

2022 Internal Audit Annual Report

Glenn Fernandes - Director, Internal Audit

January 24, 2023

AOB Conference Center

12:00 PM – 5:00 PM

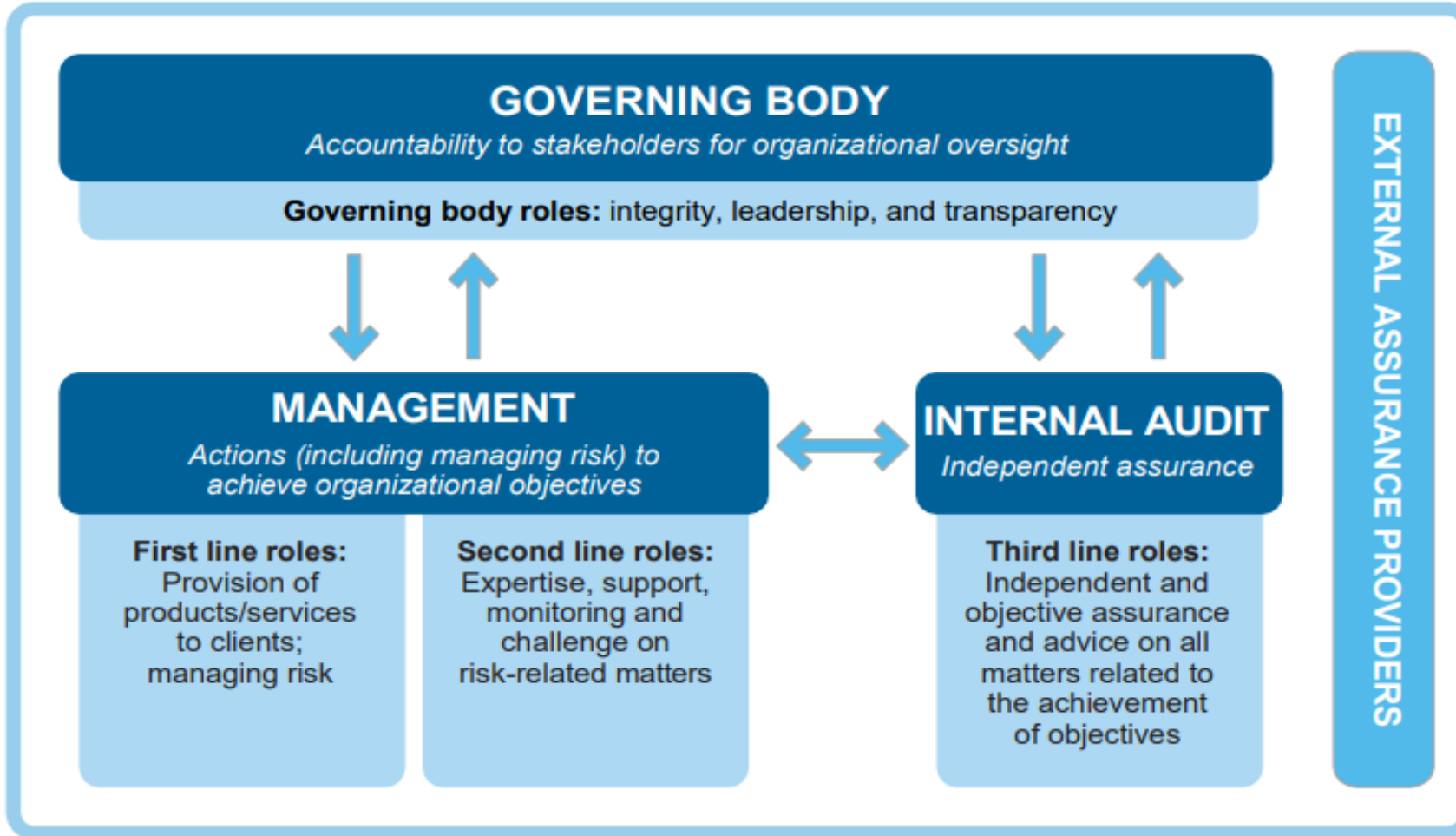
2022 Audit Committee

- Commissioner Sam Cho, Committee Chair
- Commissioner Hamdi Mohamed, Committee Member
- Sarah Holmstrom, Committee Public Member

About Internal Audit

- Internal Audit conducts independent, objective, risk-based audits of the Port's operations, technology, activities and vendors.
- Our audits add value by helping the Port achieve its mission and contribute to: financial stewardship, accountability, transparency, governance, and operational excellence.
- Internal Audit derives its authority from the Port Commission.
- The Director is a dual report, who reports functionally to the Audit Committee and administratively to the Executive Director.

The IIA's Three Lines Model



KEY: ↑ Accountability, reporting ↓ Delegation, direction, resources, oversight ↔ Alignment, communication coordination, collaboration

- **Combined Assurance to Break Down Silos:**
The governing body, management, and internal audit have their distinct responsibilities, but all activities need to be aligned with the objectives and collectively grow the value of the organization.
- **Beyond the Three Lines Model:**
Today's environment of risk bedlam requires us to go a step further. Collaboration is a business imperative and a platform we can use to generate even greater enterprise value.

