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ALL RIGHT. THIS IS COMMISSIONER SAM CHO CALLING TO THE PORT. CALLING TO ORDER THE PORT OF SEATTLE AUDIT COMMITTEE SPECIAL MEETING. TODAY IS THURSDAY, DECEMBER 8, 2022, AND THE TIME IS 02:38 P.M.. WE ARE MEETING TODAY AT THE PORT OF SEATTLE HEADQUARTERS COMMISSION CHAMBERS AND VIRTUALLY VIA MICROSOFT TEAMS PLATFORM. PRESENT. WITH ME TODAY ARE COMMITTEE MEMBERS COMMISSIONER HAMDI MOHAMMED AND PUBLIC MEMBER SARAH HOLSTROM. 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 IS ALSO PROVIDED FOR ANYONE WHO WOULD LIKE TO LISTEN INTO THE MEETING. OUR FIRST ITEM OF BUSINESS IS APPROVAL OF OUR LAST MEETING MINUTES FROM SEPTEMBER 8, 2022. AS A REMINDER TO THE VIEWING AUDIENCE, THE MEMBER OF THE PUBLIC OF THE AUDIT COMMITTEE IS NOT A VOTING MEMBER FOR THE PURPOSES OF CASTING A VOTE ON MOTIONS MADE PER THE COMMITTEE RULES. ARE THERE ANY CORRECTIONS TO THE MINUTES? SEEING NONE. ARE THERE ANY OBJECTIONS TO THE APPROVAL OF THE MINUTES AS PRESENTED HEARING? NONE. THE MINUTES ARE APPROVED. OUR NEXT ORDER OF BUSINESS IS THE 2022 AUDIT ENGAGEMENT SERVICE PLAN. MR. FERNANDEZ, PLEASE INTRODUCE OUR SPEAKERS TODAY. THANK YOU, COMMISSIONER. COMMISSIONERS. TODAY WE HAVE OGA DARLINGTON AND ANNA WALDRON FROM MOSS ADAMS. IT'S AN ENTRANCE MEETING FOR THE FINANCIAL STATEMENT AUDIT FOR THE PORT. OGA, FLOOR IS YOURS. THANK YOU, GLENN. GOOD AFTERNOON, MEMBERS OF THE AUDIT COMMITTEE. WE HAVE A SHORT PRESENTATION. WE'LL KICK IT OFF WITH WE HAVE STARTED OUR PLANNING FOR 2022 AUDIT. SHOULD THEY JUST REQUEST? OKAY, WE CAN MOVE ON TO THE NEXT SLIDE. ACTUALLY, TO THE NEXT ONE WOULD BE PERFECT. YES, WE HAVE STARTED THE PLANNING PROCESS AND PERFORMED SOME INTERIM PROCEDURES FOR THE AUDIT. THE FIRST SLIDE IS THE LEADERSHIP TEAM FOR THE AUDIT, MYSELF, AS WELL AS THE CONCURRENT WHO IS A QC PARTNER ON ENGAGEMENT, OF COURSE, ANNA AND CONOR MCCAULEY, WHO IS ONLINE TODAY, THAT ARE MY RIGHT HAND AND LEFT HAND, IF I WILL, THE TEAM THAT'S SUPPORTING THE REST OF OUR TEAM THAT PERFORMS THE AUDIT PROCEDURES. AND THEN WE HAVE IT PERSONNEL AS WELL AS PART OF OUR AUDIT TEAM TO ASSESS THE IT SYSTEMS

FOR FINANCIAL REPORTING. LIKE I SAID, THIS IS JUST THE LEADERSHIP TEAM. THERE IS MORE PEOPLE INVOLVED WITH THE AUDIT, AND OF COURSE NOT PICTURED HERE ARE VERY IMPORTANT TEAM MEMBERS, ARE OUR SMALL BUSINESS FIRMS THAT WE PARTNER WITH TO HELP US WITH THE AUDIT. WE HAVE THREE FIRMS THIS YEAR THAT WE WORK WITH. A SMALL BUSINESS FIRM OF BRANCH RICHARDSON COMPANY AND TWO WOMEN OWNED MINORITY FIRMS, RYLAM CONSULTING AND HUMBITION CONSULTING. NEXT SLIDE SUMMARIZES THE SERVICES THAT WE ARE PROVIDING FOR THE PORT OF SEATTLE. THIS IS ALL RELATED TO THE FINANCIAL STATEMENTS AUDIT FOR THE YEAR ENDED 22 DECEMBER 31 2022. IT INCLUDES THE ENTERPRISE FUND, SO THE PORT OF SEATTLE ITSELF, AS WELL AS THE FIDUCIARY FUND, WHICH IS A WAREHOUSEMAN'S PENSION FUND. IN ADDITION, WE PERFORM COMPLIANCE AUDIT ONE, IT'S CALLED A SINGLE AUDIT UNDER UNIFORM GRANT GUIDANCE, AND THAT RELATES TO THE FEDERAL FUNDING THAT THE PORT RECEIVES, AS WELL AS THE PASSENGER FACILITY CHARGE PROGRAM, SPECIFIC AUDIT REQUIRED BY THE FEDERAL AVIATION ADMINISTRATION. THERE'S ADDITIONAL INFORMATION THAT WILL BE INCLUDED IN THE ANNUAL REPORT THAT WE DON'T NECESSARILY OPINE ON, BUT IT IS REQUIRED BY THE GOVERNMENT TO TELL ACCOUNTING STANDARDS BOARD AND THAT INFORMATION WE REVIEW IN RELATION TO THE FINANCIAL STATEMENTS, AND IT WILL BE PRESENTED AS PART OF THE REPORT AS WELL. THERE'S ADDITIONAL PROCEDURES THAT WE PERFORM THAT ARE ONCE AGAIN COMPLIANCE ENGAGEMENTS FOR EPA. THERE'S TWO AGREED UPON PROCEDURES, ENGAGEMENTS THAT WE COMPLETE LATER IN THE YEAR AFTER THE AUDIT IS COMPLETE. ON THE NEXT SLIDE, WE HAVE OUR RESPONSIBILITIES AS THE AUDITORS TO BE INDEPENDENT OF OUR CLIENTS, AND WE ARE INDEPENDENT OF THE PORT OF SEATTLE. TO PERFORM THE AUDIT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, WHICH OF COURSE ASSUMES OR REQUIRES US TO EVALUATE INTERNAL CONTROLS AS THEY RELATE TO FINANCIAL REPORTING. SO WE'LL BE PERFORMING THE INTERNAL CONTROLS AUDIT AS WELL. IT DOES REQUIRE US TO COMMUNICATE WITH THOSE CHARGE GOVERNANCE OR WITH THE AUDIT COMMITTEE IN CASE WE FIND ANY ISSUES OF NON COMPLIANCE, FRAUD OR MISAPPROPRIATION OF ASSETS. AND GENERALLY, WE ARE REQUIRED TO COMMUNICATE WITH THE AUDIT COMMITTEE AT THE BEGINNING OF THE AUDIT AND AT THE COMPLETION OF THE AUDIT. HOWEVER, IF ANYTHING ARISES IN THE PROCESS OF THE AUDIT AS WE'RE COMPLETING OUR PROCEDURES, WE'LL BRING THOSE ISSUES

TO YOU IMMEDIATELY. THE NEXT SLIDE IS THAT TIMELINE THAT I JUST MENTIONED. WHAT WE ARE REQUIRED TO COMMUNICATE IN THE ENTRANCE CONFERENCE IS OUR AUDIT PLAN AS WE PREPARE FOR THE AUDIT, AND ANNA WILL COVER THOSE IN THE NEXT SLIDE. NEXT SLIDE, PLEASE. GREAT. SO IN ADDITION TO OUR RESPONSIBILITIES AS THE AUDITOR, WE JUST DID JUST ALSO WANT TO HIGHLIGHT FOR THE COMMITTEE OUR EXPECTATIONS FOR MANAGEMENT, WHICH IS THAT THEY'LL COME PREPARED WITH COMPLETE AND ACCURATE FINANCIAL STATEMENTS; THAT THEY'VE ESTABLISHED, EFFECTIVE INTERNAL CONTROLS; THAT THEY'RE IN COMPLIANCE WITH ALL LAWS AND REGULATIONS; THAT THEY WOULD BRING TO OUR ATTENTION ANY SUSPECTED OR ACTUAL FRAUD THAT COMES TO THEIR ATTENTION; THAT THEY'LL MAKE AVAILABLE ANY UNDERLYING SCHEDULES OR AUDIT SUPPORT THAT'S REQUESTED AS PART OF OUR ENGAGEMENT; AND THEN THAT THEY'LL SIGN A MANAGEMENT REPRESENTATION LETTER AT THE COMPLETION OF THE AUDIT, ESSENTIALLY ASSERTING THESE RESPONSIBILITIES THAT THEY HAVE. AND NEXT SLIDE, PLEASE. AND AS OLGA TOUCHED ON OUR RESPONSIBILITIES AS THE AUDITOR IS TO OBTAIN REASONABLE RATHER THAN ABSOLUTE ASSURANCE THAT THE FINANCIAL STATEMENTS ARE FREE FROM MATERIAL MISSTATEMENT, WHETHER THAT BE DUE TO FRAUD OR ERROR. AND WHILE THE PURPOSE OF OUR AUDIT ISN'T NECESSARILY TO IDENTIFY FRAUD, WE DO PERFORM A NUMBER OF PROCEDURES TO IDENTIFY ANY SPECIFIC FRAUD RISKS THAT ARE AFFECTING THE ORGANIZATION SO THAT WE INCREASE OUR LIKELIHOOD THAT WE WOULD IDENTIFY A MATERIAL MISSTATEMENT THAT'S DUE TO FRAUD AS PART OF OUR FINANCIAL STATEMENT AUDIT. AND SO TO IDENTIFY THOSE POTENTIAL FRAUD RISK AREAS. AS PART OF OUR PLANNING, WE DO HOLD FRAUD BRAINSTORMS WITH OUR FULL ENGAGEMENT TEAM, INCLUDING OUR IT PERSONNEL. WE ALSO HAVE INQUIRIES WITH THE PORT OF SEATTLE MANAGEMENT TEAM, BOTH EXECUTIVE AND ACCOUNTING GROUPS. AND THEN WE ALSO DOCUMENT OUR UNDERSTANDING OF THE INTERNAL CONTROLS THAT ARE PRESENT AT THE PORT OF SEATTLE SO THAT WE CAN BETTER IDENTIFY ANY AREAS OF WEAKNESS OR ANY POTENTIAL SEGREGATION OF DUTIES ISSUES. AND THEN AS PART OF OUR ACTUAL PROCEDURES THAT WE PERFORM, WE DO DO SOME TARGETED TESTING OVER JOURNAL ENTRIES, INCLUDING OBTAINING THE BACKUP FOR ANY UNUSUAL OR NONTRADITIONAL TRANSACTIONS. WE ALSO IDENTIFY AREAS OF SENSITIVE MANAGEMENT ESTIMATION AND DRILL INTO THAT TO MAKE SURE THAT WE'RE

NOT SEEING ANY POTENTIAL MANAGEMENT BIAS IN THOSE ESTIMATES. AND THEN REVENUE RECOGNITION IS ALSO CONSIDERED AN INHERENT FRAUD RISK. AND SO WE ARE SPENDING TIME ON THE PORT OF SEATTLE'S POLICIES FOR ACCOUNTING FOR REVENUE RECOGNITION ACROSS THEIR VARIOUS REVENUE STREAMS. NEXT SLIDE, PLEASE.

AND THEN HERE, WE JUST WANTED TO HIGHLIGHT SOME OF THE KIND OF MORE SIGNIFICANT AREAS OF OUR AUDIT, ALTHOUGH WE DO DO A PRETTY COMPREHENSIVE PROCEDURES. SO WE STARTED OUR INTERIM TESTING PROCEDURES IN OCTOBER, AND THAT WAS REALLY FOCUSED ON INTERNAL CONTROL TESTING OVER SOME KEY CYCLES. THOSE WOULD BE LIKE FINANCIAL CLOSE AND REPORTING CERTAINLY CONTROLS OVER CASH RECEIPTS AND CASH DISBURSEMENTS, PAYROLL, PROJECT MONITORING AND CONSTRUCTION, PROJECT COST ADDITIONS, AND THEN REVENUE RECOGNITION AS WELL. AND THEN JUST GIVEN THE LARGE VOLUME AND OVERALL DOLLAR VALUE OF THE CONSTRUCTION ACTIVITY AT THE AIRPORT, CAPITAL ASSETS AND CONSTRUCTION IN PROGRESS IS A BIG FOCUS OF OUR AUDIT. IN ADDITION TO JUST TESTING INVOICES AND PAYMENTS FOR THOSE PROJECTS, WE DO ALSO SPEND TIME MEETING WITH THE PROJECT MANAGERS FOR EACH OF OUR SELECTED PROJECTS JUST TO BETTER UNDERSTAND THE NATURE OF THE PROJECT ACTIVITY FOR THE YEAR AND THEN ALSO THEIR PROCESS FOR MONITORING COSTS. REVENUE RECOGNITION, AS I MENTIONED, IS AN INHERENT RISK AND ALWAYS A FOCUS FOR OUR AUDIT. ONE OF OUR MORE SIGNIFICANT PROCEDURES FOR REVENUE RECOGNITION IS ACTUALLY CONFIRMING THE LANDING FEE REVENUE THAT'S RECOGNIZED FOR THE YEAR DIRECTLY WITH THE LARGEST AIRLINE CUSTOMERS OF THE AIRPORT. AND THEN KIND OF A HOT TOPIC FOR THIS YEAR WOULD BE GASB 87 IMPLEMENTATION, WHICH I'M SURE YOU GUYS ARE AWARE OF. SO THIS IS THE NEW LEASING ACCOUNTING STANDARD THAT'S EFFECTIVE FOR THE PORT AT THE BEGINNING OF FISCAL YEAR 2022, AND THAT WILL ACTUALLY BE RETROSPECTIVELY APPLIED TO ALL OF THE PERIODS THAT ARE PRESENTED IN THE FINANCIAL STATEMENTS THIS YEAR. SO THAT'S BACK TO JANUARY 1, 2020. AND OLGA WILL TALK A LITTLE BIT MORE ABOUT WHAT'S INVOLVED IN THE IMPLEMENTATION JUST IN A COUPLE OF SLIDES. AND THEN THE LAST THING I JUST WANTED TO CALL OUT FOR YOU HERE IS THAT AS OLGA MENTIONED, WE DO PERFORM A SINGLE AUDIT OVER THE PORT'S COMPLIANCE WITH THE UNIFORM GRANT GUIDANCE FOR THE FEDERAL GRANT AWARDS THAT WERE EXPENDED DURING THE YEAR. AND BASED ON THOSE INTERIM TESTING PROCEDURES THAT WE'VE DONE SO FAR, WE

DID IDENTIFY ONE MAJOR PROGRAM WHICH PROBABLY SOUNDS FAMILIAR. THE AIRPORT IMPROVEMENT PROGRAM HAS BEEN A MAJOR PROGRAM FOR THE LAST COUPLE OF YEARS. NEXT SLIDE, PLEASE.

AND THEN JUST WANTED TO GIVE YOU A SNAPSHOT OF OUR AUDIT TIMELINE, VERY CONSISTENT WITH THE LAST COUPLE OF YEARS. SO WE DID KICK OFF A PLANNING MEETING, DISCUSSIONS WITH MANAGEMENT IN SEPTEMBER. EVEN BEFORE THAT, WE'VE BEEN TALKING AND WORKING WITH THEM REGARDING THE GASB 87 IMPLEMENTATION. THAT'S SORT OF BEEN A FULL YEAR EFFORT ON BOTH SIDES. IN OCTOBER, AS I MENTIONED, WE DID DO OUR INTERIM FIELD WORK PROCEDURES THAT WAS FOCUSED PRIMARILY ON TESTING THE PORT'S INTERNAL CONTROLS AND THEN ALSO TESTING SOME TRANSACTIONS UNDER THAT AIP PROGRAM FOR THE SINGLE AUDIT. AND THEN OUR IT AUDIT TEAM DID KICK OFF PROCEDURES AT THE SAME TIME AS US, AND THEY'LL BE WRAPPING UP THEIR TESTING IN JANUARY. THEY FOCUS ON IT GENERAL CONTROLS FOR THE PORT OF SEATTLE, AS WELL AS TESTING THOSE SYSTEMS THAT ARE MOST ESSENTIAL IN FINANCIAL REPORTING FOR THE PORT. WE'LL DO OUR FINAL FIELD WORK AT THE START OF MARCH, THAT RUNS THROUGH THE END OF APRIL, WHICH TIME WE'LL ISSUE OUR FINALIZED AUDITOR REPORTS. WE ALSO PRESENT THE RESULTS OF OUR AUDIT TO THE EXECUTIVE TEAM AT THAT TIME, AND THEN WE'LL PRESENT SIMILAR INFORMATION TO THE AUDIT COMMITTEE IN MAY ONCE WE'VE COMPLETED. AND THEN, AS OLGA MENTIONED, WE DO DO JUST TWO AGREED UPON PROCEDURES FOR THE PORT WHICH ARE REQUIRED BY THE EPA AND THE DEPARTMENT OF ECOLOGY. AND ON THE NEXT SLIDE, WE DO HAVE A SUMMARY OF ACCOUNTING STANDARDS THAT ARE EFFECTIVE FOR THIS YEAR OR UPCOMING IN THE NEXT COUPLE OF YEARS. AS YOU SEE, THERE'S A GOOD LIST. MOST OF THEM ARE RATHER COMPLEX AS ALL GASB STANDARDS ARE BECOMING MORE AND MORE COMPLEX. BUT THIS YEAR SO THE GASB 87 ON LEASES FOR MOST OF OUR CLIENTS THAT ARE AIRPORTS OR SEAPORTS HAVE HAD A SIGNIFICANT IMPACT AS A LESS SORE BECAUSE OF ALL THE PROPERTIES THAT ARE OWNED BY THE PORT AND BEING LEASED. SO ANYWHERE BETWEEN A COUPLE OF HUNDRED MILLION DOLLARS TO A BILLION DOLLARS IS WHERE I'VE SEEN THE IMPACT OF THAT IMPLEMENTATION TO BE. AND IT'S PRIMARILY A BALANCE SHEET IMPACT WAS AT LEAST RECEIVABLE IN A DEFERRED INFLOW OF RESOURCES BEING RECORDED AND JUST THAT REVENUE RECOGNITION BECOMES A LITTLE BIT DIFFERENT AS OPPOSED TO HISTORIC WAY. THE REVENUE WAS RECOGNIZED BASED ON

BILLINGS. NOW IT WOULD BE RECOGNIZED BASED ON THE TIMING OF THE TERMS OF THE AGREEMENT AND DISCOUNTED TO PRESENT VALUE. THE PORT MANAGEMENT TEAM HAS STARTED WORKING ON IMPLEMENTATION OF THE STANDARD MORE THAN TWO YEARS AGO. IT'S BEEN A VERY LONG TIME ON DIFFERENT COMPONENTS OF IT BECAUSE IT IS VERY COMPLEX AS FAR AS SOME OF THE ASSUMPTIONS THAT ARE INVOLVED IN IMPLEMENTATIONS OR JUST SCOPING OF THE NUMBER OF AGREEMENTS THAT THE PORT HAS THAT WOULD BE IN SCOPE OR COULD BE EXCLUDED FROM THE SCOPE OF THAT STANDARD. SO WE HAVE STARTED PRELIMINARY TESTING OF SOME OF THE INFORMATION THAT WE WERE PROVIDED AND WE'LL CONTINUE TO WORK THROUGH THAT, THROUGH OUR FINAL FIELD WORK. SO THAT'S THE FOCUS. ONE OF THE BIGGER THINGS THAT WILL BE IMPACTING THE AUDIT, IT WILL CHANGE THE LOOK OF THE FINANCIAL STATEMENTS IN TERMS OF INCREASING THE BALANCE SHEET AND SOME OF THE NUMBERS QUITE SIGNIFICANTLY, AS WELL AS ADDING A FEW MORE PAGES TO THE FOOTNOTES. SO THE REMAINING STANDARDS OR THE REMAINING STANDARDS THAT ARE LISTED ON THIS LIST ARE GOING TO BE PRIMARILY IMPACTED FOR THE FOLLOWING PERIODS, BUT WILL HAVE SIMILAR COMPLEXITIES WITHIN THEM. AND THE PORT MANAGEMENT TEAM HAS THE ACCOUNTING AND FINANCE TEAM HAS ALWAYS BEEN VERY PROACTIVE IN LOOKING INTO THOSE UPCOMING STANDARDS AND TRYING TO IDENTIFY THE IMPACT AND TRYING TO FIGURE OUT HOW TO IMPLEMENT THAT. SO WE ARE PARTICULARLY THIS YEAR, WE STAY VERY CLOSELY IN TOUCH THROUGHOUT THE YEAR AND JUST DISCUSSING DIFFERENT COMPONENTS OF THE LEASING STANDARD AND THE IMPACT THAT IT WILL HAVE ON THE FINANCIALS. SO WE'LL CONTINUE TO WORK WITH MANAGEMENT TEAM ON THAT. AND THAT, I BELIEVE, CONCLUDES OUR PRESENTATION. EXCELLENT. THANK YOU SO MUCH TO THE MOSS ADAMS TEAM FOR THE PRESENTATION. ARE THERE ANY QUESTIONS FROM OUR COMMITTEE AT THIS TIME? EXCELLENT. THAT'S HOW YOU KNOW YOU DID A GOOD JOB. IF THERE ARE NO ADDITIONAL QUESTIONS FOR THE AUDIT TEAM OR MR. FERNANDEZ ON THIS ITEM WE'LL MOVE ON TO THE NEXT TOPIC. THANK YOU. ITEM NUMBER FOUR ON THE AGENDA IS INTERNAL OUTREACH PROJECT UPDATE. GLENN, PLEASE PROCEED WITH THE UPDATE. MICHELLE, IF YOU COULD PULL UP THE DECK, PLEASE. THANKS. AS WE WAIT FOR MICHELLE, SHE'S ABOUT TO PULL UP THE DECK FOR THE PRESENTATION FOR THIS ITEM. THERE WE GO. NEXT SLIDE, PLEASE. MICHELLE, RIGHT? YES. BUT I'M GOING TO TRY TO

