORT, BECAUSE  
WITHOUT YOUR SUPPORT, WE CAN'T DO THIS.  
SO YOU'RE BACKING AND HAVING  
THIS INDEPENDENT AUDIT COMMITTEE ASSURES  
THAT WE HAVE TRANSPARENCY AT THE PORT  
AND ACCOUNTABILITY. GREAT.  
THANKS. GLENN, ANY CLOSING COMMENTS AT  
THIS TIME? THANK YOU SO MUCH  
TO THE WHOLE AUDIT COMMITTEE TEAM.  
THANK YOU FOR YOUR COMMITMENT TO  
TRANSPARENCY AND ACCOUNTABILITY.  
I DEEPLY APPRECIATE THE WORK THAT YOU  
ALL DO. MRS. SARAH HOLSTROM,  
WELCOME. IT'S GREAT TO HAVE YOU HERE.

AND YEAH, WELCOME TO THE TEAM. THAT'S ALL I JUST WANT TO SAY THANKS FOR THE WARM WELCOME, EVERYONE. IT'S REALLY GREAT TO BE HERE. I'M EXCITED TO JOIN AND THANKS FOR GIVING A LITTLE MORE BACKGROUND ON SOME THINGS TO KIND OF GET ME UP TO SPEED. I REALLY APPRECIATE THAT AND THANKS FOR TAKING TIME TO ANSWER ALL THE QUESTIONS AND GET ME COMFORTABLE WITH EVERYTHING. SO I'M EXCITED TO BE HERE AND THANKS EVERYBODY. EXCELLENT. WELL, I WANT TO ENTER THOSE SENTIMENTS. THANK YOU TO OUR ENTIRE TEAM FOR DOING YOUR TREMENDOUS WORK. AND OF COURSE, WELCOME TO MISS HOLSTROM, TO THE TEAM. VERY EXCITED TO HAVE YOU. AND IT SOUNDS LIKE YOU'RE ALREADY GETTING INTO THE THICK OF THINGS, SO WELCOME. ALL RIGHT, HEARING NO FURTHER COMMENTS WILL REACH US INTO THE NON PUBLIC PORTION OF OUR MEETINGS, DISCUSS ONE MATTER RELATED TO SECURITY SENSITIVE INFORMATION. THE NON PUBLIC PORTION OF THE MEETING WILL LAST APPROXIMATELY 30 MINUTES AND THE MEETING WILL ADJOURN WITH NO FURTHER BUSINESS. AFTER THAT, PARTICIPANTS JOINING THE NON PUBLIC PORTION OF THE MEETING VIA TEAMS. PLEASE CLOSE OUT THIS MEETING AND CALL INTO THE TEAM'S TELEPHONE CONFERENCE NUMBER PROVIDED IN THAT 04:00 P.M. MEETING EDUCATION AND USE THAT CONFERENCE CODE. THERE'LL BE NO TEAMS VIDEO FOR THE SEGMENT. THE CALL ONLINE IS AVAILABLE FOR JOINING THE MEETING. FOR THOSE JOINING THE RESESSION ON SITE, WE WILL RECONVENE THE MEETING UPSTAIRS IN ROOM THREE, CC 130. PLEASE GIVE US A FEW MINUTES TO GET TO THAT ROOM. THE CURRENT TIME IS 03:31 P.M.. THANK YOU ALL. GOOD MEETING. THANK YOU.