Source: The Institute of Internal Auditors, *THE IIA'S THREE LINES MODEL – An Update of the Three Lines of Defense*, published in July 2020.



The Association of Local Government Auditors

Certificate of Compliance

Port of Seattle Internal Audit

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards and the *International Standards for the Professional Practice of Internal Auditing* for assurance and consulting engagements during the period November 1, 2018 through October 31, 2021.

Corrie Stokes

Corrie Stokes
ALGA Peer Review Committee Chair

17 Audits Completed in 2022

Limited Contract Compliance

- In-Ter-Space Services, Inc. DBA Clear Channel Airports
- Avis Budget Car Rental LLC
- The Hertz Corporation

Performance

- Payroll Controls¹
- Emergency Procurement
- Federal Grant Administration – Aviation Division
- South King County Community Impact Fund²
- ACH Payment Fraud³

Capital

- International Arrivals Facility (IAF)
- Interim Westside Fire Station
- North Satellite Renovation & Expansion Project (NSAT)
- South Satellite Infrastructure Upgrade Project (SSAT)
- Post IAF Airline Realignment⁴
- C-1 Building Expansion Construction Phase⁴
- Main Terminal Low Voltage⁴

Information Technology

- T2 Airport Garage Parking System Replacement
- Account Management (ICT)
- Account Management (Aviation Maintenance)
- Audit Log Management (ICT)
- Audit Log Management (Aviation Maintenance)
- Security Incident Response Management (ICT & Aviation Maintenance)⁵

1. Per the audit client's request, this audit has been deferred to the 2023 Audit Plan.
2. The original audit title, "Community and Sustainability Initiatives," per the 2022 Audit Plan, was updated as the audit scope was further refined.
3. This audit was added to respond to a known fraud that had occurred and to mitigate future fraud risk.
4. RCW 39.10.385 requires an independent audit, to confirm the proper accrual of costs, for General Contractor/Construction Manager (GC/CM) projects. This audit work is performed by external, contract auditors through a multi-year, Indefinite Delivery, Indefinite Quantity (IDIQ) contract. The work is ongoing.
5. Two separate audits were originally planned for ICT and Aviation Maintenance; however, they were combined for efficiency, due to substantially similar processes.

2022 Audit Plan Update

- The 17 completed Audits identified 4 High Risk, 19 Medium Risk, and 3 Low Risk rated issues for management action.
- The audits included a construction audit of the International Arrivals Facility that was performed jointly with HPM, LLC. This audit report is in draft form and will be finalized for the April 2023 Audit Committee meeting.
- Adapted workplan and recommended improvements to control weaknesses, when Port was hit with the ACH Fraud.

[Audit reports can be found at [https://www.portseattle.org/page/internal-audit-reports.](https://www.portseattle.org/page/internal-audit-reports)]

Information Technology Audits

- Information Technology Audits are generally security sensitive and are discussed in non-public sessions.
- Six audits were completed in 2022.

Foundational Information Technology Controls – Center for Internet Security (CIS) – 18 Key Audits

- Ongoing efforts to perform CIS audits to help assure the Port has a solid foundation of information technology controls. We completed 5 CIS related Audits in 2022; over the four years, we have completed 9 of 18 key CIS audits.

Limited Contract Compliance Audits

- Self reported revenue from concessionaires and rental car companies.
- Audits focus on compliance with lease agreement terms.
- Three audits performed in 2022:
 - 1) In-Ter-Space Services, Inc. DBA Clean Channel Airports
 - 2) Avis Budget Car Rental LLC
 - 3) The Hertz Corporation

# of Audits That Had Findings	Under-reported Revenue (CFC)*	Due to Port
2	\$11,826	\$11,826

* Customer Facility Charge

Highlighted Performance Audits

- 1) ACH Payment Fraud
- 2) South King County Community Impact Fund

Performance - ACH Payment Fraud

- Internal Audit (IA) completed a targeted audit of the processes that contributed to eight payments totaling \$572,682, 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 led by Port Police, but subsequently handed off to a Homeland Security task force.

Recovery

Seattle Parks Foundation

Funds wired to fraudulent accounts:

\$184,675 (\$48,997 returned – Account Closed)

Initial Net Loss \$135,678

Crime Insurance Recovery \$110,678

Loss to Port (Deductible) \$ 25,000

Urban League

Funds wired to fraudulent accounts:

\$388,007 (\$307,523 Funds frozen and returned by Citibank)

Net Loss \$80,485

Crime Insurance Recovery \$ 55,485

Loss to Port (Deductible) \$ 25,000

Fraud Overview

Seattle Parks Foundation

- Falisha Kurji – Coordinator
- Email compromised
 - Funds wired to fraudulent accounts
\$184,675.02 (\$48,997.39 returned)

Spoofed Domain names copied and used as bait:

Michelle@SeattlePraksFoundation.org

(“Parks” changed to “Praks”)

Michelle Benetua – Director of Strategic Partnerships and Programs

Urban League

- Latonya Stuckey, A/P Specialist
- Email compromised
 - Funds wired to fraudulent accounts
\$388,007.38

Spoofed Domain names copied and used as bait:

mcamara@urbanIeague.org

idelapena@urbanIeague.org

alawton@urbanIeague.org

(lower case “l” changed to upper case “I”)

58 Users



Add/Modify Vendor Information; including banking information

AFR Core Services (three employees):

- Manager
- Records Management Specialist
- Administrative Professional

Approve Vendor Changes

Procedure failure/not occurring as intended.