GIVE YOU CUES WHEN I END THESE SECTIONS, WHEN WE JUMP FROM ONE AGENDA ITEM TO THE NEXT. THE FIRST ITEM THE OUTREACH PROJECT. COMMISSIONER MOHAMED, AT OUR LAST AUDIT COMMITTEE MEETING, YOU HAD ASKED US TO DESIGN A METHOD TO HELP AUDITEES UNDERSTAND WHAT TO EXPECT FROM AN AUDIT. SO I WANTED TO PROVIDE A LITTLE CHART AS TO WHERE WE ARE IN THAT PROJECT AND WHAT WE'VE DONE. BUT IN A NUTSHELL, WE'VE CREATED A PROJECT PLAN. WE'VE UPDATED OUR WEBSITE. WE'VE CREATED A LOT OF RESOURCES ON OUR EXTERNAL FACING WEBSITE. FOR INSTANCE, LINKS TO PROFESSIONAL ORGANIZATIONS AND THINGS THAT THEY MIGHT WANT. BEST PRACTICES, BEST STANDARDS. SO WHEN YOU GO TO OUR WEBSITE NOW, YOU'LL SEE A HOST OF MORE INFORMATION. THE INTERNAL AUDIT WEBSITE SAYING, IF YOU HAVE QUESTIONS ABOUT CYBERSECURITY, CLICK HERE AND IT'LL GIVE YOU A LOT MORE INFORMATION ABOUT IT AND HOW TO PROTECT YOURSELF AND THINGS TO DO. WE'VE ALSO PUT UP OUR PEER REVIEWS AND SOME OTHER INFORMATION OUT THERE THAT MIGHT BE USEFUL TO AUDIT CLIENTS. AND THEN THAT'S ALL COMPLETED. THE NEXT PHASE, WHICH WE'RE GOING TO BE WORKING ON IN THE FIRST QUARTER, IS CREATING INTERNAL MATERIALS AND PROGRAMS AND BROCHURES WHERE WE CAN DO OUTREACH. AND IF THEY WANT TO COME IN, AN AUDITEE, A SMALL BUSINESS, AND ASK ABOUT CONTROLS, WE CAN SPEND TIME WITH THEM TALKING ABOUT WHAT TO EXPECT FROM AN AUDIT AND HOW TO PROTECT THEMSELVES AND HAVE GOOD INTERNAL CONTROLS. FOR INSTANCE, THE PAYMENT CARD, THE ACH FRAUD. HOW DO YOU PREVENT A SMALL BUSINESS TO NOT-TEACH THEM NOT TO CLICK ON A LINK THAT MIGHT COMPROMISE THEIR SYSTEMS AND THEN CREATE SUBSEQUENT PROBLEMS FOR THE PORT? SO THIS IS AN ESSENTIAL TIMELINE AS TO WHAT WE'VE DONE AND WHAT WE NEED TO DO. ON THIS SLIDE. IT'S JUST A QUICK OVERVIEW. AND THAT CONCLUDES ITEM FOUR. COMMISSIONERS. EXCELLENT. THANK YOU. GLENN, ARE THERE ANY QUESTIONS FROM OUR COMMUNITY MEMBERS? COMMISSIONER MOHAMED, NO QUESTIONS, BUT I JUST WANT TO COMMEND YOU AND YOUR WHOLE TEAM FOR HEARING ME ON THAT. IT IS REALLY IMPORTANT FOR OUR COMMUNITY BASED ORGANIZATIONS TO HAVE THE TOOLS THAT THEY NEED TO MAKE SURE THAT THEY'RE PROTECTING THEIR SYSTEM AND THAT THEY ARE BEING AS TRANSPARENT AND ACCOUNTABLE TO PUBLIC FUNDS. AND YOU CAN'T REALLY DO THAT WITHOUT HAVING A STRONG UNDERSTANDING OF HOW THESE SYSTEMS WORK. AND SO I'M JUST REALLY GRATEFUL AND APPRECIATIVE OF YOU ALL TAKING THIS ON AND PROVIDING US WITH A

THOROUGH UPDATE. APPRECIATE IT. THANKS TO THE TEAM THAT DID THE WORK. THANK YOU. EXCELLENT. THANK YOU. ALL RIGHT, MOVING ON. ITEM NUMBER FIVE ON THE AGENDA IS THE 2022 AUDIT PLAN UPDATE. GLENN, PLEASE PROCEED. THANK YOU, COMMISSIONER. THIS SLIDE, ESSENTIALLY ALL THE GREEN YOU SEE, SHOWS A GANTT CHART OF OUR WORK. AND IN A NUTSHELL, WE'VE COMPLETED OUR PLAN FOR 2022, LISTS THE AUDITS AND THE TIMELINE AS TO WHEN WE COMPLETED THEM. THERE WAS ONE PAYROLL CONTROLS, THE ONE IN RED, THAT WE MOVED TO 2023 AT MANAGEMENT'S REQUEST BECAUSE THEY FELT OVERWHELMED. WE DID PICK UP A DIFFERENT AUDIT, ACH FRAUD THAT WE PICKED UP AND DID EARLIER IN THE YEAR. SO NET THE PLAN NUMBER OF AUDITS THAT WE HAD COMMITTED TO DOING, WE COMPLETED. NEXT SLIDE, PLEASE, MICHELLE.

IN SUMMARY, THERE WERE 17 AUDIT REPORTS THAT WERE COMPLETED IN 2022. FOUR OF THEM WERE CAPITAL, FOUR OF THEM WERE IT, AND OH, I'M SORRY, FOUR PERFORMANCE, FOUR CAPITAL. THERE WERE SIX IT AND THEN CONTRACT COMPLIANCE, LIMITED CONTRACT COMPLIANCE. THESE ARE THE CONCESSIONAIRES AT THE AIRPORT THAT GIVE US A PERCENTAGE OF THEIR REVENUE. AND WE TRY TO CYCLE THROUGH THEM AND MAKE SURE THAT WHAT THEY'RE GIVING US IS THE RIGHT AMOUNT. WE LOOK AT IT TWO WAYS. ONE, ARE THEY PAYING US TOO MUCH OR ARE THEY PAYING US THE RIGHT AMOUNT? AND SINCE IT IS A COMPLEX CALCULATION, WE MAKE SURE THAT WE'RE FAIR TO EVERYONE. DOING THE RIGHT THING THERE. A COUPLE OF OTHER ITEMS I WANT TO HIGHLIGHT. WE ALSO ON THE SECOND BULLET, HAD HBM COME IN AND HELP US IN THE INTERNATIONAL ARRIVALS FACILITY AUDIT, AND THEY'LL TALK ABOUT THAT LATER ON TODAY IN A LITTLE MORE DETAIL AND THE EIGHT ISSUES THAT THEY IDENTIFIED. WE ADAPTED OUR AUDIT PLAN VERY QUICKLY WHEN ACH FRAUD OCCURRED EARLIER IN THE YEAR AND PUT RESOURCES WHERE THEY NEEDED TO BE TO MAKE SURE THAT THOSE HOLES WERE PLUGGED AND CONTROLS WERE PUT IN PLACE. AND THEN BESIDES JUST DOING AUDITS, SOMETIMES WE ADAPT. WE'LL DO OTHER THINGS, WE'LL PICK UP AUDIT RELATED ITEMS. AND AT THE BOTTOM HERE, WE HAD A LOT OF GRANTS BECAUSE OF COVID SO WE MADE SURE WE LOOKED AT THE GRANTS AND MADE SURE WE WERE SPENDING THAT MONEY AS REQUIRED BY FEDERAL GOVERNMENT. WE ARE DOING A LOT OF GCCM CONSTRUCTION PROJECTS NOW, AND THE PORT HAS SHIFTED IN THAT MANNER WHERE INSTEAD OF THE TRADITIONAL DESIGN BID BUILD, YOU'VE GOT THESE MORE



COMPLICATED GCCM GENERAL CONTRACTOR, CONSTRUCTION MANAGER TYPE PROJECTS. AND THE LEGISLATURE IN THE STATE OF WASHINGTON REQUIRES A DIFFERENT OVERSIGHT OVER THOSE. SO THOSE NEED AN INDEPENDENT AUDIT AND THOSE NEED CERTAIN VISIBILITY BECAUSE OF COMPLEXITY. SO WE ADAPTED AND WE'VE KIND OF INTEGRATED THOSE INTO OUR PROCESS AS WELL. AND THEN CRUISE TERMINALS OF AMERICA NEEDED SOME CERTIFICATION BECAUSE OF COVID THAT THEIR REVENUES HAD SIGNIFICANTLY SHRUNK A MATERIAL AMOUNT THAT ALLOWED THEM TO GET SOME WAIVERS IN THEIR RENT. SO WE DID THAT WORK AS WELL. THAT'S DONE IN THE SIDE. NEXT SLIDE. MICHELLE. JUST TO HIGHLIGHT SOME OF THE THINGS WE DO ON RECOVERIES, COMMISSIONERS, WHEN WE DO DO AUDITS, WE DO IDENTIFY ISSUES FROM TIME TO TIME, AND WE HAVE SUGGESTED RECOVERIES IN 2022. ON THE RENTAL CAR FRONT, IT WAS RELATIVELY SMALL, BUT IT IS \$11,000 THAT WE DID GET BACK 2021. WE IDENTIFIED A LITTLE HIGHER NUMBERS JUST BECAUSE OF THE NATURE OF THE AUDITS THAT WE WERE DOING. BUT ON THE CAPITAL FRONT, IN 2022, AS YOU CAN SEE, WE SUGGESTED RECOVERIES THAT ARE QUITE SIGNIFICANT, PRIMARILY BECAUSE THE IAF INTERNATIONAL ARRIVALS FACILITY AND THE LIQUIDATED DAMAGES AND SOME OF THE OTHER THINGS THAT JAKE AND TEAM FROM HBM WILL TALK ABOUT TODAY. THE NORTH SATELLITE RENOVATION EXPANSION PROJECT, THE MILLION DOLLARS YOU SEE THERE, AGAIN, THAT WAS AN INDEPENDENT AUDITOR AS REQUIRED BY THE RCW, AND THOSE ARE SOME COST SAVINGS THAT THEY IDENTIFIED. SO THERE'S A LOT OF MONEY THAT IS RECOVERED. NEXT SLIDE, PLEASE, MICHELLE AND THEN WE ALSO HAVE CONTROLLABLE COST OVERRUNS WHERE WE'RE NOT GOING TO GET THE MONEY BACK, BUT IN SOME CASES WE'RE NOT GOING TO GET THE MONEY BACK, IN SOME CASES WE ARE. BUT WHAT WE TRY TO DO IS SAY, WELL, THESE ARE IMPROVEMENT OPPORTUNITIES THAT WE CAN TAKE FORWARD INTO THE NEXT YEAR, INTO NEXT PROJECT. AND IF YOU APPLY THESE, YOU SHOULD BE ABLE TO SAVE MONEY AND NOT- THESE ARE WASTED FUNDS. OTHERWISE, I WILL POINT OUT THAT IN NORTH SATELLITE RENOVATION EXPANSION PROJECT, THE MILLION DOLLARS THERE THAT RL TOWNSEND HAD IDENTIFIED, THEY CAUGHT THAT EARLY ENOUGH IN THE PROCESS. SO CHANGES WERE MADE AND THOSE LOSSES WERE NOT INCURRED. SO THAT WAS A MILLION DOLLARS IN COST SAVINGS. SO OUR VALUE PROPOSITION, AND I BELIEVE THIS CONCLUDES OUR OVERVIEW OF OUR 2022 AUDIT PLAN. SO

COMMISSIONER CHO, BACK TO YOU. CLOSE THAT. ANY QUESTIONS? THANK YOU, GLENN. YES, COMMISSIONER MOHAMED, THANK YOU FOR THAT PRESENTATION. I JUST HAD A QUICK QUESTION AROUND THE FEDERAL GRANTS. SO I KNOW WE'VE DONE OUR INTERNAL AUDITS WITH THOSE- AUDITING, THOSE GRANTS THAT WE RECEIVED, DO WE EXPECT THE FEDERAL GOVERNMENT TO ALSO DO THEIR OWN AUDIT? WHAT'S THE EXPECTATION? THE FUNDS COME THROUGH THE FAA AND THE FAA CONTROLS A LOT OF THAT. SO THEY'RE CONTINUOUSLY LOOKING AT US AND PARTNERING WITH US TO MAKE SURE THAT- THERE'S A LOT OF MONEY. THEY'RE CONTINUOUSLY PARTNERING WITH US AND MAKING SURE THAT THOSE FUNDS ARE SPENT APPROPRIATELY. WE MADE SURE WE LOOKED AT THE CONTROLS AND THE PROCESSES WE HAVE IN PLACE. WE'LL TALK ABOUT THAT AGAIN IF WE HAVE TIME AT THE END, BUT TO MAKE SURE THAT PEOPLE WERE AWARE OF ALL THE FEDERAL REQUIREMENTS AND THAT WE HAD CONTROLS AND PROCESSES IN PLACE TO MAKE SURE THOSE FUNDS WERE SPENT APPROPRIATELY. IT'S JUST BECAUSE OF THE RATE OF CHANGE. A COUPLE OF YEARS AGO, A LOT OF THIS DIDN'T EXIST. WE DIDN'T HAVE THE CARES GRANT, WE DIDN'T HAVE THE COVID FUNDING, AND ALL THIS MONEY CAME IN. WE HAVE TO PASS IT THROUGH TO CONCESSIONAIRES AND DO THE RIGHT THING. AND THERE ARE MANY DIFFERENT RULES AND REQUIREMENTS. SO FOR INSTANCE, IF YOU GET A PPP LOAN, YOU'RE NOT ELIGIBLE FOR SOMETHING ELSE. SO ALL OF THOSE CONTROLS NEEDS TO BE PUT IN PLACE. SO WE LOOKED AT IT FROM THAT PERSPECTIVE AND HOPEFULLY THAT ANSWERS- THAT DOES ANSWER MY QUESTION. YEAH, BECAUSE A LOT OF THE TIMES, THE WAY I UNDERSTOOD IT IS THAT THEIR RULES AND GUIDANCE ARE NOT ALWAYS CLEAR. AND SO IF THOSE CONTROLS ARE NOT REALLY STRONG IN THE END WHEN YOU THINK YOU'RE GOING TO GET THE MONEY BACK AND THERE'S LIKE REIMBURSEMENTS, IN SOME CASES, IT BECOMES A CHALLENGE FOR WHOEVER THE GRANTEE IS AND IN THIS CASE, BE THE PORT. SO THAT'S WHY I WAS ASKING THAT. AND I'M WONDERING, THERE'S STILL SOME GRAY AREAS, BUT THE PORT DOES HAVE CLOSE ENOUGH WORKING RELATIONSHIP WITH THE FAA BECAUSE WE'RE SO TIED INTO THEM. THERE'S STILL A FEW THINGS THAT NEED TO BE ANSWERED, BUT FOR THE MOST PART, EVERYTHING IS BEING HANDLED. AND I BELIEVE RUDY KALUZA HAS HIS HAND UP AND WOULD LIKE TO COMMENT ON THAT AS WELL. GO AHEAD, RUDY. THANK YOU, MR. CHAIR, FOR RECOGNIZING ME. SO I WANT TO MAKE SURE THAT COMMISSIONER MOHAMED RECEIVES ALSO COMPLETE ANSWER. IT ALWAYS REQUIRES TAG TEAM AND GLENN

PROVIDES A VERY COMPREHENSIVE PICTURE.  
THE OTHER AREA  
THE EMPHASIS OF THE SINGLE  
AUDIT. AND THERE IS FEDERAL REGULATORY  
COMPLIANCE AUDIT PERFORMED BY EXTERNAL  
AUDITOR AS WELL ON THE MAJOR GRANTS SUCH  
AS THE AIRPORT IMPROVEMENT PROGRAM. THERE  
IS COMPREHENSIVE REVIEW ON THE PART OF  
THE FEDERAL GRANT TOUR AGENCIES, FAA,  
AS WELL AS OUR VALUED INTERNAL AUDIT  
TEAM AT THE PORT, AS WELL AS OUR  
EXTERNAL AUDITORS, OUR CPA FIRM, MOSS  
ADAMS. THANK YOU. I'M SORRY I DIDN'T  
IDENTIFY MYSELF ON RUDY KALUZA,  
ACCOUNTING DIRECTOR FOR  
THANK YOU, MR. CHAIR. THANKS, RUDY.  
ANY OTHER QUESTIONS? THAT CONCLUDES MY  
QUESTIONS. NO, JUST A QUICK QUESTION. I  
WANT TO GO BACK TO THE RECOVERIES PAGE  
AND ASK ABOUT THE HERTZ AND AVIS BUDGET.  
IS THE \$11,000 HERE THAT THE  
OVERCHARGING THAT THE CAR COMPANIES WERE  
DOING TO CUSTOMERS? IN SOME CASES, YES,  
PRIMARILY IN THE CFC FEE. AND IT'S  
A NUMBER OF DAYS AND THEIR CALCULATIONS  
WITHIN THEIR SYSTEMS. SOME WERE  
OVERCHARGED, SOME WERE UNDER CHARGED. IS  
THAT A SURCHARGE ON THE BILL OR WHAT  
EXACTLY IS IT? SO THERE'S TWO FEES WHEN  
YOU RENT A CAR. THERE'S THE CONCESSION  
RECOVERY FEE, WHICH IS FOR THE FACILITY  
THAT WE BUILD. SO IN  
ESSENCE, IT'S LIKE A \$6  
OR \$7 A DAY FEE FOR EVERY RENTAL DAY.  
AND THEN THERE'S A PERCENTAGE FEE BASED PM  
PERCENTAGE OF REVENUE. SO  
THOSE TWO FEES SHOW UP IN YOUR RENTAL  
CAR BILL AND FROM THE  
\$7 FEE OR THE SIX, DEPENDING ON WHAT THE  
CONCESSION FEE IS, THAT GETS REMITTED TO  
THE PORT. SO ALTHOUGH IT'S A PASS  
THROUGH, IT COMES TO US. SO A CUSTOMER  
IS BEING OVERCHARGED. IT STILL  
COMES TO THE PORT. THEY'RE PAYING IT TO  
US, BUT WE STILL WANT TO MAKE SURE THAT  
THEY ACCURATELY CALCULATE THAT AND  
CHARGE THE CUSTOMERS THE RIGHT AMOUNT.  
BUT WE'RE NOT RECONCILING WITH THE  
CUSTOMERS WHO ARE OVERCHARGED. RIGHT.  
WELL, WHAT WE DO IS WE USE A TOOL THAT  
LOOKS AT 100% OF THE TRANSACTIONS OVER  
THAT PERIOD. AND WE HAVE WORKING WITH  
BUSINESS INTELLIGENCE, WE CALCULATE WHAT  
THEY SHOULD HAVE CHARGED ALL THEIR  
CUSTOMERS, AND WE FIND SOME OVERAGES AND  
SOME UNDERCHARGES, AND WE GO BACK TO  
THEM. AND WE WORK WITH THE  
PORT TEAM, LANDSLIDE TEAM AS WELL TO  
MAKE SURE THAT HERTZ GOES BACK OR THE  
RENTAL CAR COMPANIES GO BACK AND FIX  
THEIR SYSTEMS, CHARGING THE CUSTOMERS  
THE CORRECT AMOUNT. THEY USUALLY DON'T  
GO BACK AND CORRECT BILLS IN THE PAST,

BUT THEY'RE STILL LIABLE FOR THAT MONEY TO THE PORT. BUT WE DO PUSH THEM TO FIX IT GOING FORWARD. OKAY. AND THEN IN THE CASE WHERE THERE'S AN OVERCHARGE AND IN THE CASE WHERE WE HAVE LEASES, WHERE WE TAKE A PERCENTAGE OF REVENUE, THAT OBVIOUSLY AFFECTS OUR PERCENTAGE OF REVENUE AS WELL. SO DO WE GO BACK AND RECONCILE THAT AS WELL? ON THE REVENUE? WE HAVEN'T GONE BACK LATELY AND DONE 100% RECALCULATIONS OF THE REVENUE. OKAY. BUT WE USE OTHER TOOLS AND MECHANISMS. OKAY. JUST WANTING- FOR MY AWARENESS. THANK YOU. YEAH.

