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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING
April 7, 2022**

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, April 7, 2022. The meeting was held remotely in accordance with Senate Concurrent Resolution 8402 and Governor Inslee's Proclamation 20-28. Committee members present included Commissioners Cho and Mohamed.

1. Call to Order:

The committee special meeting was called to order at 2:30 p.m. by Commissioner Cho. The agenda was approved without objection.

**Internal Audit Department presentation is found [here](#) and contains information for Agenda Items 4 through 8.*

2. Approval of Audit Committee Meeting Minutes of December 9, 2021:

The minutes of the Audit Committee special meeting of December 9, 2021, were approved without objection.

3. Office of the Washington State Auditor – Accountability Audit Results for 2020 ([presentation](#) and [report](#))

Presenters:

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

The Office of the Washington State Auditor provided the Port of Seattle Accountability Audit results from January 1, 2020, through December 31, 2020.

The presentation summarized the accountability results as follows:

- Port operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources;
- the following areas were examined during the period; and
 - financial condition – reviewing for indications of financial distress

- self-insurance for health and welfare, unemployment, workers compensation and paid family and medical leave
- rent deferral payment plans – compliance with state law
- telework equipment reimbursement policy
- procurement – personal service contracts
- payroll – overtime
- the next audit is expected in Fall 2022 and will address: accountability for public resources; review of CPA work papers; and assessment audit of the Port of Seattle Industrial Development Corporation.

Members of the Committee thanked the audit team for their report.

4. Director’s Annual Communication – Independence, Internal Audit Charter, Quality Assurance, and Follow-Up

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the Internal Audit Director’s Annual Communication information containing audit standard requirements, including independence to perform audits and quality assurance.

Members of the Committee thanked Mr. Fernandes for the report.

5. 2022 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the items approved in the 2022 Audit Plan, included for Limited Contract Compliance audits, Operational audits, and Information Technology audits and discussed audits completed in the first quarter of 2022.

Members of the Committee thanked Mr. Fernandes for his report.

6. Open Issue Status

Presenters:

Glenn Fernandes, Director, Internal Audit

The report addressed the status of open audit issues, as of April 7, 2022. It was noted that fourteen issues are outstanding for over one year from the target date and 4 information technology audits do not have target dates and are not included in the report. These issues are in the process of being addressed, however, they are more than two years past the report date. *Appendix D of the presentation contains a detailed listing of outstanding issues.*

Discussion ensued regarding the status of open items.

Members of the Committee thanked Mr. Fernandes for his report.

7. ACH Payment Fraud (See [Report](#))

Presenters:

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

The presentation addressed:

- Internal Audit completed a targeted audit of the processes that contributed to eight payments totaling \$572,682.79, being wired into fraudulent bank accounts;
- the payments were for the Port of Seattle's (Port's) Opportunity Youth Initiative and were intended for the Seattle Parks Foundation (Seattle Parks) and the Urban League of Metropolitan Seattle (Urban League);
- the purpose of the audit was to identify the control breakdowns that allowed the fraud to occur and to recommend ways to reduce the likelihood of future misappropriations;
- the criminal aspect of this case was handed off to the Port Police for their continuing investigation;
- the chain of the fraud was investigated and determined to be the result of an email phishing scam;
- internal controls to validate changes to supplier information, including banking information, were not functioning as intended;
- supervisory oversight needed improvement for this critical role;
- procedures to confirm the authenticity of supplier requested bank account changes were not placed at the appropriate level;
- adequate controls did not exist to assure that supplier information, including banking and contact information, was entered accurately, consistently, and correctly;
- with the high number of users, the risk of internal fraud increases, because an employee could change bank account data, putting the onus on one individual to approve these changes;
- detective controls to identify fraudulent activity and payments did not exist;
- the Port was notified of the fraud by the client, approximately two months after the fact;
- bolstering of Port mandatory information security awareness training was recommended.

Recommendations were made by the Internal Audit Department regarding this audit and management provided their response.

Members of the Committee and staff discussed:

- similar attacks on other jurisdictions;
- detective controls;
- increased cyber security training for vendors and staff;
- implementing protocols to reduce human error; and
- controlling source records to populate data fields.

Members of the Committee thanked the Internal Audit Department for its review and Management for their response.

8. Interim Westside Fire Station (See [Report](#))

Presenters:

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

The presentation addressed:

- a stand-alone, fully functional fire station on the west side of the airfield to meet Federal Aviation Administration mandated airfield firefighting requirements;
- the fire station providing necessary accommodations to house five firefighters and two Aircraft Rescue Fire Fighting vehicles for 24/7/365 operations;
- the project was originally approved as a modular building, using the design-bid-build project delivery method with a total project cost of \$5.5 million;
- in May 2019, the project delivery method was changed to design-build, as a stand-alone building;
- approximately \$850,000 was spent prior to the change;
- Macro-Z-Technologies was awarded the contract on October 31, 2019, for \$4.95 million;
- with approval of additional days during the project, substantial completion was scheduled to occur on April 23, 2021;
- with approved change orders, the construction contract, with MZT, now stands at \$5.6 million;
- total project costs to-date, including Port soft costs, is \$9,010,000;
- the Project is 11 months behind schedule and substantial completion has not yet been achieved;
- the contractor did not complete the project by the substantial completion date, resulting in a delay of use of the fire station;
- the Port was potentially overbilled approximately \$106,983 out of \$140,942 in COVID-19 not-to-exceed change orders; and
- payment for COVID-19-related expenses were approved prior to receiving accurate and complete supporting documentation from the contractor.

Recommendations were made by the Internal Audit Department regarding this audit and management provided their response.

Members of the Committee and staff discussed:

- cost overruns due to change of building type based on runway considerations;
- a low bidder response created issues for costs; and
- Covid 19 change order billing protocols.

9. Account Management (ICT)

(Discussed in non-public session as a security-sensitive information technology item.)

10. Account Management Aviation Maintenance

(Discussed in non-public session as a security-sensitive information technology item.)

11. Committee Comments

Committee Chair, Commissioner Cho, acknowledged staff in the ACH Fraud matter and the difficulties working through it and making corrections as needed. Mr. Rudy Caluza, Director of Accounting and Financial Reporting, appreciated earlier comments from Commissioner Cho with respect to how we address bias as an organization in reviewing these types of matters and warned against subconscious bias.

16. Adjournment

There being no further business, the special meeting recessed for a five-minute break at 4:30 p.m. and reconvened in a non-public session to address security-sensitive information technology audit information for Agenda Items 9 and 10, for approximately 30 mins. The meeting adjourned immediately at the conclusion of the discussion and no further action was taken.

Prepared:

Attest:

Michelle M. Hart, MMC, Commission Clerk

Sam Cho, Audit Committee Chair

Minutes approved: June 17, 2022.