COMMISSIONER MOHAMED, COMMISSIONER CHO JUST MADE ME THINK OF A SIMILAR SORT OF QUESTION WITH JUST HIDDEN FEES. WHETHER IT'S CAR RENTAL, DO WE HAVE CONTROLS OR POLICIES IN PLACE THAT SHED LIGHT ON SOME OF THAT? I KNOW, THE BIDEN ADMINISTRATION JUST RECENTLY INTRODUCED AN INITIATIVE TO GET RID OF JUNK FEES, WHICH ARE LIKE HIDDEN FEES, ADD ON FEES THAT SOMETIMES YOU SEE EVEN RENTAL COMPANIES DOING. AND SO IT MADE ME WONDER WHAT SORT OF TOOLS WE HAVE IN PLACE TO PROTECT CUSTOMERS FROM THOSE UNNECESSARY HIDDEN FEES OR ADD ONS THAT HAPPEN SOMETIMES. YEAH, I'LL MAKE A NOTE OF IT, COMMISSIONER, AND GET BACK TO YOU. WE DO LOOK AT ALL OF THE CHARGES THAT THEY'RE ALLOWED TO CHARGE AND MAKE SURE THAT THEY'RE PAYING US REVENUE AND THAT. BUT AS FAR AS HIDDEN FEES ARE SHOWN UP, WE'LL GO BACK AND MAYBE THAT'S SOMETHING WE CAN ALSO ADD INTO OUR WORK GOING FORWARD. I DON'T THINK WE'VE KIND OF GOTTEN TO THE POINT WHERE WE SAY, IS THIS REALLY SOMETHING THAT YOU SHOULD BE CHARGING THE CUSTOMER? SO WE'LL MAKE A NOTE OF GOING BACK AND LOOKING AT THAT GOING FORWARD AND I'LL CHECK IN WITH THE TEAM AND ALSO GET BACK TO YOU ON THAT. PERFECT. THANK YOU SO MUCH. EXCELLENT.

THANK YOU SO MUCH FOR THAT. WE'RE GOING TO GO AHEAD AND MOVE ON INTO ITEM NUMBER SIX ON THE AGENDA, WHICH IS A REQUEST FOR APPROVAL OF PROPOSED 2023 INTERNAL AUDIT PLAN. GLENN, PLEASE PROCEED WITH THE PRESENTATION ON THIS ITEM AND THEN I WILL CALL FOR A MOTION AS NEEDED. OKAY, EXCELLENT. THANK YOU, COMMISSIONER. SO THIS SLIDE, WHEN WE START OUR PROCESS TO BUILD, DESIGN, OUR AUDIT PLAN, WE START BY DOING ESSENTIALLY A RISK ASSESSMENT, TALKING TO FOLKS WITHIN THE ORGANIZATION, KEY LEADERS, AND UNDERSTANDING WHAT ARE SOME OF THE KEY RISKS WITHIN THEIR AREAS, WHAT KEEPS THEM UP AT NIGHT, WHAT ARE THEY SEEING, WHAT TROUBLES THEM. SO WE START WITH

THAT. WE ALSO CREATED A FRAMEWORK WHERE WE LOOK AT KEY RISKS IN THE INDUSTRY AND WE SHARE THAT WITH THEM AND SAY, ARE THESE HAPPENING IN YOUR AREA? THIS SLIDE ESSENTIALLY HIGHLIGHTS ALL THE DEPARTMENTS THAT WE TALK TO, THE REPRESENTATION TO GET AN IDEA OF WHAT'S HAPPENING AND WHAT ARE THEY SEEING. NEXT SLIDE, PLEASE, MICHELLE. AND SOME OF THE KEY THEMES THAT I'M GOING TO HIGHLIGHT HERE ON THIS SLIDE ARE THEY'RE NOT ONLY AFFECTING US, BUT THEY'RE AFFECTING OTHER ORGANIZATIONS ACROSS THE UNITED STATES? PROTIVITI HAD DONE A STUDY WITH ONE OF THE MAJOR UNIVERSITIES ON THE EAST COAST AND THEY FOUND A SERIES OF KEY RISKS, AND SURPRISINGLY, THE SAME RISKS OCCUR AND EXIST AT THE PORT AND PROBABLY AT OTHER ORGANIZATIONS AS WELL. SO SOME OF THE HIGHLIGHTS THAT WE POINTED OUT, HUMAN CAPITAL, STAFFING, RECRUITING, TALENT MANAGEMENT, THAT SEEMS TO BE A HUGE THING, ESPECIALLY IN THE CURRENT ENVIRONMENT. COMING OUT OF COVID AND STAFFING UP AS NEEDED, ESPECIALLY FOR THE CRITICAL PROGRAMS. CYBERSECURITY HUGE EVERYWHERE AND DOESN'T LOOK LIKE THAT'S GOING AWAY, ESPECIALLY FOR OUR CONSTRUCTION SUPPLY CHAIN. AND PLANNING THAT INTO EVERYTHING YOU DO SEEM TO BE A BIG ISSUE. YOU KNOW, YOU JUST HAVE TO- YOU DON'T GET THINGS RIGHT AWAY ANYMORE. YOU HAVE TO. PLAN FOR IT AND BUILD THAT INTO YOUR SCHEDULES AND KNOW WHEN IT'S GOING TO COME, ESPECIALLY WHEN WE EMBARK ON THIS HUGE CAPITAL FRONT. AS ONE OF THE THINGS THAT CAME OUT WAS AS WE TAKE ON MORE ELECTRICITY AND ELECTRIFICATION OF DOCKS, OF CARS AND EVERYTHING ELSE, WE HAVE TO MAKE SURE WE HAVE THE INFRASTRUCTURE FOR THAT. AND A LOT OF TIMES THAT'S LACKING. FOR INSTANCE, BELLE HARBOR, THE GARAGE RIGHT HERE, PEOPLE TALK ABOUT GETTING ELECTRIC FLEET OF PORT CARS AND THEN IT'S LIKE, OKAY, WELL, WE DON'T HAVE ANY CHARGERS INFRASTRUCTURE OR POWER, SO THAT NEEDS TO BE BUILT. AND EVEN WITH ELECTRIFICATION OF THE DOCKS AND ELECTRIFICATION OF THE AIRPORT, IT'S THE CAPACITY IN THE GRID THERE. AND THEN FINALLY BALANCING ENVIRONMENTAL, SOCIAL AND FINANCIAL OBJECTIVES, THOSE ARE ALL CRITICAL FOR THE PORT, BUT HOW DO WE BALANCE THEM ALL OUT? SOMETIMES THEY'RE CONFLICTING AND MAKING THE BEST DECISIONS BECOMES VERY IMPORTANT. NEXT SLIDE, PLEASE, MICHELLE. SO WITH THAT, WE USED A LITTLE BIT OF OUR RISK UNIVERSE, WE USED A LITTLE BIT OF THE WORK THAT WE'RE DOING AND OUR

AUDIT UNIVERSE, AND WE TALKED TO MANAGEMENT AND BASED ON THE RESOURCES WE HAVE, WE CARRY PAYROLL CONTROLS OVER FROM LAST YEAR. WE FEEL IT'S IMPORTANT TO DO THAT BECAUSE IT IS A CRITICAL AUDIT AND CRITICAL RISK AREA. AIRPORT PARKING GARAGE. WE HAVE ABOUT \$100 MILLION IN REVENUE THAT COMES THROUGH THERE AND WE'LL CONTINUE TO GROW ONE OF THE LARGEST PARKING GARAGES. AND THERE'S JUST A LOT TO LOOK AT OVER THERE. THERE'S THE CASH CONTROLS. WE HAD ISSUE WITH CASH THEFT THERE A FEW YEARS AGO. SO WE WANT TO GO BACK AND MAKE SURE THAT THE CONTROLS HAVE BEEN PUT IN PLACE AND OUR OPERATING IS EFFECTIVELY OVER THERE. THE NEXT TWO EQUITY POLICY DIRECTIVE AND TO SOME EXTENT, SOCIAL ENVIRONMENTAL REPORTING. ALSO, WE'RE IN DISCUSSIONS WITH OUR OEDI GROUP ON WHEN THE EQUITY POLICY DIRECTIVE IS LAUNCHED AND APPROVED BY THE COMMISSION. HOW DO WE MAKE SURE THAT EVERYONE'S COMPLYING WITH IT AND CONTROLS ARE IN PLACE TO MAKE SURE THAT THAT'S BEING FOLLOWED. AND THEN THERE'S A LOT OF REPORTING THAT COMES OUT RELATED TO THAT AND RELATED TO THE ENVIRONMENT, AND THERE'S A LOT OF AD HOC SYSTEMS THAT HAVE BEEN PUT UP. HOW DO WE MAKE SURE THAT THAT DATA IS ACCURATE? SO WHEN IT'S PRESENTED TO YOU AND TO THE PUBLIC, IS IT CORRECT? OUR FINANCIAL STATEMENTS, AS YOU HEARD EARLIER, OLGA, AND ALL MAKE SURE THAT THOSE ARE CORRECT IN ALL MATERIAL RESPECTS. BUT A LOT OF THE SITE REPORTING ARE BUILT ON SYSTEMS IN HOUSE, SO WE WANT TO MAKE SURE THAT THESE SYSTEMS AND THE DATA BEING PRESENTED IS ACCURATE, NOT GREENWASHED. GREENWASHING IS ESSENTIALLY WHEN YOU MAKE THINGS A LITTLE MORE APPEALING TO THE READERS AND IT'S NOT REALLY ACCURATELY PRESENTED. AND THEN FINALLY, FISHERMAN'S TERMINAL AGAIN, INTERNAL CONTROLS OVER CASH THERE. THIS WAS A MANAGEMENT REQUEST, SO THAT WAS SOMETHING THAT IS THE REVENUE BEING COLLECTED CORRECTLY AND BEING RECORDED CORRECTLY OVER THERE. SOME OTHER ITEMS, THESE ARE CONTINGENCY AUDITS. WE PUT THESE ON. IF WE DO HAVE THE RESOURCES AND THE TIME OR SOMETHING HAS TO DROP OFF AT MY DISCRETION, I CAN MOVE THESE UP AND NOT WAIT ANOTHER FEW WEEKS TO COME BACK TO COMMISSION AND ASK FOR APPROVAL. SO SOME ITEMS THAT I'VE HIGHLIGHTED ARE IS THE POLICE EVIDENCE ROOM WE HAVEN'T LOOKED AT THAT. THE CONTROLS OVER PROPERTY AND THE POLICE EVIDENCE ROOM MAKE SURE THAT EVERYTHING'S FOLLOWING POLICY OVER

THERE. HUMAN CAPITAL ON THE RECRUITING SIDE AND BANKING WIRE TRANSFER CONTROLS, WHICH IS IMPORTANT. WE HAD ACH FRAUD EARLIER IN THE YEAR THAT WAS SEPARATE FROM WIRE FRAUD AND WE WANT TO MAKE SURE THAT THE CONTROLS AND THE WIRE TRANSFER ARE OPERATING EFFECTIVELY. NEXT SLIDE. ON THE CAPITAL PROJECTS. OUR CAPITAL AUDITS. MOST OF OUR WORK HERE NOW IS MANDATED BY RCW 39 TEN. SO WE'LL SPEND A LOT OF TIME LOOKING AT THE GCCM AUDITS JUST BECAUSE THOSE NEED TO BE COVERED. WE WILL HAVE AN EXTERNAL FIRM PARTNERING WITH US, RL, TOWNSEND AND ASSOCIATES, BUT NONETHELESS WILL BE VERY INVOLVED AS WELL. THE OTHER THINGS THAT ARE ON THIS SLIDE THAT HIGHLIGHT SOME KEY ITEMS ARE CURRENTLY 49 PROJECTS IN THE WORKS WITH, YOU KNOW, 55 MILLION I'M SORRY, THAT ARE OVER 5,000,0. 49 PROJECTS THAT ARE OVER 5 MILLION IN SPEND. SO A LOT OF WORK OUT THERE, A LOT OF PROJECTS, A LOT OF THINGS GOING ON IN THE CAPITAL FRONT AND IT'S JUST GOING TO INCREASE. WHEN WE DO PICK OUT ITEMS- SOME RISK CONSIDERATIONS THAT WE HAVE, A PROJECT SIZE CHANGE ORDERS, CONTRACT TYPE, SCHEDULE, BUDGET. SO ALL OF THESE ELEMENTS GO INTO OUR CAPITAL PROJECT PLAN APPROACH. NEXT SLIDE, PLEASE, MICHELLE. SO WITH THAT, THERE ARE- THE FIRST TWO AUDITS. THE T-5 BERTH MODERNIZATION AND SUPPLY CHAIN DISRUPTION ARE TWO AUDITS WE'VE GOTTEN OUR PLAN THAT ARE NOT REQUIRED BY THE RCW, THE REST ARE. SO WE'VE GOT A TOTAL OF SIX OUT THERE THAT WE'VE HIGHLIGHTED. I WILL NOTE THAT ALL THE GCCM PROJECTS GET AUDITED NOW. AND WE'VE LISTED A COUPLE OF CONTINGENCY AUDITS IN CASE WE HAVE THE RESOURCES OR IF RESOURCES FREE UP OR SOMETHING HAS TO CHANGE. AND THAT'S CONCOURSE A EXPANSION. TRA IS A TENANT REIMBURSEMENT. IT'S WITH DELTA AND TENANT REIMBURSEMENTS ARE WE'RE REIMBURSING DELTA FOR WORK THAT THEY DO. IN FAIRNESS TO EVERYONE ELSE, WE WANT TO MAKE SURE THAT EVERYTHING IS DONE CORRECTLY THERE AND THAT THE CHARGES TO THE PORT ARE ACCURATE. AND THEN FINALLY, THE PARKING GARAGE ELEVATOR MODERNIZATION AND ALL THE ELEVATORS ARE BEING UPGRADED AND THERE'S QUITE A BIG COST TO THAT ALSO. AND WE WANT TO MAKE SURE THAT THAT'S HAPPENING CORRECTLY. NEXT SLIDE, PLEASE, MICHELLE. I'LL MOVE THROUGH THE LAST FEW RELATIVELY QUICKLY AND COMMISSIONERS, I WILL TAKE QUESTIONS AT THE END, BUT IF YOU HAVE QUESTIONS, PLEASE FEEL FREE TO STOP ME.

OUR INFORMATION TECHNOLOGY AUDIT PLAN, ESSENTIALLY, WE LOOK AT SOMETHING CALLED THE CIS CENTER FOR INTERNET SECURITY AND THEIR KEY CONTROLS. THERE'S 18 CONTROLS, THERE, CONTROL AREAS THERE, AND WE'RE TRYING TO CYCLE THROUGH THOSE AND MAKE SURE THAT WE COVER ALL OF THOSE.

WE ALSO PARTNER INTERNALLY WITH INFORMATION SECURITY TO MAKE SURE THAT THE ONES THAT WE SELECT ARE THE HIGHEST RISKS. ITEMS. AND OUR SHORT TERM SOLUTION IS TO FINISH THOSE CIS CONTROLS, WHICH WERE ABOUT 75% OF THE WEIGHT THROUGH, AND THEN WE'LL CIRCLE BACK AND LOOK AT OTHER AREAS. BUT RIGHT NOW, WE'RE STILL FOCUSED ON THE CIS TOP 18. SO THE NEXT SLIDE, PLEASE. SO, COMMISSIONERS, WE'VE GOT FOUR AUDITS THAT WE'VE HIGHLIGHTED HERE. EMAIL AND WEB BROWSING PROTECTIONS, NETWORK INFRASTRUCTURE MANAGEMENT, NETWORK INFRASTRUCTURE MANAGEMENT FOR ICT AND AVIATION, AND THEN SECURITY AWARENESS SKILLS AND TRAINING. SO WE'VE HIGHLIGHTED THOSE. WE DO HAVE BRUCE CLAUSAL, WHO'S OUR IT AUDIT MANAGER, RETIRING NEXT YEAR IN THE MIDDLE OF THE YEAR. SO WE'VE GOT RIDICA, WHO WILL BE CARRYING THE BULK OF THIS LOAD NEXT YEAR. AND THEN WE'LL ALSO BE RECRUITING FOR FILLING POSITIONS AS NEEDED. WE DO HAVE SOME CONTINGENCY AUDITS THAT WE'VE NOTED, AND WE DO HAVE THE ABILITY TO DO MORE THAN FOUR IT AUDITS. BUT IT'S A FUNCTION OF THE RECRUITING, THE FILLING BRUCE'S POSITION. AND AS WE IF WE'RE SUCCESSFUL IN THAT AND STAFFING UP, WE'LL MOVE SOME OF THESE CONTINGENCY AUDITS UP AND COVER MORE GROUND THERE.

AND THEN THE LAST AREA, MICHELLE, IS OUR LEASE AND CONCESSION AUDITS. THESE HAVE CONCESSIONAIRES AT THE AIRPORT, AND WE DO THIS BASED ON REVENUE OF THE CONCESSIONAIRES. SO WE'VE GOT A CYCLE. AND IF THEY FALL IN THE HIGH CATEGORY, MEANING THEIR REVENUES ARE RELATIVELY HIGH, WE TRY TO LOOK AT THEM EVERY FIVE TO SEVEN YEARS. IF THEY'RE MEDIUM, WE LOOK AT THEIR REVENUE EVERY TEN YEARS. AND IF THEY'RE LOW, WE LOOK AT THEM AS NEEDED. AS YOU CAN SEE, THE REVENUES ARE DOWN A LITTLE BIT RIGHT NOW BECAUSE OF A LOT OF THE COVID RELATED ISSUES. AND IT'S A LOOK BACK OVER THE PAST THREE YEARS. BUT THEY'RE PICKING UP IN 2022. THEY'RE ALMOST BACK TO NORMAL AS OF RIGHT NOW. SO WE EXPECT THESE REVENUES TO JUST CONTINUE TO GO UP AND PICK UP IN THE NEXT FEW YEARS.



AND WE'VE GOT A SERIES OF AUDITS WE'VE PICKED HERE BASED ON OUR APPROACH THAT I'VE HIGHLIGHTED HERE. NEXT SLIDE, MICHELLE.

WE'VE GOT LOUIS DREYFUS THAT WE'VE SELECTED. WE HAVEN'T LOOKED AT THAT IN A WHILE. AND THAT'S A GRAIN SILO AT THE END OF THE PARK HERE WHERE THE CONTAINER SHIPS COME IN AND THE TRAINS DROP OFF THE GRAIN FROM EASTERN WASHINGTON. IT'S ONE OF THE MOST SOPHISTICATED, ACTUALLY, IN THE WORLD, BUT WE'VE GOT THAT ON OUR SCHEDULE.

WE'VE GOT SEATTLE AIR VENTURES, WHICH IS HUDSON, AND THEY'VE GOT MULTIPLE LEASES. WE PICKED A COUPLE OF LEASES, BUT WITHIN THESE LEASES, THEY'VE GOT 13 STORES. SO IT'S A LOT OF GROUND TO COVER. THERE'S THE HUDSON NEWS STORES, HUDSON STORES AT THE AIRPORT AND FINALLY, DOUG FOX TRAVEL, WHICH IS ALSO PARKING. A HUGE PARKING LOT AT THE AIRPORT. SO WE'VE SELECTED THAT. WE'VE GOT SOME CONTINGENCY AUDITS IN CASE WE DO HAVE BANDWIDTH. GATE GOURMET, WHICH SERVES FOOD TO AIRLINES OR POSITIONS. THEY BRING THE CATERING ONTO AIRPLANES FOR THE AIRLINE, MEALS FOR PASSENGERS, AND HOST INTERNATIONAL, WHICH HAS A SERIES OF STORES, INCLUDING STARBUCKS AT THE AIRPORT. SO, NEXT SLIDE,

PLEASE. SO, IN A NUTSHELL, COMMISSIONERS, WE'RE PROPOSING 19 AUDITS, AND I WILL HIGHLIGHT A COUPLE MORE THAN THIS YEAR. WE'RE ALSO ON OUR LIMITED CONTRACT COMPLIANCE AUDITS, ALTHOUGH WE SHOW FOUR. WE'VE GOT A LOT OF GROUND TO COVER WITH THE HUDSON STORES AND HOW WE TACKLE THOSE 13 STORES RATHER THAN COUNT THOSE AS SINGLE AUDITS, WE LUMP THEM INTO ONE LEASE, BUT TWO LEASES. BUT THERE'S STILL A LOT OF GROUND. SO, 13 AUDITS HERE, AND THE NEXT SLIDE, PLEASE, MICHELLE.

13 AUDITS THERE WITH HUDSON OR SUB AUDITS. OUR PROPOSED PLAN IS A SUMMARY OF WHAT I PRESENTED. IT'S GOT LIMITED CONTRACT COMPLIANCE AUDITS, PERFORMANCE AUDITS IN THE CENTER, WHICH INCLUDE CAPITAL. AND THESE ARE OPERATIONAL AUDITS, BUSINESS PROCESSES, AND PERFORMANCE AUDITS OF OUR CAPITAL PROCESSES AS WELL. WE DO BREAK OUT CAPITAL BECAUSE IT'S SO LARGE OVER HERE. AND THEN LAST BUT NOT LEAST, INFORMATION TECHNOLOGY. AND THE NEXT SLIDE IS A SUMMARY OF OUR CONTINGENCY AUDITS THAT I TALKED ABOUT, THAT IF WE DO HAVE RESOURCES OF BANDWIDTH, WE'LL MOVE THOSE FORWARD. AND COMMISSIONER CHO, THAT CONCLUDES ITEM SIX, OUR 2023 PROPOSED AUDIT PLAN. EXCELLENT. THANK YOU. GLENN, ARE THERE

ANY QUESTIONS FROM OUR COMMITTEE MEMBERS AT THIS TIME? YES, I JUST WANT TO ASK, ON THE CAPITAL PROJECTS AUDIT PLAN YOU MENTIONED, RL TOWNSEND IS A COMPANY WE'RE WORKING WITH FOR THE GCCM, AND THAT'S THE DIRECTION THE PORT IS DECIDING TO GO. DO WE BID OUT THAT WORK, AND IF SO, WHAT FREQUENCY OR WHAT DOES THAT LOOK LIKE? YES. SO WE JUST WENT OUT TO BID ON IT, AND WE'RE DOING SOMETHING CALLED AN IDIQ, WHICH IS INDEFINITE TIME, INDEFINITE QUANTITY, WHICH MEANS UP TO A CERTAIN SUM. IN THIS CASE, IT WAS A HANDFUL OF PROJECTS WE LUMPED TOGETHER, AND WE SAID FOR THIS BODY OF WORK, UP TO A CAP OF \$600,000 OVER A CERTAIN PERIOD OF TIME. I BELIEVE IT'S FIVE YEARS, BECAUSE THAT'S HOW LONG SOME OF THESE PROJECTS WILL TAKE. FOR THIS BODY OF WORK, WE JUST GO THROUGH THE PROCESS. AND THERE WERE, I BELIEVE, 13 FIRMS THAT WERE INTERESTED. THEY ARE A WMBE FIRM, AND THEY HAD THE BEST EXPERIENCE AND BEST PRICE. SO THEY WENT THROUGH A VERY OPEN CONTEST. WE FOLLOWED ALL THE RULES THERE, SO THAT'S HOW THEY GOT THAT. DOES THAT ANSWER YOUR QUESTION? YES. GREAT. ANY OTHER QUESTIONS? YES, COMMISSIONER MOHAMED. THANK YOU. MY QUESTION IS AROUND THE EQUITY POLICY DIRECTIVE COMPLIANCE ON SLIDE NINE. COMMISSIONER CHO ACTUALLY LED ON THAT POLICY DIRECTIVE, AND I SERVE ON THE EQUITY AND WORKFORCE DEVELOPMENT COMMITTEE. TOGETHER, WE SERVE ON THAT COMMITTEE TOGETHER, AND WE'VE BOTH WORKED ON SOME OF THIS. I'M WONDERING, ARE YOU GOING TO RUN SOME OF THE WORK THAT YOU'RE DOING, SOME OF THE CONTROLS, BEFORE THE POLICY DIRECTIVE GETS INTRODUCED? DOES IT COME TO YOU GUYS BEFORE WE INTRODUCE IT AND IT COMES BEFORE THE WHOLE COMMITTEE, OR IS THERE WORK THAT YOU ALL ARE DOING BEFOREHAND? AT THIS POINT? NO, WE'RE NOT DOING VERY MUCH WORK ON IT. ONE OF THE THINGS, THE POLICY HAS GOT TO BE FINALIZED FIRST, AND I THINK MY VISION, OR OUR VISION OF THIS IN DISCUSSION WITH BOOKDA GHEISAR, WHO'S OUR SENIOR DIRECTOR OF OEDI WAS, ONCE THE POLICY IS IMPLEMENTED, HOW DO WE ASSURE THAT WE HAVE CONTROLS IN PLACE AT THAT POINT TO MEET THE REQUIREMENTS OF THE POLICY? NOW, THERE'S TRAINING REQUIREMENTS. THE PORT HAS TO DO A SERIES OF THINGS, AND AS WE LAUNCH ALL THESE PROGRAMS, AT THAT POINT, WE LOOK AT THE INFRASTRUCTURE. BUT AT THIS POINT, I THINK IT'S A LITTLE PREMATURE. SO WE HAVEN'T DONE VERY MUCH WORK ON IT. BUT

WE DO PLAN TO ASSURE AND PROVIDE GUIDANCE TO BOOKDA AS TO WHAT'S WORKING AND WHAT WE NEED TO DO TO IMPROVE TO MAKE SURE THAT THE ENTIRE PORT IS COMPLYING WITH THE REQUIREMENTS OF THE POLICY. THAT'S GREAT. YEAH. AND I'M SURE DIRECTOR GHEISAR IS ALREADY PROBABLY THINKING ABOUT THIS, BUT THINKING ABOUT THE INFRASTRUCTURE EVEN BEFOREHAND BEFORE WE ACTUALLY INTRODUCE SOME PATH THAT IS HELPFUL TO GIVE US AS COMMISSIONERS AN IDEA ON HOW MUCH BUFFER ROOM WE SHOULD BE GIVING FOR IT TO GO INTO FULL IMPLEMENTATION FOR ALL DEPARTMENTS. AND SO KIND OF I WAS ASKING THAT. I'M SURE DIRECTOR GHEISAR IS ALREADY THINKING THAT. IF NOT, I'LL CONNECT WITH HER AS WELL. AND ONE MORE COMMENT. DIRECTOR GHEISAR ALSO PUT US IN TOUCH, HAD A GROUP CALL WITH A COUPLE OF OTHER AGENCIES, PORT OF SAN DIEGO, TO TALK ABOUT WHAT THEY WERE DOING. SO WE LOOKED AT THEM FOR BEST PRACTICES AND HAD A DISCUSSION WITH THEM AS TO WHAT CONTROLS THEY'D PUT IN AND HOW THEY'D DONE IT. AND WE KIND OF TIED OUR PLAN INTO WHAT THEY WERE DOING AS WELL. SO WE'RE ALL IN THE LINE. THANK YOU. THAT CONCLUDES MY QUESTION, ACTUALLY. THANKS FOR PUTTING THAT REAL QUICKLY. I WONDER IF IS THIS IN REFERENCE TO THE POLICY DIRECTIVE THAT'S FORTHCOMING OR THE POLICY MOTION THAT WE PASSED TWO YEARS AGO? IT'S A POLICY DIRECTIVE. OKAY. I JUST WANTED TO CLARIFY. YOU'RE NOT AUDITING. YEAH, THE PATH ONE. IT'S THE THE ONE COMING UP. OKAY. GOT YOU. OKAY. THANK YOU FOR THAT CLARIFICATION. AWESOME. WELL, IF THERE'S NO FURTHER QUESTION, IS THERE A MOTION AND A SECOND TO APPROVE THE PROPOSED 2023 INTERNAL AUDIT PLAN? SO MOVED. EXCELLENT. THE MOTION HAS BEEN MADE, AND I WILL SECOND IT. IS THERE ANY OBJECTION TO THE MOTION HEARING? NONE. THE MOTION PASSES. GREAT. EXCELLENT. THANK YOU, GLENN. WE CAN MOVE ON TO AGENDA NUMBER SEVEN. OPEN ISSUE, STATUS UPDATE. COMMISSIONERS AND MS. HOLSTROM I'M GOING TO MOVE THROUGH THIS PRETTY QUICKLY. ONE OF THE THINGS WE'RE REQUIRED TO DO IS NOT ONLY HAVE ISSUES AND RECOMMENDATIONS FROM OUR REPORT, BUT MAKE SURE THAT THOSE ARE BEING ADDRESSED AND CLOSED OUT IN A TIMELY MANNER. SO WITH THIS, IN EVERY AUDIT COMMITTEE MEETING WE HIGHLIGHT OR WE PROVIDE A CHART AS TO WHERE ISSUES ARE, WHERE THEY STAND, I WILL NOTE FROM A VERY HIGH LEVEL, WE HAVE 34 ISSUES THAT ARE OUTSTANDING FROM REPORT DATE AND 30 ISSUES FROM TARGET DATE. THAT'S DOWN BY EIGHT FROM THE LAST AUDIT COMMITTEE

MEETING. SO WE ARE MAKING PROGRESS IN CLEANING A LOT OF THESE UP AND GETTING THEM ADDRESSED. SO WE ARE MOVING IN A POSITIVE DIRECTION. THERE'S A LOT THAT WE'LL TALK ABOUT IN NONPUBLIC SESSION LATER ON TODAY BECAUSE A LOT OF THESE ARE IT ISSUES ON NON IT ISSUES. THREE ITEMS THAT ARE SITTING OUT THERE THAT ARE STILL OPENED. RE TWO THE CONCOURSE CONCESSION TO LLC. ESSENTIALLY THIS AFFECTS MANY, MANY OF OUR CONCESSIONAIRES AND FOR THE RCW THEY HAVE TO HAVE A CERTAIN AMOUNT OF SURETY THAT THEY LEAVE THAT THE PORT RETAINS FOR THESE CONCESSIONAIRES. WHEN THEY DO BUSINESS WITH THE PORT. THE COMMISSIONER CAN OVERRIDE THAT WITH A POLICY AND SAY, OKAY, INSTEAD OF A YEAR, WE SAY SIX MONTHS. NOW IN MANY CASES WE'RE NOT IN COMPLIANCE. RE TWO IS MANY, MANY YEARS OLD. IT'S WAY OUTDATED AND IT NEEDS TO BE UPDATED. SO OUR TEAM AT THE AIRPORT NEEDS TO COME BACK TO COMMISSION, EITHER REWORK THE CONTRACTS OR COME BACK TO COMMISSION UPDATE RE TWO. SO THAT'S SOMETHING THAT'S BEEN SITTING OPEN FOR A WHILE AND I KNOW THEY'RE WORKING ON THAT, BUT IT'S BEEN SITTING OPEN FOR A WHILE.

ARCHITECT- ARCHITECTURAL AND ENGINEERING. WE IDENTIFIED THAT THERE WERE OPPORTUNITIES TO IMPROVE CONTROLS AND DETERMINED THAT THE RATES BEING PAID TO ARCHITECTS AND ENGINEERS WERE FAIR AND REASONABLE. AND THE AUDIT CONCLUDED THAT WE HADN'T DETERMINED AT THE TIME WHAT WAS FAIR AND REASONABLE. AND THERE WAS STILL SOME WORK THAT NEEDED TO BE DONE ON CPO SIDE WHEN DETERMINING- THERE'S A LOT OF MONEY AND ESPECIALLY WITH ALL THE CONSTRUCTION SPEND. A LARGE PORTION OF THAT CONSTRUCTION SPEND IS ARCHITECTURAL AND ENGINEERING FIRMS. AND WHAT YOU PAY THEM AND THE METHODOLOGY BY WHICH YOU PAY THEM NEEDS TO BE- IT JUST NEEDS TO BE FIXED, IMPROVED, AND THERE NEEDS TO BE BETTER GOVERNANCE OVER THAT. SO WE'VE HIGHLIGHTED THAT AND WE'VE KEPT IT OPEN AND WE ARE GOING BACK TO CPO, OUR CENTRAL PROCUREMENT OFFICE, AND MAKING SURE THAT THEY ADDRESS IT AND THEY HAVE NOT YET. SO WE'RE BACK TO YOU TO HIGHLIGHT THAT GOING FORWARD. AND THE INFORMATION TECHNOLOGY AUDITS, WE'RE GOING TO TALK ABOUT THOSE IN NON PUBLIC SESSION. THERE'S A LOT OF PROGRESS THERE. THERE'S SOME ISSUES THAT ARE OPENED BUT HAPPY TO SAY WE ARE MAKING PROGRESS AND THEY ARE ALL BEING ISSUED ADDRESSED. SO WE'LL TALK ABOUT

THAT LATER TODAY. AND WITH THAT, THAT CONCLUDES ITEM SEVEN. COMMISSIONER CHO. EXCELLENT. THANK YOU SO MUCH. ANY QUESTIONS FOR GLENN ON ITEM SEVEN SAYING NONE, WE CAN MOVE ON TO THE PERFORMANCE AUDIT SESSION OF THE AGENDA. ITEM NUMBER EIGHT FOR US IS A REPORT REGARDING THE INTERNATIONAL RIVALS FACILITY. GLENN, PLEASE PROCEED. COMMISSIONERS. FOR THIS. I'M GOING TO ASK JAY CORTEGA AND VALERIE SMITH FROM HPM TO COME UP, AND SPENCER BRIGHT AS WELL, WHO'S OUR CAPITAL AUDIT MANAGER. AND SPENCER WILL OPEN AND INTRODUCE THEM AND TALK ABOUT THE FIRST TWO SLIDES. LUCKILY, I'M DONE TALKING, SO THEY CAN DO THE TALKING.  
[LAUGHTER]

THANKS, GLENN. GOOD AFTERNOON, COMMISSIONERS. MS. HOLMSTROM. I'M SPENCER BRIGHT THE CAPITAL PROJECTS AUDIT MANAGER. WITH ME TODAY IS JAKE ORTEGO FROM HPM PARTNER. AND VALERIE ROGER SMITH, WHO IS A DIRECTOR FROM HPM. AND THEY WILL BE GOING OVER FOR THE CURRENT AUDIT RESULTS HERE IN JUST A MOMENT. I'D LIKE TO GO OVER SOME PRIOR AUDITS. DURING THE IA PROJECT AS A WHOLE, THERE HAD BEEN THREE PREVIOUS AUDITS INTERNAL AUDIT. IN NOVEMBER OF 2017, WE ISSUED A REPORT. IN A NUTSHELL, THE RESULTS OF OF THAT WAS WE IDENTIFIED SOME AREAS ON THE DESIGN BUILD APPROACH THAT COULD BE IMPROVED. THIS RESULTED IN- COULD HAVE HELPED PREVENT SOME UNEXPECTED COSTS DURING THE PRE GMP PHASE. THIS IS THE PRE FINAL CONTRACT. HPM ACTUALLY HAD PERFORMED A REVIEW IN 2018. THEY WERE CONTRACTED FROM ACOM, WHO WAS A PROJECT MANAGEMENT FIRM EXTERNAL OF THE PORT. BUT THE PORT HAD ASSIST DURING THIS PROJECT. SOME OF THE RESULTS FROM HPM- OVERALL, THEIR PURPOSE WAS TO KIND OF REVIEW CONTRACT LANGUAGE BEFORE A FINAL GMP WAS SIGNED. MOVING FORWARD. SOME OF THE RESULTS THAT HPM IDENTIFIED WAS ONE AREA WAS THE CLERK CONSTRUCTION WHO WAS THE GENERAL CONTRACTOR. THEY WERE INSTRUCTED TO ADMINISTER ALL SUBCONTRACTS AS NOT TO EXCEED BASIS, WHICH IS KIND OF AN ACTUAL COST REIMBURSEMENT TYPE CONTRACT. BUT CLARK WAS ADMINISTERING THOSE SUBCONTRACTS AS A LUMP SUM, WHICH IS KIND OF JUST A SET AMOUNT. THE RISK IDENTIFIED THERE WAS THAT IF THERE WAS ANY POTENTIAL SAVINGS FROM EFFICIENCIES OR PROCESS CHANGES, THAT THAT MONEY WON'T ROLL BACK TO THE PORT. THE SUBCONTRACTOR WOULD GET PAID

NO MATTER HOW THEY DID THE WORK.  
ANOTHER AREA IDENTIFIED WAS ON THE  
GENERAL LIABILITY INSURANCE RATE.  
CLARK HAD CHARGED A STIPULATED GLI RATE  
OF .749 INSTEAD OF THE  
ACTUAL COST.  
HPM REQUESTED ACTUAL DOCUMENTATION  
FROM FROM CLARK THROUGHOUT THAT  
ENGAGEMENT TO FIND OUT WHAT THE ACTUAL  
PERCENTAGE SHOULD BE OF INSURANCE.  
BECAUSE THE GENERAL CONDITIONS OF THAT  
CONTRACT SAID THAT THE PORT  
WAS GOING TO REIMBURSE ON ACTUAL COSTS.  
HPM DID NOT RECEIVE ANY DOCUMENTATION.  
SO THROUGH THEIR KNOWLEDGE  
ACROSS INDUSTRIES OF WHAT INSURANCE  
RATES SHOULD BE, THEY ESTIMATED THAT  
0.385% WAS MORE ACCURATE  
AND CAME UP WITH AN ESTIMATED COST  
AVOIDANCE OF APPROXIMATELY \$2 MILLION.  
AT THAT TIME, THE GMP WAS IN  
THE 500 MILLION RANGE.  
ANOTHER AREA THAT NEXT  
SLIDE PLEASE.  
ANOTHER AREA THAT HPM REPORTED ON WAS  
DUPLICATED COST OF PAID TIME OFF.  
THIS IS ALSO KNOWN KIND OF AS A LABOR  
BURDEN RATE OR TERMINAL MULTIPLIER.  
IT'S THE ADDITIONAL COST THAT AN  
EMPLOYER INCURS TO EMPLOY SOMEONE BEYOND  
THEIR SALARY.  
AT THAT TIME, THE MULTIPLIER WAS  
35.7%.  
HPM NOTICED THAT IT  
INCLUDED A COMPONENT OF PTO THAT  
ALSO WAS INCLUDED IN GENERAL CONDITION.  
SO IT WAS INCLUDED KIND OF WHAT WOULD  
HAVE BEEN A DOUBLE DIPPING, BASICALLY.  
AT THAT TIME, THE HPM ESTIMATED THAT  
THERE WAS GOING TO BE AN OVERSTATEMENT  
OF GENERAL CONDITION LABOR COSTS OF  
APPROXIMATELY \$720,000 ANNUALLY.  
AND THEN THE LAST AREA FROM THAT REPORT  
WAS CHANGE ORDER AND THE EARLY WORK  
AUTHORIZATION SUPPORTING SUPPORTING  
DOCUMENTATION. CLARK CONSTRUCTION  
WAS SUBMITTING THEIR DOCUMENTATION IN  
SUMMARY FORMAT,  
AND THERE WAS A RECOMMENDATION MADE THAT  
CLARK PRESENT DETAILED COST DATA WITH  
ANY CHANGE ORDERS OR EWA WORK.  
SO THE PORT HAD AN ABILITY TO ANALYZE  
AND REVIEW  
THE WORK IN A MORE TIMELY MANNER.  
THAT'S A REALLY IMPORTANT FINDING  
FROM THAT EARLY ON, BECAUSE AS VALERIE  
AND JAKE WILL DISCUSS ON THE CURRENT  
AUDIT, IF THAT RECOMMENDATION WAS  
IMPLEMENTED, A BIT OF WHAT WE'RE GOING  
TO BE DISCUSSING TODAY WOULD NOT BE  
AN ISSUE, PROBABLY.  
AND THE LAST REPORT WAS ANOTHER ONE OF  
OUR INTERNAL AUDIT REPORTS. THIS WAS

REVIEWED POST GMP. SO THE FINAL CONTRACT HAD BEEN APPROVED. WE NOTICED THAT THE LABOR MULTIPLIER THAT WAS 35.7% AT THE ORIGINAL 35.7% HAD INCREASED TO 88.7% ON THE FINAL GMP WITH NOT SUBJECT TO AUDIT CLAUSE. AND WHAT THAT MEANS IS THAT WE WEREN'T- WE DIDN'T HAVE THE ABILITY TO FIND OUT WHAT MADE UP THAT LABOR BURDEN PERCENTAGE, THE COMPONENTS, THE MAKEUP OF IT. IN THE SEATTLE REGION, A MULTIPLIER OF ABOUT 30% TO 45% IS KIND OF AN EXPECTED RATE. THE OTHER WAY. THERE YOU GO. 30% TO 45% IS MORE OF AN EXPECTED RATE. IN THE SEATTLE REGION, WE REPORTED THAT - DETERMINED THAT APPROXIMATELY EIGHT POINT TWO TO ELEVEN MILLION DOLLARS COULD HAVE BEEN SAVED BY UTILIZING A RATE WITHIN THE EXPECTED RANGE. WE ALSO NOTED THAT THE GMP, THE FINAL CONTRACT DID KEEP THAT 0.749 OF THE GLI THAT WAS ALSO A NOT SUBJECT TO AUDIT WAS PUT IN THE CONTRACT. SO WE COULDN'T LOOK AT WHAT THE ACTUAL MAKE UP WAS. HOWEVER, THE PORT'S RISK MANAGEMENT GROUP DID LOOK AT IT BEFORE THE APPROVAL OF THAT CONTRACT. SO I WAS ABLE TO FIND OUT WHAT THE COMPONENTS WERE BY LOOKING AT HOW THE RISK MANAGEMENT GROUP LOOKED. RISK MANAGEMENT'S RECOMMENDATION, AS IT REMOVED SOME OF THOSE COMPONENTS, DROPPED IT DOWN TO ABOUT .395%. SO VERY SIMILAR TO WHAT HPM CAME UP WITH BACK IN 2017. AND THEN SO BECAUSE OF THAT, THERE WAS AN AVOIDABLE COST OF ABOUT \$2.8 MILLION BECAUSE THAT INCLUDED THAT FINAL CONTRACT AMOUNT. AND UNLESS THERE'S ANY QUESTIONS ON THE RESULTS AND THE PRIOR AUDITS, WE CAN HAND IT OVER TO JAKE AND VALERIE TO GO OVER THE CURRENT AUDIT RESULTS. SURE. DO YOU GUYS HAVE QUESTIONS BEFORE I DIVE IN? YEAH, ACTUALLY, I'M SORRY. I'D LIKE TO SUGGEST WE TAKE A QUICK FIVE MINUTE RECESS FOR A BATHROOM BREAK. OH, ABSOLUTELY. IF YOU DON'T MIND. SORRY ABOUT THAT. ABSOLUTELY. IT IS 03:43 P.M.. WE'LL RECONVENE AT 03:48 P.M.. THANKS, GUYS. ALL RIGHT, EVERYONE, THANK YOU FOR OBLIGING. WE'LL GO AHEAD AND GO ON TO TALK ABOUT THE ONGOING AUDIT. PLEASE PROCEED. HAND IT OVER TO JAKE AND VALERIE FROM HPM. THANK YOU. I'M JAKE ORTEGO, AND YOU GOT TO PRESS A BUTTON. THERE YOU GO. VALERIE

SMITH, AND WE'RE FROM HPM. I THINK IN LISTENING TO ALL THE COMMENTS MADE PRIOR TO RIGHT AT THIS MOMENT, IT'S IMPORTANT TO GET A FEW TERMS RIGHT. I THINK IT'LL BE A LITTLE MORE MEANINGFUL FOR WHAT WE'RE GOING TO DESCRIBE. THE NATURE OF THIS CONTRACT IS A DESIGN BUILD, AND IT IS WITH A GUARANTEED MAXIMUM PRICE. YOU MAY HAVE HEARD SPENCER SAY THE WORD GMP, SO FORGIVE ME IF THIS IS ACADEMIC. IT'S JUST IMPORTANT WE GET THE WORDS RIGHT. WITH A GMP STYLE CONTRACT, WHAT THAT MEANS IS THAT THE CONSTRUCTION MANAGER, CLARK, IN THIS CASE, THEY ARE BILLING THEIR ACTUAL COST INCURRED PLUS A FEE AND OTHER MULTIPLIERS FOR THINGS LIKE INSURANCE. AND WHAT IT MEANS FOR THIS EXACT PROJECT IS THEY ARE BILLING THEIR ACTUAL COST, THAT OUR SUBCONTRACT COSTS MAKE UP THE BULK OF THE DOLLARS, AND THOSE SUBCONTRACTS ARE LARGELY LUMP SUM SUBCONTRACTS. AND THEN THE ADDITIONAL COST WOULD BE FOR THEIR PROJECT MANAGEMENT TIME, THEIR FIELD, SORT OF THINGS LIKE TRAILERS AND WHATEVER IT TAKES TO RUN THE PROJECT. THINK ABOUT IT AS SORT OF PROJECT OVERHEAD IN THE FIELD. WHY THAT'S VERY IMPORTANT IS THAT CLARK SUBMITTED A VOLUME OF INFORMATION AS REQUESTED, AND NOT ONLY TO US AS PART OF THE AUDIT, BUT DURING THE COURSE OF THE PROJECT IN TERMS OF PAY APPLICATIONS AND THE DOCUMENTATION THAT THEY SUBMITTED- AFTER OUR REVIEW, WE FOUND THAT THEIR OVERAGE IN ACTUAL COST INCURRED WAS SIGNIFICANTLY HIGHER THAN THE GUARANTEED MAXIMUM PRICE, AND THEY'RE NOT ALLOWED TO CHARGE ANY HIGHER THAN THE GUARANTEED MAXIMUM PRICE. THIS SHAPES THE WAY WE APPROACH AN AUDIT. THE OVERAGE WAS A GREAT ENOUGH AMOUNT THAT WE DETERMINED TO REVIEW SOME OF THE SMALLER ITEM COST, LIKE, SAY, SOME OF THOSE FIELD COST, LIKE TRAILERS AND THINGS OF THAT NATURE, JUST WAS NOT AN EFFECTIVE USE OF TIME. NO MATTER HOW MANY DOLLARS WE FOUND IN MISTAKES, WE WEREN'T GOING TO FIND A VOLUME THAT WOULD BE EQUAL TO THEIR OVERAGE. BUT WHAT WE DID DO IS WHERE WE REALLY FOCUS OUR EFFORT IS ONE OF THE NUANCES OF THIS CONTRACT. THIS PARTICULAR CONTRACT IS IT HAS A GROUP OF DOLLARS THAT ARE CALLED ALLOWANCES. NOW, MOST CONTRACTS DO HAVE AN ALLOWANCE OF SOME SORT. IN THIS CASE, THIS CONTRACT HAD A STARTING ALLOWANCE, WELL, ALLOWANCES AND CONTINGENCIES, THAT EQUALED APPROXIMATELY 108,000,000. AND THEN THERE WAS SOME ADDITIONAL CHANGE ORDERS THAT BROUGHT IT FINALLY TO 115,000,000. THE RELEVANCE IS THAT THE NATURE OF ALLOWANCES WITHIN THIS



STYLE OF CONTRACT IS THAT IF THE PORT OR IF THE PROJECT TO BE MORE SPECIFICALLY INCURS LESS THAN THE ALLOWANCE VALUE. IT IS A REDUCTION TO THAT GMP. IF THEY SPEND MORE, IT IS AN INCREASE TO THE GMP, AND THE ALLOWANCE IS MEANT FOR SPECIFIC- THE BEST WAY TO PUT IT IS KNOWN UNKNOWNNS. WE KNOW WE'LL SPEND THE MONEY. WE DON'T EXACTLY KNOW HOW WE'LL SPEND IT OR EXACTLY ON WHAT. SO GIVEN THE NATURE OF HOW THIS PROJECT WAS EXECUTED, THAT WAS A DECISION MADE A LONG TIME AGO. AS A RESULT, AS WE REVIEWED THE ALLOWANCES, WE DID HAVE FINDINGS THAT ULTIMATELY DEMONSTRATE THAT LESS MONEY WAS ASSIGNED TO THOSE ALLOWANCES THAN THE TOTAL VALUE OF THE ALLOWANCES. THEREFORE, THE GMP SHOULD BE LOWERED BY WHATEVER REMAINING VALUE THAT IS. AND THAT'S LARGELY WHERE OUR AUDIT FOCUSES. I WANT TO MAKE THAT CRYSTAL CLEAR BECAUSE IT DOES MAKE A DIFFERENCE IN HOW WE TALK ABOUT THINGS, AND WE'LL TALK A LOT ABOUT CHANGE ORDERS AND COMMITMENTS TO SUBCONTRACTORS. SO WITH THAT, I'M GOING TO LET VALERIE WALK US THROUGH A LITTLE MORE DETAIL.

GOOD AFTERNOON. I'M GOING TO START WITH THE AUDIT LIMITATIONS, JUST TO LAY OUT REALLY QUICKLY THAT THERE ARE A COUPLE OF NOT TO EXCEED GENERAL CONDITIONS I'M SORRY, CHANGE ORDERS THAT WEREN'T RECONCILED AS OF THE AUDIT. SO THERE ARE SOME OPEN ITEMS THAT WILL IMPACT THE CONTRACT VALUE THAT WE WERE NOT ABLE TO LOOK AT AT THAT TIME. JUST BASED ON CLARK'S ACCOUNTING, I BELIEVE, NOT BEING COMPLETE. AND WHEN WE WERE GOING THROUGH THE AUDIT AND LOOKING AT THE SUBCONTRACT CHANGE ORDERS, WHICH THE PORT OF THE DETAILS SUBMITTED FOR THE PORT WORK AUTHORIZATIONS, WE DID NOTICE THAT THERE WERE A LOT OF EXAMPLES WHERE THE BACKUP WAS NOT DETAILED. SO CLARK WASN'T GATHERING TO SUBMIT TO THE PORT, REALLY DETAILED BACKUP TO SHOW THE PORT WHAT THEY'RE ASKING FOR, FOR THESE CHANGE ORDERS OR WORK AUTHORIZATION. AND IF I MAY, JUST TO ENHANCE THAT POINT, WE DID HAVE ACCESS TO BOTH THE PORT RECORDS AND THE CLARK'S RECORDS. CLARK DID GRANT THE PORT ACCESS TO DETAILED FILES ON THEIR OWN SOFTWARE SYSTEM. SO WE WERE ABLE TO LOOK NOT JUST AT WHAT THEY SUBMITTED TO THE PORT, BUT WHAT THEY ACTUALLY ASKED FOR AND RECORDED FROM THE SUBCONTRACTORS. PLEASE, GO AHEAD. THANK YOU. I JUST HAVE A CLARIFYING QUESTION. YOU SAID THE ACCOUNTS WEREN'T COMPLETED WITH THE CHANGE ORDER. DO YOU MEAN, IS THAT BECAUSE THEY HAVE SOME OUTSTANDING WORK

THAT THEY'RE STILL DOING, OR IS THAT THE ACCOUNTS ARE NOT COMPLETED BECAUSE THERE'S JUST NOT ENOUGH INFORMATION THAT YOU GUYS NEEDED? OUR UNDERSTANDING WAS FROM CLARK YOU CAN CORRECT ME IF I'M WRONG, THAT THE ACCOUNTING WAS NOT COMPLETE. SO I DON'T BELIEVE THEY HAD RECORDED ALL OF THEIR COSTS OR THEY DIDN'T HAVE IT ORGANIZED TO SUBMIT TO THE PORT IN ORDER TO RECONCILE THE NOT TO EXCEED CHANGE ORDERS. CORRECT. THIS WAS KNOWN BY THE PORT, BY THE PORT CONSTRUCTION GROUP OR FACILITIES GROUP, WHATEVER THE RIGHT TERM IS. EXCUSE ME, BUT IT WAS KNOWN BY THEM AND IT WAS DISCLOSED TO US THAT WAS IN PROCESS. SO NOT A FINDING PER SE THAT WE FOUND SOMETHING THAT WASN'T DISCLOSED. IT WAS FULLY KNOWN, AND I'M UNAWARE OF IT, THAT'S BEEN RECONCILED AS OF THIS DATE. BUT AS OF THE DATE OF OUR AUDIT REPORT, IT HAD NOT BEEN RECONCILED, BUT WAS PLANNED TO BE. YEAH, WE WANTED TO LET YOU KNOW THAT THERE ARE LIMITATIONS ON SOME OF THE THINGS THAT WE LOOKED AT THAT WE WOULD HAVE NORMALLY LOOKED AT IN THE COURSE OF THIS TYPE OF REVIEW. DOES THAT ANSWER YOUR QUESTION? OKAY, PERFECT. SO THE LACK OF SUPPORT THAT CLARK SUBMITTED ALSO KIND OF LIMITS WHAT THE PORT CAN SEE WHEN THEY'RE LOOKING TO APPROVE THINGS. SO THAT WAS SOMETHING WE DID NOTE. AND JUST TO GIVE YOU AN EXAMPLE OF THAT IS OUT OF ALL OF THE CHANGE ORDERS, THE SUBCONTRACT CHANGE ORDERS THAT WE SAMPLED TO REVIEW FOR LABOR RATES AND THINGS, ONLY 13% OF THEM WERE SUPPORTED WITH ADEQUATE DETAIL. AND THAT WAS BOTH USING CLARK'S OWN RECORDS AND WHAT THEY SUBMITTED TO THE PORT. SO JAKE ALREADY TOUCHED ON THE RECORDED COSTS BEING HIGHER. AND SO I'LL SKIP OVER THAT AND IF WE COULD GO TO THE NEXT SLIDE, THAT WOULD BE FANTASTIC. SO AGAIN, THIS WILL KIND OF GO TO THE SUPPORTING DOCUMENTATION THAT WAS NOT COMPLETE. WE DID REVIEW A LARGE SAMPLE OF ITEMS TO GET GOOD COVERAGE ON THE SUBCONTRACTOR CHANGE ORDERS SPECIFIC TO LABOR AND LABOR BURDEN CHARGES THAT WERE IN THE CHANGE ORDERS SPECIFIC TO THE ALLOWANCE USAGES AND THE CONTINGENCY. SO WE WERE LOOKING AT THAT SPECIFIC POPULATION THAT JAKE WAS DISCUSSING. AND WHEN WE DID REVIEW THIS, THE FIVE, I BELIEVE IT WAS FIVE OR SIX TOP SUBCONTRACTORS WITH LARGE CHANGE ORDERS, WE WERE ABLE TO LOOK AT EVERYTHING, ANALYZE THE DATA WE HAD, WHICH AGAIN WAS 13% OF THE SAMPLE, AND DETERMINED THAT THERE WERE OVERCHARGES IN THE LABOR RATES ESTIMATED TO BE BETWEEN FOUR AND A

AND WE DID DO A RANGE  
BECAUSE OUR SAMPLE WAS REALLY LIMITED.  
SO WE WANTED TO NOT JUST PRESENT THE TOP  
VALUE, BUT TRY TO BE REALISTIC IN OUR  
REPRESENTATION OF THE ERRORS.  
THESE ERRORS, WHEN YOU'RE LOOKING AT THE  
ALLOWANCE POPULATION, ARE A LOT HIGHER  
THAN IF YOU LOOK AT THE JOB AS A WHOLE,  
BUT THEY WOULD APPLY TO THE REST OF THE  
GMP. I BELIEVE THE ALLOWANCE SUBCONTRACT  
POPULATION WAS A LITTLE UNDER HALF OF  
THE TOTAL SUBCONTRACT CHANGE ORDERS  
ISSUED ON THE JOB. SO A MAJORITY  
OF THOSE RATE VARIANCES ARE COMING FROM  
NOT LIMITING THE TAXES PER THE  
STATUTORY LIMITATIONS AND INCLUSION OF  
THINGS THAT WEREN'T SUPPORTED BY THE  
SUBCONTRACTOR. AND AN EXAMPLE OF THAT  
WOULD BE ONE OF THE RATES REQUESTED \$10  
AN HOUR FOR SAFETY FOR EVERY POSITION ON  
THE JOB. THAT WOULD BE FOR EVERY HOUR  
WORKED. AND THAT'S FROM OUR EXPERIENCE,  
THAT IS EXTREMELY HIGH FOR A SAFETY  
CHARGE. SO IT WAS GOING THROUGH AND  
LOOKING AT THE DETAIL OF THE RATES THAT  
WERE PROVIDED AND THAT THEY WERE  
APPLYING THOSE RATES TO THE JOB. SO  
THAT'S KIND OF THE HIGH LEVEL OF THIS.  
IF WE CAN GO TO THE NEXT SLIDE, THERE'S  
AN IMPORTANT CONSIDERATION HERE. SO WE  
SAMPLED AND SAMPLING COMES WITH ITS OWN  
LIMITATIONS. OF COURSE, WHEN WE TALK  
ABOUT LABOR RATES, THE TRICKY PART IS  
THAT NOT BEING ABLE TO BREAK OUT LABOR  
RATES FROM EVERY CHANGE WE LOOKED AT AND  
NOT BEING ABLE TO LOOK AT THE DETAIL OF  
EVERY LABOR RATE DOES CREATE ITS OWN  
LIMITATIONS. SO, BASED ON EXPERIENCE,  
WE'RE SMART ENOUGH TO KNOW THAT NOT  
EVERY CHANGE HAS THE SAME RATIO OF  
LABOR. NOT EVERY LABOR RATE HAS THE SAME  
RATIO OF ERROR. SO WE CREATED THIS  
MATRIX THAT YOU HAVE ACCESS TO TO GIVE  
US SORT OF A HIGH AND LOW LIMIT. BASED  
ON OUR OBSERVATIONS AND WHERE OUR  
ANALYSIS CAME TO IS ABOUT THE YELLOW  
NUMBERS IN THE MIDDLE. IF WE JUST APPLY  
OUR FINDINGS GLOBALLY TO ALL  
OF THE ALLOWANCE SUBCONTRACT CHANGES,  
WE'RE IN THIS RANGE. WE'RE IN THIS FIVE  
TO \$6 MILLION WORTH OF FINDING RANGE.  
OUR ESTIMATE IS THAT SORT OF BEST CASE  
SCENARIO, THAT THOSE RATIOS ARE A LITTLE  
OVERSTATED. THERE'S STILL ABOUT A FOUR  
AND A HALF MILLION DOLLAR FINDING HERE.  
AND ON THE OTHER SIDE, SHOULD THE ERRORS  
REALLY PROPAGATE EVEN MORE THAN WE FOUND  
IN THE SAMPLES, THAT THAT POSSIBLE  
FINDING IS UP TO ABOUT NINE POINT WHAT  
IS IT, 9.2 MILLION. SO THE THE PURPOSE  
OF THIS MATRIX, JUST FOR EVERYBODY'S  
CLARIFICATION, IS TO DEMONSTRATE THAT WE  
DO UNDERSTAND YOU CANNOT SIMPLY APPLY A

STRAIGHT PERCENTAGE OF FINDINGS TO EVERYTHING. IT'S NOT QUITE THAT EASY. AND THIS IS A DEMONSTRATION TO BE FAIR AND EQUITABLE AS PART OF THE AUDIT AND OBJECTIVE. SO VALERIE, IF YOU WANT TO KEEP MOVING ON. PERFECT. CAN WE GET THE NEXT SLIDE, PLEASE? THE REST OF THE OBSERVATIONS THAT WE ARE GOING TO GO OVER ON A HIGH LEVEL FOR YOU TO AVOID ALL THE DETAIL. OBSERVATIONS TWO THROUGH SEVEN ARE REALLY A REDUCTION OF THE GMP OR MOVING THE FUNDS BACK TO AN ALLOWANCE THAT THE PORT WOULD BE ABLE TO UTILIZE, AGAIN REDUCING THE GMP. SO THE AUDIT DID A RECONCILIATION OF ALLOWANCES. AGAIN, THIS IS AT THE TIME OF THE AUDIT, WHICH WAS THROUGH AUGUST 31, AND WE WERE SHOWING AT THAT POINT IN TIME, THE PORT TOTAL THAT WOULD BE COMING BACK WOULD BE ABOUT TWO POINT, TWO POINT THREE MILLION DOLLARS. THAT IS SUBJECT TO CHANGE, OBVIOUSLY, BECAUSE THINGS CAN GET UTILIZED TOWARD THE END OF THE JOB. THEY WERE NOT 100% COMPLETE. I BELIEVE IT WAS 92%, SOMETHING LIKE THAT. AND SO THAT WAS JUST A RECONCILIATION. BASED ON THE RECORDS, THE COST RECORDS, THAT WE WERE ABLE TO TRACE THINGS BACK AND JUST LOOK AT THINGS SAYING, HEY, AT THE END OF THE DAY, WE EXPECT THERE TO BE ABOUT TWO AND A HALF OR I'M SORRY, 2.2, 2.3 MILLION IN RETURNED ALLOWANCES. THE ALLOWANCE CREDITS THAT WE REVIEWED, WE COMPARED THE WORK AUTHORIZATION RECORDS THE AUTHORIZATION BASICALLY BY THE PORT, REGARDLESS OF THE FORM TO THE CLARK ISSUE NUMBERS AND SUBCONTRACTOR CHANGE ORDERS. AND WE WERE NOT ABLE TO TRACE ALLOWANCE CREDITS OR MONEY BACK TO THE PORT ALLOWANCES. AND ABOUT 521,000, \$522,000. AND TO BE CLEAR, THERE ARE MANY THAT WE COULD TRACE, SO IT'S NOT A FUNCTION OF WE JUST SIMPLY COULDN'T FIND ANY. IT'S IMPORTANT TO UNDERSTAND THAT CLARK WAS ABLE TO DEMONSTRATE THAT A GREAT NUMBER OF THOSE CREDITS THEY APPLIED APPROPRIATELY AND CORRECTLY, WHICH GAVE US JUSTIFICATION THAT THE ONES WE COULD NOT IDENTIFY AND WE COULD NOT TRACE WERE TRUE FINDINGS. GOOD, VALERIE. AND THEN WE ACTUALLY HAD A CLARK RECORDED. IT WAS A REQUESTED REIMBURSEMENT FROM VALLEY ELECTRIC FOR SICK TIME THAT WAS ENACTED IN THE STATE AT TWO AND A HALF PERCENT IN 2018. AND THEN BEGINNING IN 2019, THE PAID FAMILY MEDICAL LEAVE THAT VALLEY ELECTRIC STATED THEY HAD NOT BEEN PAID OR COMPENSATED FOR. HOWEVER, THE SUPPORT WAS NOT ADEQUATE. IT WAS SHOWING SUPPORT FOR DIFFERENT YEARS AND

THINGS. SO WE WEREN'T ABLE TO TRACE THAT BACK. AND IT DID APPEAR TO HAVE DUPLICATE COSTS, BECAUSE THOSE COSTS WERE CAPTURED IN THE RATES THAT WE WERE PROVIDED BY THAT THE PORT WAS PROVIDED AS WELL AND USED BY VALLEY ELECTRIC AS OUR UNDERSTANDING. SO IF THAT'S THE CASE, THAT WOULD HAVE BEEN A DUPLICATE OF THINGS THEY WERE ALREADY COMPENSATED FOR. AND THEN WE HAD WORK AUTHORIZATION AMOUNTS, AND THOSE ARE PORT WORK AUTHORIZATIONS THAT DID NOT RECONCILE TO THE CLARK ISSUES. SO THE PORT TRACKS THE PORT ISSUES AND CLARK TRACKS THE PARK, AND WE MARRIED THEM UP. AND THERE WERE DOLLAR AMOUNTS THAT JUST DID NOT RECONCILE. THERE WERE, AGAIN, AS JAKE SAID, SEVERAL THAT DID. SO IN THIS POPULATION, WE WERE ABLE TO RECONCILE A GREAT DEAL OF THINGS, BUT ON 273,000, WE WEREN'T ABLE TO RECONCILE THOSE AMOUNTS. THEY VARIED. TAKE IT THE NEXT SLIDE, PLEASE. THEN THERE WAS A CONTINGENCY USAGE THAT WE DID QUESTION. CLARK UTILIZED FUNDS FOR WHAT THEY SELF TITLED FURNITURE, NOT TO BE REIMBURSED BY THE OWNER. HOWEVER, THE OWNER OF THE PORT DID PROVIDE FURNITURE, AND THAT WAS A CONTRACTUALLY NON REIMBURSABLE CHARGE. SINCE IT WAS A CONTINGENCY USAGE. WE DID NOTE THAT AS AN OBSERVATION, IT WAS \$221,000 THAT SHOULD GO TO A PORT ALLOWANCE OR GO BACK TO THE PORT, EVEN IF IT'S GOING BACK TO CLARK IN THEIR CONTINGENCY FUND. IT JUST SHOULDN'T BE EXPENDED IN THAT MANNER. AND LAST BUT NOT LEAST, WE DID HAVE ALLOWANCE USAGES THAT WE COULDN'T TRACE TO SUBCONTRACT CHANGE ORDERS. THAT WAS ABOUT \$130,000. SO, LOOKING AT EVERYTHING THAT WE WERE ABLE TO IDENTIFY, THE POTENTIAL GMP ADJUSTMENT OR REDUCTIONS RANGES BECAUSE OF THAT LABOR RANGE FROM EIGHT POINT THREE TO TWELVE POINT NINE MILLION DOLLARS. AND THAT IS OUT OF JUST THE ALLOWANCE POPULATION. ALLOWANCE CONTINGENCY TECHNICALLY, WE DID SEND THESE ISSUES TO CLARK AS WELL, THROUGH INTERNAL AUDIT, AND THEY- NO, ACTUALLY YOU SENT THEM WITH INTERNAL AUDIT AND THEY HAD NOT RESPONDED AS OF TODAY. THAT IS CORRECT. AND THEN THE NEXT SLIDE, PLEASE. YES. SO ONE OF THE THINGS THAT WE WERE ASKED TO DO IS CONFIRM THE LIQUIDATED DAMAGE VALUE. THERE IS A LIQUIDATED DAMAGE CLAUSE IN THE CONTRACT. AND TO BE CLEAR, WHAT THE LIQUID DATA DAMAGE CLAUSE IS THERE TO DO IS TO RECOVER POTENTIAL MONEY THAT THE PORT LOST AS A RESULT OF THE OVERAGE IN TIME. I

SAY THIS BECAUSE IT'S VERY IMPORTANT THAT THIS IS NOT A PENALTY. IT IS A LIQUIDATED DAMAGE. THEY'RE TWO VERY DIFFERENT THINGS. BUT IN OUR CALCULATION, BASED ON WHAT WE KNEW ABOUT THE MILESTONES, AND WE CONFIRMED THESE DATES WITH THE PORT AND EVERYTHING ELSE WE KNEW, BASED ON THE CONTRACTUAL VALUES FOR EACH TYPE OF LIQUIDATED DAMAGE THEY'RE CURRENTLY ESTIMATED AT, I BELIEVE IT'S \$17 MILLION THAT THEY WOULD HAVE TO EITHER NOT CHARGE YOU OR GIVE YOU BACK THOSE FUNDS.

NEXT SLIDE, PLEASE. DO YOU HAVE A QUESTION? NEXT SLIDE, PLEASE. IT'S JUST A SUMMARY. YOU CAN GO AHEAD.

SORRY, GO AHEAD. I APOLOGIZE. THIS IS JUST A SUMMARY, KIND OF, OF WHERE WE STARTED WITH THE CURRENT GMP THROUGH CHANGE ORDER 66 AS OF THE DATE OF THE AUDIT. AND YOU CAN SEE WE'RE WALKING THROUGH THE ITEMS WE DISCUSSED THAT WOULD BE GMP REDUCTIONS. AND WE APPLIED THE PERCENTAGE BASE CHARGES FOR INSURANCES AND FEE AND JUST ARE SHOWING AN AFTER AUDIT, BASICALLY GMP VALUE. SO WE HAVE SOME RECOMMENDATIONS AS WELL. THAT'S PART OF THE SLIDE PRESENTATION. IT'S ON THE NEXT SLIDE. BUT I DO WANT TO TAKE A PAUSE AND GIVE YOU AN OPPORTUNITY TO ASK QUESTIONS ON THE SPECIFICS OF THESE FINDINGS BEFORE WE GET INTO THAT.

ANY QUESTIONS? YES, GO AHEAD.

HI, THANKS FOR GOING THROUGH THIS. I THINK THE ONE THAT I REALLY WANT TO TALK ABOUT IS THE ADEQUATE SUPPORT ONE. SO KIND OF THE FIRST ONE. SURE.

I GUESS ONE THING, I GUESS THIS IS FOR PORT STAFF THAT I'M CONCERNED WITH IS WE STARTED TALKING ABOUT THIS AND NOTED THIS BACK IN 2018 FROM WHAT SPENCER TALKED ABOUT. AND HERE WE ARE NOW WITH YOU GUYS DOING AN AUDIT IN CURRENT TIME. AND WE HAVE THE SAME ISSUE WHERE WE'RE APPROVING AND PAYING OUT MONEY BASED ON CHANGE ORDERS THAT DON'T HAVE ADEQUATE SUPPORT. LIKE, I UNDERSTAND YOU GUYS ARE GOING THROUGH AND LOOKING AT THE SUPPORT, BUT WHAT I DON'T UNDERSTAND IS HOW OUR STAFF IS NOT DOING WHAT YOU GUYS WERE DOING, WHICH IS LOOKING AT THE SUPPORT, MAKING SURE IT'S ADEQUATE. I MEAN, WHAT YOU'RE LOOKING AT SHOULD BE THE SAME CHECKS THAT WE'RE ALREADY DOING INTERNALLY THAT SHOULD HAVE BEEN CAUGHT LONG BEFORE WE EVER CUT A CHECK. I MEAN, NOW WE'RE KIND OF HAVING TO COME BACK AFTER THE FACT AND GO BACK AND GO THROUGH WHATEVER MECHANISMS WE'RE GOING TO HAVE TO GO THROUGH TO TRY AND RECONCILE THIS NOW WHEN WE COULD HAVE STOPPED IT BEFORE WE EVER EVEN PAID

THIS. SO IT'S SOMETHING WE WERE MADE AWARE OF AND NO IMPROVEMENTS WERE MADE. AND NOW WE'VE CONTINUED TO PAY OUT WITH PAYMENTS AND CHANGE ORDERS THAT DON'T HAVE APPROPRIATE SUPPORT. THAT'S UNACCEPTABLE. WE SHOULD BE RECONCILING WHAT WE'RE PAYING OUT TO SUPPORT THAT'S INCLUDED WITH THE PAYMENT, OR WE WON'T PAY IT OUT. I GUESS I JUST DON'T UNDERSTAND WHAT THE DISCONNECT IS THERE. YES, WELL, WE'VE GOT SOME PEOPLE SUPPORT MANAGEMENT THAT CAN POTENTIALLY RESPOND TO THIS OR MAKE A COMMENT. JANICE, DO YOU WANT TO TAKE A STAB? OR IF I MAY REALLY QUICK, I'M APOLOGIES. VALERIE NEEDS TO EXIT TO BE ABLE TO CATCH A PLANE, SO I'LL CONTINUE TO ANSWER THE QUESTIONS. AND IF YOU DON'T MIND, WE'RE GOING TO- ONLY IF IT'S SOMEWHERE GOOD, LIKE MEXICO OR SOMETHING. I WISH I WAS GOING ON VACATION, BUT I'M NOT GOING ON VACATION. I WAS ACTUALLY ON AN AUDIT AND FLEW OUT TO DO THIS MEETING. AND I'M FLYING BACK BECAUSE I HAVE A MEETING TOMORROW MORNING FOR THAT AUDIT. SO IT'S NOTHING FUN. YOU'RE NOT MISSING ANYTHING. CAN I KEEP THIS? YEAH. THANKS. THANK YOU. THANK YOU. SAFE TRAVELS. I WILL ATTEMPT TO DO JUSTICE TO ALL HER WORKING. DO YOU WANT TO ANSWER THE QUESTION NOW OR HAVE PORT MANAGEMENT COME UP? WHATEVER IS APPROPRIATE TO ANSWER. I'LL TELL YOU AS AN OPINION THAT THIS IS A VERY LARGE AND VERY COMPLEX PROJECT. AND CERTAINLY THERE'S A LOT OF CASES WHERE WE WOULD HAVE LOVED TO HAVE MORE DETAIL. WE AS THE AUDITORS, CAN'T KNOW WHAT DECISIONS WERE MADE AND WHY THEY WERE MADE MOVING FORWARD. THERE MAY BE SOME CRITICAL ITEMS THAT JUST TO KEEP THINGS MOVING FOR VARIOUS REASONS HAD TO BE MADE. SO WE'RE ALWAYS VERY RESPECTFUL OF THE EFFORT THAT IT TAKES TO GET THESE PROJECTS DONE. THAT DOES NOT DIMINISH THE NEED FOR DILIGENCE OR RESPONSIBILITY. THAT RESPONSIBILITY, IN MY OPINION, IS LARGELY ON CLARK AND ALSO YOUR PROGRAM MANAGER. THOSE FOLKS HAVE A RESPONSIBILITY TO PROVIDE THE INFORMATION AND IT DOES COME DOWN TO A FUNCTION OF RESOURCE. THEY HAVE THE RESOURCES TO PROVIDE THE INFORMATION. I CAN'T SPEAK TO IF THE PORT HAS ENOUGH RESOURCES OR NOT. I DON'T KNOW THAT. BUT I WILL SAY THAT ON A PROJECT OF THIS SIZE AND COMPLEXITY, IT IS VERY CHALLENGING TO KEEP UP WITH ALL OF THAT DATA AS WELL AS TO KEEP THE SUBCONTRACTORS PAID IN A TIMELY MANNER, WHICH IS UNDOUBTEDLY

IMPORTANT THAT YOUR LOCAL BUSINESSES ARE PAID AND THEIR CASH FLOW IS WHOLE. SO I SAY THAT NOT AS A DEFENSE OF ANY ACTIONS, BUT JUST TO SHED SOME LIGHT ON WHY THINGS MAY HAPPEN. JAKE, WOULD IT BE AECOM, WHICH BE THE PROGRAM MANAGER, TO MY KNOWLEDGE CORRECT. WOULD BE HANDLING A LOT OF THIS RIGHT. AND THEN IT LOOKS LIKE JANE IS ON FROM CONSTRUCTION MANAGEMENT. IS THIS ON? THERE WE GO. WELL, SINCE DAVE SOIKI IS IN THE PHILIPPINES, I'M GOING TO TRY TO STAND IN HIS STEAD. I THINK THAT IT'S. WE HAVE KNOWN FOR SOME TIME THAT THIS IS A VERY COMPLEX PROJECT, AND WE'VE HAD SOME CHALLENGES GETTING PROPER RECORDS FROM THE CONTRACTOR. AND AS OUR EXTERNAL AUDITOR SAYS, ONE OF THE THINGS WE WANT TO MAKE SURE WE DO IS ENSURE THAT THE WORK CONTINUES AND THAT SUBCONTRACTORS ARE BEING PAID AND THAT THEY'RE NOT BEING PENALIZED IF THE GENERAL CONTRACTOR IS LESS THAN STELLAR IN THEIR PAPERWORK. SO WE HAVE ALSO ELEVATED THIS PROJECT ALL THE WAY TO THE PRESIDENT OF THE COMPANY THAT DAVE SOIKI HAS WORKED WITH TO MAKE SURE THAT THEY'RE WELL AWARE OF ANY CHALLENGES AND DEFICIENCIES THAT THEY HAVE RELATED TO THIS PROJECT. AND SO I KNOW THAT IT HAS BEEN ELEVATED TO THE HIGHEST LEVEL WITH THE CONTRACTOR. SO SOME OF THE THINGS THAT YOU HAVE NOTED ARE NOT NEW TO US AND HAS ACTUALLY BEEN ELEVATED TO THE HIGHEST LEVELS. ALL RIGHT, THANK YOU. I AGREE WITH THOSE SENTIMENTS. HOWEVER, THAT WAY, I THINK PERHAPS WE SHOULD LOOK AT WHETHER OR NOT AND I THINK A GOOD POINT WAS BROUGHT UP THAT DO WE HAVE ENOUGH MANPOWER WITHIN THE PORT TO MAKE SURE THAT WE'RE KEEPING TRACK OF THESE THINGS IN A WAY THAT THERE'S ACCOUNTABILITY. I TOTALLY UNDERSTAND WE WANT SUBCONTRACTORS TO BE PAID AND WE DON'T WANT ANY HOLD UPS. BUT AT THE SAME TIME, I THINK IN INSTANCES WHERE INVOICES ARE NOT JUSTIFIED, I DON'T THINK WE SHOULD BE FULFILLING MAKING PAYOUTS WITHOUT CONFIRMING THAT THEY'RE RIGHT. SO I CAN SEE BOTH SIDES, AND I WOULD LOVE FOR US TO TRY AND REVISIT SOME OF OUR STANDARD OPERATING PROCEDURES TO MAKE SURE THAT WE'RE COVERED. IF I MAY, I'D LIKE TO ADD ONE OF THE CHALLENGES IN THE STATEMENT THAT YOU JUST MADE IS THAT WHAT'S HAPPENING IS THE CONSTRUCTION MANAGER SUBMITS A CHANGE ORDER, AND THAT CHANGE ORDER MODIFIES THEIR CONTRACT. SO WHEN THE SUBCONTRACTOR SUBMITS AN INVOICE, THEY MAY OR MAY NOT HAVE THAT SPECIFIC CHANGE ORDER BROKEN OUT. THEY MAY NOT HAVE IT BROKEN OUT WITH THE DETAIL. SO



WHEN WE SEE MONTHLY, WE SEE THEIR INVOICES, THEY ARE A LOT MORE GLOBAL FOR A BUNCH OF WORK THAT HAS HAPPENED OVER, IN THEORY, 30 DAYS, WHICH MAY INCLUDE ALL, SOME OR NONE OF ANY GIVEN CHANGE ORDER. SO MARRYING INVOICES TO AN EXACT CHANGE IS EXTREMELY DIFFICULT, ESPECIALLY IF THE CONTRACTOR AND THE SUBCONTRACTORS DON'T BREAK THEM OUT THAT WAY. AND QUITE FRANKLY, IN THE INDUSTRY, VERY FEW OF THEM ISOLATE A CHANGE SPECIFICALLY ON INVOICE, ESPECIALLY ON A PROJECT LIKE THIS. ON A SMALLER PROJECT, MAYBE, BUT ON A PROJECT LIKE THIS, IT'S A LITTLE HARDER.

WE STILL HOLD THE CARDS AND THAT WE MAKE THE PAYMENT SO WE CAN MAKE THE TERMS. WE CAN TELL THEM HOW WE WANT THEIR INVOICE TO LOOK AND HOW THEY NEED TO BREAK IT OUT. AND IF WE'RE NOT SURE AND CAN'T TRACK INTO IT WHAT WE NEED, OR WE NEED YOU TO BREAK OUT THE CHANGE ORDERS WHEN YOU SEND IN YOUR PAY APPLICATIONS FOR US TO TRACK BACK TO THIS. I MEAN, I THINK THAT'S A PERFECTLY NORMAL REQUEST, BUT ONCE WE SEND OUT PAYMENT, WE'VE LOST OUR LEVERAGE. I MEAN, WE JUST HAVE THAT'S THE FACTS, AND I AGREE.

LIKE, THIS IS OBVIOUSLY A MASSIVE PROJECT. THERE'S A LOT OF DOLLARS FLOWING THROUGH. THERE'S A LOT OF DIFFERENT CALCULATIONS IN HERE. BUT IF WE'RE GOING TO TAKE ON AND OWN A PROJECT LIKE THIS, THEN WE NEED TO HAVE PROPER PERSONNEL, PROPER RESOURCES, AND PROPER KNOWLEDGE TO BE ABLE TO RECALCULATE THESE PAY APPLICATIONS, TO LOOK AT SUPPORT FOR THESE CHANGE ORDERS. I MEAN, THAT'S PART OF WHAT WE'RE SIGNING UP FOR. IF WE'RE GOING TO TAKE ON A PROJECT LIKE THIS, WE'RE ENDING UP IN A PLACE WHERE NOW WE'VE ALREADY PAID OUT, AND WE'RE TRYING TO FIGURE OUT WHAT IS THE DOLLAR AMOUNT AND WHAT CAN WE EVEN GET BACK? I MEAN, THIS IS MILLIONS OF DOLLARS THAT MAY OR MAY NOT EVER COME BACK BECAUSE WE'VE ALREADY MADE THE PAYMENT. SO THE DILIGENCE UPFRONT IS JUST VERY NON NEGOTIABLE. WE CAN'T NOT DO IT BECAUSE YOU END UP IN A SITUATION LIKE THIS WHERE YOU MAY OR MAY NOT EVER GET IT BACK. SO GREAT. WE HAVE THESE RESULTS. WE HAVE ALL THESE THINGS ON THIS ALLOWANCE ACCOUNT. WE'VE BEEN ABLE TO UPDATE THE AMOUNT OF OUR CONTRACT, BUT IT MAY OR MAY NOT MATTER BECAUSE WE MAY NOT BE ABLE TO GET IT BACK AGAIN. WE'VE ALREADY SENT THE PAYMENT, SO WE'VE ALREADY SHOWN WE WERE OKAY. AND IT'S ACCEPTABLE AT SOME LEVEL, AND THAT'S DISTURBING TO ME, ESPECIALLY BECAUSE WE WERE TOLD THIS IN 2018, THAT WE NEEDED TO BE BETTER

ABOUT IT. AND IT JUST DOESN'T SEEM LIKE WE ACTUALLY TOOK THE ACTION TO MAKE IT BETTER. BASED ON THESE NUMBERS WE'RE FINDING IN THE TABLE. NUMBER ONE. I JUST WANT TO MAKE SURE I'M UNDERSTANDING HOW THIS READS AND WHAT'S KIND OF HAPPENING HERE. LET'S SEE. DOES THIS HAVE A NUMBER? PAGE 24, I THINK, OF THE PRESENTATION OF THIS ONE.

OKAY, SURE. YEAH. OKAY, SO THE FIRST COLUMN IS THE SUBCONTRACTOR. THE NEXT COLUMN IS THE TOTAL CHANGE ORDERS FROM THAT SUBCONTRACTOR. THEY'RE THE TOTAL CHANGES THAT WE REVIEWED FROM THE SUBCONTRACTOR. BUT I THOUGHT THE NEXT COLUMN, LIKE, THE 3.7 MILLION OF THE NINE, IS WHAT YOU REVIEWED. WAIT, WE MUST BE LOOKING AT SOMETHING DIFFERENT. I'M LOOKING YEAH, I'M LOOKING AT THIS SCREEN. SO, LIKE, THE FIRST ONE, APOLLO OH, I APOLOGIZE. I WAS LOOKING AT THE TOTAL LINE. OKAY. SORRY ABOUT THAT. GOT IT. OKAY, SO I'M JUST TRYING TO UNDERSTAND. SO THERE WAS A TOTAL OF 9.7 MILLION WITH APOLLO. 3.7 IS WHAT WE REVIEWED. CORRECT. SO IT'S IMPORTANT TO UNDERSTAND WHY WE USE THE WORDS WE DID. IN APOLLO'S CASE, THERE'S 9.7 OF APOLLO CHANGES ASSIGNED TO AN ALLOWANCE OR CONTINGENCY USE. SO APOLLO HAD MORE CHANGES THAN THAT. BUT WITHIN THE CONTEXT OF HOW WE AUDITED- OUR AVAILABLE SAMPLING, WOULD IT BE 9.7 MILLION? WE WERE ABLE TO ACTUALLY REVIEW 3.7 MILLION BASED ON JUST AVAILABILITY OF DATA. SO DOES THAT MEAN THAT YOU WANTED TO LOOK AT ALL OF THE 9.7, BUT COULD ONLY LOOK AT 3.7 BASED ON THE DOCUMENTATION? GENERALLY, YES. WE TRIED TO GO THROUGH AS MANY AS WE COULD TO GET THAT SAMPLE SIZE AS BIG AS POSSIBLE AND FOUND IN MANY CASES, WE JUST DIDN'T HAVE THE BACKUP OR ENOUGH BACKUP. AND SO BECAUSE WE COULDN'T SEPARATE LABOR AND WE COULDN'T SEPARATE THE VALUES, WE REALLY DIDN'T CONSIDER THEM A SAMPLED ITEM, BUT THEY WERE ITEMS THAT WE WANTED TO LOOK AT. SO WE REALLY TRIED TO CONFINE THIS TO WHAT WE ACTUALLY LOOKED AT RATHER THAN HAVE NO DATA AS A NEGATIVE ANSWER. OKAY, WAIT, SO I MAY WANT TO MAKE SURE I'M FOLLOWING YOU. SURE. AT THE BOTTOM LINE, TOTAL HERE, IT SAYS WE LOOKED AT 15.85%. SO YOU'RE TELLING ME THAT OUT OF THE 48 MILLION, YOU COULD ONLY EVEN GATHER ENOUGH DOCUMENTATION TO EVEN EVALUATE 6.4 MILLION OF IT? IN THAT LEVEL OF DETAIL? CORRECT. OKAY, SO THE RECOMMENDATION WHERE WE TALK ABOUT WE NEED TO HAVE MORE LEVEL OF DETAIL, IS THAT REFERENCING TO THE GAP BETWEEN THE 6.4 AND THE 48 OR THE 6.4?

NO, THE GAP BETWEEN THE 6.4 AND THE 48.  
NOW, TO BE CLEAR, THERE IS SOME  
LEVEL OF BACKUP. THERE IS NOT, IN OUR  
OPINION, ENOUGH BACKUP FOR US TO  
ACTUALLY HAVE DONE MORE ANALYSIS WITH.  
SO I WANT TO BE CLEAR, I'M NOT SAYING  
THEY DIDN'T GIVE SOME LEVEL OF  
DOCUMENTATION, BUT THE DOCUMENTATION  
THEY GAVE JUST WASN'T ADEQUATE. RIGHT.  
SO THAT IMMEDIATELY SAYS TO ME THAT ONLY  
15% OF THESE EVEN HAVE ENOUGH  
DOCUMENTATION. WE SHOULD HAVE EVEN  
CONSIDERED PAYING BECAUSE IF  
THE AUDITORS CAN'T EVEN COME IN AND HAVE  
ENOUGH BACKUP TO EVEN THINK ABOUT  
RECONCILING TO TELL IF WE'VE USED THE  
RIGHT PERCENTAGES AT ALL, THEN THERE IS  
NO WAY WE SHOULD HAVE BEEN PAYING THAT.  
THAT'S A REALLY SMALL PERCENTAGE. I  
MEAN, WE ONLY HAD 15% THAT WE COULD EVEN  
LOOK AT TO EVEN DO THESE CALCULATIONS,  
WHICH WE FOUND ERRORS IN THE  
CALCULATIONS.  
CORRECT. SO WHEN WE LOOK AT OUR TOTAL,  
THEN WHEN YOU LOOK AT 8.3 TO 12.9,  
TELL ME HOW THIS GAP BETWEEN THE 6.4 AND  
THE 48 PLAYS INTO THAT. SURE. SO WHAT WE  
DID THERE IS WE TOOK ALL OF THE CHANGES  
IN THEIR ENTIRETY. WE HAVE A LIST OF  
EVERY SINGLE SUBCONTRACT CHANGE TO EVERY  
SINGLE SUBCONTRACTOR. AND WHAT WE DID IS  
WE APPLIED A RATIO OF OUR OBSERVED LABOR  
TO MATERIAL VALUES AND APPLIED THEM. SO  
THE KNOWN SUBS, WE APPLY THE RATIO, WE  
OBSERVE THOSE TO BE THE UNKNOWN SUBS.  
THERE'S A GREAT NUMBER OF SUBS THAT WERE  
SMALLER AND JUST WE'RE NOT GOING TO LOOK  
AT EVERY SINGLE ONE OF THOSE AS WELL.  
WE APPLIED THE RATIO BASED ON OUR  
OBSERVATION GLOBALLY, SO, LIKE AN  
AVERAGE RATIO. AND THEN FROM THERE,  
AGAIN, ON THE UNKNOWN, THE CHANGES WE  
COULD NOT REVIEW. WE DIDN'T HAVE ENOUGH  
BACKUP. WE APPLIED OUR ERROR RATE TO  
THAT ITEM. THAT'S WHY WE MADE THAT  
TABLE, THAT MATRIX TO CONTEMPLATE THE  
IDEA THAT NOT ALL ERRORS ARE EQUAL,  
THAT NOT ALL LABOR TO MATERIAL RATIOS  
ARE EQUAL. AND BASED ON OUR KNOWN  
EXPERIENCE IN THE INDUSTRY, WE KNOW THAT  
LABOR TYPICALLY MAKES UP BETWEEN A RANGE  
BETWEEN 35% TO 50% OF  
ANY CHANGE. SO WE BASE OUR MATRIX OFF OF  
THAT KNOWN RANGE AND WE LOOKED AT OUR  
ERROR RATE AND WE SAID, OKAY, IF WE GO  
SIDEWAYS, WE'RE AT X ERROR PLUS OR  
MINUS ON EITHER SIDE. NOW WE HAVE A  
MATRIX OF THE RANGE OF FINDINGS.  
AGAIN, THIS IS PUT IN PLACE MOSTLY  
BECAUSE WHEN WE TALK TO CONTRACTORS AND  
WE SAY WE HAVE THESE ERRORS, THEY SAY,  
WELL, WE CAN'T APPLY IT EQUALLY TO  
EVERYBODY, AND WE AGREE. SO WE PROVIDE

THIS TO DEMONSTRATE WE'RE LOOKING AT THIS OBJECTIVELY. WE UNDERSTAND IT'S NOT AS EASY AS JUST A FLAT ERROR PERCENTAGE TO EVERYBODY. SO I GUESS OBVIOUSLY THERE'S MORE IN TOTAL POTENTIAL ADJUSTMENT HERE BETWEEN THE 6.4 AND THE 48 THAN YOU HAVE LISTED HERE IN TOTAL. AND THAT'S BECAUSE YOU'RE ASSUMING ONLY THAT CERTAIN PERCENTAGE OF ERROR. BUT I GUESS MY QUESTION WOULD BE, SINCE THERE WASN'T ENOUGH DOCUMENTATION FOR YOU GUYS TO EVEN AUDIT IT AS FAR AS THESE PERCENTAGE SPLITS AND POTENTIAL ERROR SPLITS, IS THERE A CHANCE WE SHOULDN'T EVEN HAVE PAID THESE AT ALL? I GUESS WHY WASN'T THAT CONSIDERED AS POTENTIAL SAVINGS? LIKE, SHOULD THIS EVEN HAVE BEEN PAID TO BEGIN WITH? I THINK THAT'S A GREAT QUESTION, SOMETHING TO CONSIDER THAT AS AUDITORS, WE'RE NOT PRIVY TO BECAUSE WE'RE NOT PART OF THE DAILY ACTIVITIES OF THIS PROJECT. SO AS WE REVIEW THE WORK AUTHORIZATIONS AND WE REVIEW HOW CLARK SUBMITTED THE CHANGES, ONE OF THE THINGS THAT WE ARE AWARE OF IS THAT THE PORT IS LOOKING AT THE WORK IS ACTUALLY BEING DONE. THEY'RE OUT THERE, AND THAT'S PART OF THEIR DILIGENCE AND THEIR RESPONSIBILITY. SO IS THE WORK BEING DONE OR NOT BEING DONE? THE VOLUME OF ALLOWANCES ON THIS PROJECT, AND I'M TRYING TO SAY THIS IN A WAY THAT DOESN'T SOUND OVERLY ALARMING BUT IS REALLY BIG AND IS KIND OF ABNORMAL, BUT IT'S THE WAY THE WORK WAS EXECUTED. YOU COULD NOT HAVE GOTTEN THE FACILITY YOU GOT WITHOUT EXECUTING THESE CHANGES. SO WORK WAS BEING DONE AND WE DIDN'T RE-ESTIMATE EVERY ONE OF THESE CHANGES. I CAN'T TELL YOU THAT THEY WERE ALL ACCURATE OR NOT ACCURATE, BUT I CAN TELL YOU THAT THE MAGNITUDE OF DOLLARS BEING SPENT HERE IS PROBABLY IN THE RIGHT RANGE BECAUSE THAT'S WHAT YOU HAVE IN PLACE. SO ARE YOU OFF BY 100 MILLION? MOST LIKELY NOT. ARE YOU OFF BY THE RANGE WE PUT IN HERE? IN THE MILLIONS? YES. SO IT'S A GOOD QUESTION. THERE'S SOME PROCESS QUESTIONS IN THERE THAT I'M CERTAINLY NOT THE PERSON TO ANSWER. BUT SHOULD THESE CHANGES HAVE BEEN APPROVED WITHOUT THE BACKUP IN THE DETAIL? MAYBE BECAUSE OF THE TIMING, WHAT IT TOOK, WHAT WAS HAPPENING IN THE FIELD? AGAIN, WE'RE NOT PART OF THAT EXECUTION. ULTIMATELY SHOULD AT SOME POINT THEY HAVE BEEN RECONCILED WITH MORE DATA? YES. AND THEN HOW DOES THAT AFFECT PAYMENT? I MEAN, THAT, AGAIN, IS A PROCESS QUESTION. BUT I WANT TO BE CLEAR THAT BASED ON WHAT WE SEE,

THAT I DON'T BELIEVE THAT THERE ARE TENS OF MILLIONS OF CHANGES FOR WORK THAT NEVER HAPPENED. THERE'S WORK THAT HAPPENED. WHETHER IT WAS PERFECTLY SUPPORTED, I THINK IS THE PROBLEM THAT WE HAVE AND HOW AND WHAT WE OBSERVED AND THE TOTAL AMOUNT OF THAT ALLOWANCE. SO LIKE 108,000,000, I THINK IT WAS. THAT WAS JUST PART OF HOW THE CONTRACT WAS NEGOTIATED, RIGHT? THAT WAS LIKE BASICALLY A MAXIMUM ALLOWANCE AMOUNT WAS PUT INTO THE ORIGINAL CONTRACT. IS THAT CORRECT? WELL, THAT'S THE TRICKY PART. SO THE ALLOWANCE WAS PUT INTO THE CONTRACT AND IT'S MADE UP OF SEVERAL COMPONENTS. ONE IS A CONTINGENCY COMPONENT WHICH IS A LITTLE BIT DIFFERENT THAN THE OTHER COMPONENTS, BUT THE BULK OF IT ARE ALLOWANCES. WHY I SAY IT'S DIFFERENT, IS ALLOWANCES NATURALLY HAVE RISK ASSOCIATED WITH THEM, THEY ARE NOT CONFINED TO THE GMP IN THE SAME WAY EVERYTHING ELSE IS. SO IF YOU EXCEED THOSE ALLOWANCES, THEN THE GMP GOES UP BY THAT EXCESS. IF YOU DON'T SPEND THE FULL ALLOWANCES, THE GMP COMES DOWN BY THAT NUMBER. THE REASON I POINT THAT OUT IS THE RISK IS THAT CLARK REALLY DIDN'T HAVE A MAXIMUM FOR THOSE ALLOWANCES. I MEAN, WHEN YOU UP AGAINST THEM, IF THEY WERE FOR VERY REAL AND JUSTIFIABLE COSTS, THE PORT WOULD HAVE BEEN AT RISK TO HAVE TO PAY THAT OVERAGE. YEAH. OKAY, THANKS. ALL RIGHT, THANK YOU VERY MUCH. WE STILL HAVE THREE ITEMS TO GET THROUGH AND I THINK TECHNICALLY WE ONLY HAVE FIVE MINUTES. SO IF WE CAN GET THE CLIFF NOTES ON THE LAST THREE HERE, MAYBE QUICKLY OVERVIEW RECOMMENDATIONS. I MEAN, I'M GOING TO CUT TO THE CHASE ON THE RECOMMENDATION. I'M GOING TO MAKE IT REALLY EASY. THE RECOMMENDATION THERE ARE A LOT OF DILIGENCE OF THINGS THAT YOU CAN DO DURING EXECUTION OF THIS PROJECT. BUT THE GLOBAL RECOMMENDATION REALLY IS A MUCH MORE PROACTIVE ONE, THAT THESE THINGS CAN BE AVOIDED, THESE THINGS, THE RISK CAN BE REDUCED AND MITIGATED BY BEING PROACTIVE BEFORE YOU EVEN SIGN THE CONTRACT, BEFORE YOU EVEN SEND OUT THE RFP. THAT'S THE TIME, THE REQUEST FOR PROPOSAL OR QUOTATION TO CONSTRUCTION MANAGERS AND ARCHITECTS AND EVERYBODY, THAT'S WHENEVER THE REAL CONTROL IS, AND MANY OF THESE THINGS ARE AVOIDABLE WITH THAT DEFINITION. BUT ALL THE REAL IMPACT HAPPENS THAT EARLY. YOU STILL HAVE INFLUENCE WHEN YOU'RE NEGOTIATING THE CONTRACT, BUT IT'S DIMINISHED BY THE TIME YOU GET TO THE END. YOU HAVE VERY LITTLE INFLUENCE.

THIS CONTRACT WAS AWARDED IN 2015. SO SOME OF THE AUDIT REPORTS AND RECOMMENDATIONS THAT WE'VE ALREADY INCORPORATED, YOU WON'T HAVE SEEN BACK IN 2015 WHEN THIS CONTRACT WAS LET AND IT WAS THE VERY FIRST PROGRESSIVE DESIGN BUILD IN THE STATE OF WASHINGTON. WE KNOW A LOT MORE NOW. THAN WE DID WHEN WE FIRST PUT THAT CONTRACT IN PLACE, WHAT BILLING RATES WE WANTED TO COMPETITIVELY COMPETE WITHIN THE PROCUREMENT AS WELL AS WHEN THE GMP WAS NEGOTIATED SEVERAL YEARS AGO. SO I APPRECIATE THE COMMENTS THAT YOU'VE MADE. AND I THINK WHAT YOU WILL HEAR IN, FOR EXAMPLE, THE SOUTH SATELLITE, PART OF THAT IS A DISCUSSION ABOUT DO WE PUT IN MORE RESOURCES TO SCRUTINIZE AND DO SOME INCREMENTAL AUDITS THAT WE DIDN'T DO HERE. AND YOU'LL ALSO HEAR THAT IN THE NORTH SATELLITE, ACTUALLY, THAT WAS THE LAST AUDIT WE DID. WE ACTUALLY HAD THE AUDITOR WORK WITH US THROUGHOUT ON ALL OF THE REIMBURSABLE COST FOR ALL OF THE SUBCONTRACTORS, THAT THOSE COSTS ARE PAID FROM A REIMBURSABLE STANDPOINT, THAT DIDN'T HAPPEN HERE. SO IT WAS DEFINITELY SOME LESSONS LEARNED BETWEEN WHEN THIS CONTRACT WAS LET AND SUBSEQUENT ONES THAT WE ARE DOING THINGS DIFFERENTLY THAT YOU AREN'T SEEING THE RESULTS OF HERE. THANKS FOR THAT HISTORIC CONTEXT. MOVING ON. YES. IF THERE'S ANY FURTHER DISCUSSION, JUST THANK YOU TO JAKE ORTEGA, VALERIE ORTEGO, AND VALERIE. AND IF THERE'S ANY FOLLOW UP, WE'LL FOLLOW UP WITH THE NEXT AUDIT COMMITTEE MEETING. THANK YOU. THANKS, JENNIFER. MOVING ON TO THE NEXT AUDIT, AND I'M GOING TO MOVE THROUGH THESE JUST VERY QUICKLY TO THE HIGHLIGHTS OF THEM. AND THERE'S ONE AUDIT THAT WE DO WANT TO TALK ABOUT AND WE'LL SPEND MORE TIME ON. SO IF YOU CAN GO TO THE NEXT SLIDE TO SOUTH SATELLITE, PLEASE. THE NEXT OH, AND COMMISSIONERS, DO YOU MIND IF WE RUN WE'LL RUN OVER ABOUT FIVE MINUTES. TEN MINUTES, YEAH. ON THIS. SO \$30 MILLION PROJECT ON THE SOUTH SATELLITE. I'M NOT GOING TO SPEND A LOT OF TIME ON THIS SLIDE, BUT AS JANICE WAS TALKING ABOUT, IN THE NEXT SLIDE, IF YOU CAN MOVE FORWARD, THERE, WE HAVE ONE LOW RISK OPPORTUNITY WHERE THERE'S REALLY TWO THINGS FOLLOWING PROCEDURES AND RECONCILIATIONS, THINGS THAT WE CAN IMPROVE GOING FORWARD. THESE ARE THINGS, WE NOTE THAT JANICE AND TEAM HAVE INCORPORATED SOME IN. THEY'RE RESOURCE BASED, BUT THEY NEED TO HAPPEN TO BE IMPORTANT. ANYTHING YOU WANT TO ADD TO THIS? ON

THIS FINDING?

WE COULD JUST ADD THAT FOR SOME OF THE RESULTS OF THE SOUTH SATELLITE AUDIT, THIS PROJECT HAD ENDED OR SUBSTANTIAL COMPLETION A FEW YEARS BACK. AND WE DID NOTE THAT SINCE THAT TIME AND PREVIOUS AUDITS AND RECOMMENDATIONS, THE MANAGEMENT HAS ALREADY MADE SOME CORRECTIONS BASED ON THOSE PREVIOUS AUDIT RECOMMENDATIONS, AND THAT WILL BE REFLECTED. WE'RE HOPING THAT MOVING FORWARD, AS WE LOOK AT PROJECTS THAT ARE MORE CURRENT, THAT WE'LL NOTICE THAT THERE'S BEEN SOME CORRECTIONS ALREADY MADE. AND IN THE INTEREST OF TIME, JANICE ALSO, UNLESS YOU WANT TO COMMENT, I THINK YOU NOTED THAT THE RECONCILIATIONS WERE JANICE NOTED THAT WERE BASED ON STAFFING NEEDS. THEY WERE ADDRESSING THEM ALL GOING FORWARD ON THIS ONE. AND I THINK SHE NOTED THAT WITH THAT COMMISSIONER CHAIR, THOSE ARE ALL MY COMMENTS ON THE SOUTH SATELLITE. WE CAN MOVE TO THE NEXT AUDIT. EXCELLENT, THANK YOU. THE NEXT AUDIT IS THE SOUTH KING COUNTY COMMUNITY IMPACT FUND. AND I THINK I WANT TO RUN OVER THIS IS THE LAST AUDIT WE'RE REALLY GOING TO TOUCH ON. BUT I THINK THIS IS IMPORTANT, ESPECIALLY SINCE DIRECTOR GHEISAR HAS COME AND WAITED SO PATIENTLY THROUGH THIS WHOLE THING. BUT WE LOOKED AT IT THROUGH A DIFFERENT LENS. WE LOOKED AT IT NOT ONLY FOR COMPLIANCE, BUT ARE WE EASY TO DO BUSINESS WITH AT THE PORT? DO WE HAVE CONTRACTS IN PLACE AND REQUIREMENTS THAT ARE OVERLY BURDENSOME ON SMALL BUSINESSES AND SMALL ENTITIES? SURE, YOU WANT TO HAVE CONTROLS, BUT YOU ALSO DON'T WANT TO PUT THE SAME REQUIREMENTS THAT YOU PUT ON A HUGE ENTITY LIKE CLARK ON A SMALL GRANT RECIPIENT THAT'S FIXING A PARK. SO WITH THAT, I'LL PASS IT ON TO DAN. OKAY. THANKS, GLENN. SO I'M JUST GOING TO GO STRAIGHT TO THE ISSUE AND TRY TO GET THROUGH THIS REAL QUICKLY. SO WE DID FIND A MEDIUM RATED ISSUE, AND IT KIND OF HAS TWO COMPONENTS TO IT. THE FIRST IS THAT THE APPROVALS WEREN'T ALWAYS DOCUMENTED, EXPENSE REIMBURSEMENTS WERE NOT ALWAYS SUPPORTED WITH RECEIPTS, AND EXPENSES SOMETIMES EXCEEDED THOSE THRESHOLDS. REGARDING THE APPROVALS, THIS, I BELIEVE, IS MORE OF A DOCUMENTATION ISSUE RATHER THAN INVOICES THAT SHOULDN'T HAVE BEEN PAID. AND THE REASON I SAY THAT IS I REVIEWED 100% OF THE TRANSACTIONS DURING THIS 18 MONTH PERIOD AND THERE'S NOTHING IN THERE THAT I BELIEVE SHOULD NOT HAVE BEEN PAID.

RIGHT. EVERYTHING WAS FINE. ALTHOUGH WE DID GO OVER WHAT WAS ALLOWED BY CONTRACT BY SMALL DOLLAR AMOUNTS THROUGH OUR DISCUSSIONS. WHAT THAT LED TO IS, AS GLENN MENTIONED, THERE IS AN EFFICIENCY OPPORTUNITY, AND THAT KIND OF EVOLVED FROM OUR DISCUSSIONS, IN MY VIEW, AND I THINK OTHERS AS WELL, THERE'S AN OPPORTUNITY TO BROADEN THE CONTRACT LANGUAGE. I KIND OF THINK OF- WE DON'T WANT TO BE CAPTIVES OF COMPLIANCE, RIGHT. WHERE WE'RE FOCUSING MORE ON THE RULES AND LESS ON JUDGMENT.

AND SO I'LL GIVE YOU AN EXAMPLE. THE CONTRACTS HAVE AN ATTACHMENT THAT SAYS LISTS OUT WHAT IS A REIMBURSABLE EXPENSE, AND IT'S VERY GRANULAR. 20 GLOVES AT A DOLLAR APIECE. I KNOW THIS SOUNDS SMALL DOLLARS BECAUSE IT IS, ESPECIALLY AFTER THE IAF DISCUSSION, TWO OFFERS AT \$40.25.

BUT SERIOUSLY, THAT'S WHAT THE CONTRACT IS, AND WE KIND OF LAUGH ABOUT IT, BUT THE RAMIFICATIONS ARE THAT THERE'S A LOT OF BURDEN THAT'S PUT ON OUR CONSTITUENTS. RIGHT. I WANT TO BE CLEAR. THE CPO IS NOT WRITING THESE CONTRACTS INCORRECTLY. THERE NEEDS TO BE DELIVERABLES IN THE CONTRACT THAT WE THEN PAY ON. BUT I DO THINK THAT THERE'S AN OPPORTUNITY THAT WE CAN BROADEN THAT LANGUAGE.

GUADALUPE TORRES IS IN THE OFFICE IN HERE. SHE MENTIONED THAT THESE ARE GRASSROOTS ORGANIZATIONS AND A LOT OF THEM HAVE LIMITED RESOURCES. RIGHT. AND SO WE HAVE TO BE MINDFUL OF THAT. THERE WAS A TERM USED RIGHT, SIZING, WHICH I THINK IS A GOOD WAY TO DESCRIBE IT A CONTRACT FOR \$20,000, WHICH SOME OF THESE ARE SOME OF THE ENVIRONMENTAL CONTRACTS ARE LESS THAN \$20,000. SHOULD BE DIFFERENT THAN A CONTRACT THAT'S LIKE 10

MILLION, 20 MILLION AND MORE. RIGHT. SO THOSE ARE MY GENERAL COMMENTS. I KNOW WE HAVE BOOKDA AND GUADALUPE HERE AND ANDY AS WELL, AND I'M HERE TO ANSWER ANY QUESTIONS YOU MAY HAVE, BUT I WILL SAY THAT THE PROGRAM, IT WAS A GREAT AUDIT TO PARTNER WITH THESE GUYS, AND THEY'RE A PASSIONATE GROUP OF PEOPLE THAT I THINK ARE DOING A GREAT JOB ON THESE INITIATIVES.

ANY QUESTIONS FROM OUR COMMITTEE MEMBERS? BOOKDA, IF YOU WANT TO SAY ANYTHING AS WELL WITH REGARDS TO HOW THE PROGRAM WENT. YEAH. GOOD AFTERNOON, COMMISSIONERS. IS YOUR MIC ON? IS YOUR MIC ON? I THINK SO. THERE YOU GO. YEAH. I THINK YOU KNOW



THAT THIS IS THE FIFTH YEAR OF SOUTH KING COUNTY FUND, ORIGINALLY WITH THE VISION OF COMMISSIONER STEINBROOK FOR \$10 MILLION FOR FIVE YEARS TO SUPPORT COMMUNITY ORGANIZATIONS. BUT THEN AFTER COVID, WE DECIDED TO DIVIDE THE PROGRAM INTO TWO BRANCHES ENVIRONMENTAL GRANTS TO SUPPORT PUBLIC SPACES, IMPROVEMENT TO PUBLIC SPACES, AND ECONOMIC RECOVERY. AND I REALLY APPRECIATE THE WORK OF OUR AUDITING OFFICE, BECAUSE AS WE ARE FUNDING ORGANIZATIONS, WE'RE SEEING A LOT OF BARRIERS IN OUR PROCESS, IN OUR SYSTEMS, BECAUSE EXACTLY AS YOU SAID, A CONTRACT OF 10 MILLION WITH A CONSTRUCTION COMPANY AND \$100,000 FOR A NONPROFIT TAKES ABOUT THE SAME AMOUNT OF TIME AND THE SAME COMPLEXITY. AND SO IT TAKES US AN AVERAGE OF TEN MONTHS TO BE ABLE TO ACTUALLY EXECUTE A CONTRACT WITH A NONPROFIT. WE HAVE LEARNED A LOT ABOUT HOW TO IMPROVE OUR OWN SYSTEMS. AND GUADALUPE TORRES JOINED OUR TEAM ABOUT EIGHT MONTHS AGO, AND WE'RE NOW MAKING SURE THAT THE INVOICES THE SYSTEM, THE REPORTS ARE ALL REALLY DONE WELL, BUT WE REALLY LOOK FORWARD TO USING THE FINDINGS OF THE AUDIT AND WORKING WITH YOU TO SIMPLIFY OUR PROCESSES. AND I KNOW PIERCE IS ACTUALLY ONLINE, SO I DON'T KNOW. PIERCE, IF YOU WANT TO ADD ANY COMMENTS OR ANDY AND GUADALUPE, LET PIERCE GO. SURE, I CAN DO THAT. GOOD AFTERNOON, COMMISSIONERS. APOLOGIES FOR NOT BEING THERE IN PERSON. I'M TAG TEAMING ANOTHER CALL AT THIS MOMENT, BUT I'M SECONDING WHAT BOOKDA JUST SAID RELATING TO THE WORK THAT DAN AND HIS TEAM AND GLENN DID WITH HIS AUDIT, POINTING OUT SOME AREAS WHERE WE CAN HAVE STRONGER MANAGERIAL CONTROLS, WHICH WE HAVE PUT IN PLACE. BUT I THINK EQUALLY IMPORTANT IS THIS CONTRACT SIMPLIFICATION WITH THAT KEEPING IN PLACE THE GUIDELINES, AS DAN NOTED, THAT NEED TO BE IN PLACE THAT CAN EXPEDITE THESE TREATY NEGOTIATIONS, CONTRACT NEGOTIATIONS, AS WELL AS MAKING THE BURDEN ON OUR NONPROFIT PARTNERS IN THE COMMUNITY LESS OF A BURDEN, I SHOULD SAY, ON OUR NONPROFIT. AND WE LOOK FOR NONPROFIT PARTNERS AND LOOK FORWARD TO WORKING WITH CPO, AS WELL AS DAN AND GLENN ON STEPS WE CAN TAKE TO DO THAT. ANDY, DO YOU HAVE ANYTHING YOU WANT TO ADD? YEAH, I THINK I AGREE WITH EVERYTHING THAT'S BEEN SAID SO FAR AND APPRECIATE BOTH GLENN AND DAN AND THE WORK THAT YOU DID TO HELP US TO THINK ABOUT PROCESS IMPROVEMENTS AND FOR

COMING OUT TO SEE SOME OF THE SITES TOO. I THINK IT'S REALLY NICE TO SEE THIS WORK IN PROCESS. I WOULD JUST NOTE, IN ADDITION TO THE COMMUNITY BURDEN OF THE COMPLEXITY OF THESE CONTRACTS IS THE INTERNAL STAFF COSTS AND ADMINISTRATIVE BURDEN. I THINK THAT'S SOMETHING THAT SHOULD ALSO BE REFLECTED IN THIS IS JUST HOW MUCH TIME IT TAKES TO BOTH PULL THE CONTRACTS TOGETHER AND THEN MANAGE THEM BOTH AT THE PROJECT MANAGEMENT LEVEL AS WELL AS I JUST WANT TO RECOGNIZE KELLY SHIMMELSENING AND THE AMAZING WORK THAT SHE'S DONE ADMINISTRATIVELY TO MAKE SURE THAT THESE WERE ALL TRACKED AND PAID. IT'S A TREMENDOUS BURDEN ON STAFF JUST BECAUSE OF THE LEVEL OF DETAIL THAT WE'RE WORKING WITH AND RECOGNIZING THAT THIS IS A RELATIVELY NEW PROGRAM. I THINK THIS IS A GREAT OPPORTUNITY TO THINK ABOUT HOW TO SIMPLIFY AND STREAMLINE THE PROCESS GOING FORWARD SO THAT WE CAN MAKE IT WORK BEST FOR EVERYONE.

I WOULD JUST ADD A BIG SHOUT OUT TO KELLY AND ALSO THAT WE ARE WORKING WITH CPO AND THEY HAVE A GOOD TEAM. IT'S THE PROCESSES THAT IS THE PROBLEM, IS THE ISSUE AND THE CHALLENGE. BUT WE'RE HOPEFUL. WE'RE ALL WANTING THE SAME THING, AND SO TO KEEP DRIVING THAT CHANGE IS WHERE WE NEED TO BE. THANK YOU.

I AGREE WITH WHAT YOU'RE SAYING. I ALSO WANT TO THANK KELLY AS WELL BECAUSE SHE TOOK ON THE RESPONSIBILITY OF GETTING ME 100% OF THE DOCUMENTATION, WHICH I KNOW IS A BIG BURDEN. SO THANK YOU, AND I WILL ALSO WORK WITH YOU AND CPO AND OTHERS TO HELP IMPROVE THE CONTRACTS.

GREAT. EXCELLENT. LET ME JUST SAY THAT I APPRECIATE THE TERRIFIC WORK THAT YOU'RE DOING IN THIS PROGRAM. SPECIFICALLY, I KNOW HOW CHALLENGING IT IS TO ADMINISTER THIS PROGRAM, GIVEN THE MECHANISM WE'RE USING AND THE CONSTRAINTS THAT WE HAVE AS A PUBLIC ENTITY THAT CAN'T GIVE AWAY MONEY. AND SO NORMALLY, OR WHAT NORMALLY ONE WOULD THINK ARE JUST GRANTS THAT WE GIVE TO COMMUNITY BASED ORGANIZATIONS, WE'VE HAD TO BECOME VERY CREATIVE IN HOW WE ADMINISTER THIS. AND I UNDERSTAND THAT ADDS COMPLICATION. I THINK YOU SPOKE TO THE PROCESSES THAT WE HAD TO GO THROUGH, BUT I THINK YOU'VE ALL DONE A TREMENDOUS JOB OF WORKING WITH THAT, WORKING THROUGH ALL THOSE COMPLICATIONS. AND DESPITE SOME OF THE COMPLICATIONS THAT WE'VE HAD FROM THOSE WHO MIGHT WANT TO BID ON OUR RFPs, I'M JUST GLAD THAT WE WERE ABLE TO IMPLEMENT AND EXECUTE IT

AND GET THE MONEY OUT THE DOOR TO THE COMMUNITY. SO I LOOK FORWARD TO SEEING HOW WE CAN SIMPLIFY THINGS. I THINK YOU MADE A GREAT POINT THAT A \$20,000 CONTRACT IS NOT THE SAME AS A \$10 MILLION CONTRACT. GIVEN THE CONSTRAINTS THAT THESE COMMUNITY BASED ORGANIZATIONS HAVE AND THEIR RESOURCES TO RESPOND TO OUR RFPS. LOOKING FORWARD TO SEEING HOW WE'RE GOING TO BE IMPROVING THIS PROCESS SO IT'S EASIER FOR THOSE SMALLER COMMUNITY BASED ORGANIZATIONS TO TAP INTO THIS RESOURCE. SO, THANK YOU VERY MUCH. ANY OTHER COMMENTS OR QUESTIONS FROM THE COMMITTEE? COMMISSIONER MOHAMED. THANK YOU. I HAVE A LOT OF COMMENTS AND QUESTIONS I'D LIKE TO ASK, BUT FOR THE SAKE OF TIME, I'LL LEAVE THEM FOR NEXT TIME. BUT I JUST WANTED TO SAY THANK YOU SO MUCH FOR THE WORK THAT YOU GUYS DO ON BEHALF OF THE COMMUNITY. AND I'VE HEARD FROM FOLKS HOW CHALLENGING IT IS, OUR COMMUNITY BASED ORGANIZATIONS TO BE ABLE TO CONTRACT WITH THE PORT. AND WHAT I'M LOOKING FORWARD TO THE MOST IS HOW WE'RE GOING TO WORK WITH CPO ON CHANGING WHAT SORT OF TRAINING WILL BE PROVIDED THAT WE CALL OUR COMMUNITY BASED ORGANIZATIONS, COMMUNITY MEMBERS THAT WE CONTRACT WITH AND NOT LOOK AT THEM AS BUSINESSES. AND THEN JUST THE PRESENTATION THAT HAPPENED BEFORE, CAN YOU IMAGINE IF ALL THAT OVERSPEND ACTUALLY WENT INTO THE COMMUNITY? IF WE HAD THE RIGHT CONTROLS IN [LAUGHTER]

JUST A THOUGHT, BUT THANK YOU SO MUCH FOR YOUR TIME. THANK YOU. EXCELLENT. THANK YOU SO MUCH. ALL RIGHT, GLENN, WE'RE GOING ON TO FEDERAL GRANT ADMINISTRATION. COMMISSIONER, IN THE INTEREST OF TIME, WE'VE TALKED ABOUT FEDERAL GRANT ADMINISTRATION. THIS IS A CLEAN AUDIT. WE RECEIVED, GOSH, 100 PLUS MILLION DOLLARS IN FEDERAL GRANTS IN THE LAST YEAR. AS YOU SEE HERE, 100 MILLION WAS COVID RELATED, 135,000,000 IN TOTAL. SO A LOT OF MONEY COMING IN. WE'RE JUST PROVIDING ASSURANCE TO THE COMMITTEE THAT THE CONTROLS WERE OPERATING EFFECTIVELY. GREAT. IT'S CLEAN. AUDIT REPORT. ALL RIGHT. YEAH, THEY CAN'T- CLOSE THEM. EXCELLENT. THANK YOU VERY MUCH. SO IF THERE ARE NO OTHER QUESTIONS ON THIS ITEM, WE'LL GO AHEAD AND MOVE ON TO THE NEXT SECTION OF OUR AGENDA. ITEM NUMBER TWELVE AND 13 BEFORE US ARE INFORMATION TECHNOLOGY AUDIT REPORTS REGARDING SECURITY INCIDENT RESPONSE MANAGEMENT FOR ICT AND AVIATION MAINTENANCE AND AUDIT LOG MANAGEMENT RESPECTIVELY.

THESE ITEMS ARE SECURITY SENSITIVE AND WILL BE DISCUSSED IN NON PUBLIC SESSION. WE HAVE NO LIMITED CONTRACT COMPLIANCE AUDITS ON OUR AGENDA TODAY, SO AT THIS TIME WE'LL MOVE TO CLOSING COMMENTS. MR. FERNANDEZ, DO YOU HAVE ANY CLOSING COMMENTS FOR US TODAY? I DO NOT. THANK YOU. ARE THERE ANY FROM THE COMMITTEE? COMMISSIONER MOHOMMED?  
THANK YOU. I JUST SAY QUICKLY, THANK YOU SO MUCH TO THE WHOLE AUDIT TEAM AND THE HARD WORK THAT YOU ALL DO. THIS IS ONE OF MY FAVORITE COMMITTEES. YOU DON'T HEAR THAT EVERY DAY.  
[LAUGHTER]  
ALL RIGHT. IT'S ONE OF MY FAVORITE COMMITTEES, TOO, BY THE WAY. FOR THE RECORD.  
[LAUGHTER]  
HEARING NO FURTHER COMMENTS, WE'LL NOW RECESS INTO THE NON PUBLIC PORTION OF OUR MEETING AT 04:43 P.M. TO DISCUSS TWO MATTERS 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 TIME. PARTICIPANTS JOINING THE NON PUBLIC PORTION OF THE MEETING VIA MICROSOFT TEAMS. PLEASE CLOSE OUT OF THE MEETING LINK AND JOIN THE 04:30 P.M. TEAMS MEETING. INVITATION. FOR EVERYONE JOINING IN THE PHYSICAL MEETING ROOM, PLEASE PROCEED TO THE THIRD FLOOR CONFERENCE ROOM THREE. CC THREE. THE CURRENT TIME IS 04:44 P.M.. THANK YOU.  
ALL RIGHT.  
THANK YOU.