Procedure requires staff to validate changes before approving

Denied

Approved

User is notified of denial

Changes live in Peoplesoft

No validation of information

Performance - South King County Community Impact Fund

South King County Fund

In 2019, the Port pledged \$10 million, funded over a five-year period, to provide environmental benefits to near airport communities impacted by airport noise.

South King County Community Impact Fund (SKCCIF)

In November 2021, the name was changed to the SKCCIF and aims to develop equity-based partnerships and to provide resources and support in historically underserved, ethnically, and culturally diverse near-airport communities.

Aligned to Port Mission

To promote economic opportunities and quality of life in the region by advancing job creation in an equitable, accountable, and environmentally responsible manner.

[See **Appendix A** for additional Program information.]

1) Rating: Medium

Approvals were not always documented, expense reimbursements were not always supported with receipts, and expenses sometimes exceeded thresholds allowable by the contract. Although the financial impact is relatively small, these exceptions could be considered non-compliance with contract terms.

- Twenty-five percent (25%), or 25 of 99 invoices did not have a documented approval.
- Expense reimbursements sometimes exceeded contract thresholds.
[See **Appendix B** for details.]

Recommendations

- Maintain documentation to evidence approval.
- Broaden contract reimbursement requirements.
 - Granularity of contract language impacts efficiencies
 - Grass roots organizations/limited resources
 - More time for stakeholder partnerships/community engagement

Status: Report was just issued. Management action target completion by 6/30/2023.

2023 Audit Strategy

- Stay independent and objective.
- Enhance processes, by viewing work through an “equity lens.”
- Streamline existing concession audit processes.
- Continue to focus on Capital Delivery (Financial, Quality, and Schedule).
- Continue to focus on the 18 “Center for Internet Security” audits that will provide the groundwork for well-established cybersecurity controls.

Appendix A - South King County Community Impact Fund (Additional Program Information)

- Environmental Program is governed by RCW 35.21.278 *Contracts with community service organizations for public improvement.*
- Contract values and reimbursements from January 1, 2021 – June 30, 2022:

Organization	Contract Value	2021	2022
Bridging Cultural Gaps	\$19,974	\$14,050	\$0
Tilth	14,800	5,535	9,265
Friends of Normandy Park	11,163	4,867	4,474
Federal Way Korean American Association	20,000	0	0
Multicultural Self-Sufficiency Movement	9,000	0	0
Puget Soundkeeper Alliance	10,902	0	0
Bhutanese Community Resource Center	13,488	6,500	0
Summer Search (Congolese Basketball Team)	19,000	0	3,075
Summer Search (Expanding Environmental Justice)	19,990	0	0
Partner in Employment	19,977	0	19,977
	\$158,294	\$30,952	\$36,791

Appendix A - South King County Community Impact Fund (Additional Program Information) (continued)

- Economic Recovery Program is governed by RCW 53.08.245 *Economic development programs authorized - job training and education.*
- Contract values and reimbursements from January 1, 2021 – June 30, 2022:

Organization	Contract Value	2021	2022
African Chamber of Commerce PNW	\$100,000	\$21,539	\$70,128
African Community Housing and Development	99,903	61,000	38,903
Asian Counseling and Referral Service	70,000	35,500	28,250
Business Ending Slavery and Trafficking (BEST)	100,000	61,800	15,162
Cares of Washington	91,160	77,387	13,773
Chief Seattle Club	100,000	57,500	42,500
El Centro de la Raza	99,985	75,000	24,985
Highline College Foundation	90,839	5,750	43,250
Partner in Employment	100,000	79,375	20,625
Washington Maritime Blue	99,995	99,995	0
	\$951,882	\$574,846	\$297,576

[Note: Numbers are rounded to the nearest dollar.]

Appendix B - South King County Community Impact Fund

(Audit Issue Details - Expense Reimbursements Exceeding Contract Thresholds)

Organization	Contract Description	Reimbursement (\$)	Amount not allowed (\$)	Description of Reimbursement
Summer Search	Refreshments \$31.25 / event X 32 events = \$1,000	97.04	65.79	13 Coins - Brainstorming Dinner
	Refreshments \$31.25 / event X 32 events = \$1,000	135.84	104.59	Buffalo Wild Wings - Park Cleaning Event
	Refreshments \$31.25 / event X 32 events = \$1,000	38.04	6.79	McDonalds - Park Cleaning Event
	Refreshments \$31.25 / event X 32 events = \$1,000	211.39	173.35	Taste of Congo - Park Cleaning Event
	Refreshments \$31.25 / event X 32 events = \$1,000	40.24	8.99	Jack in the Box - Park Cleaning Event
	Refreshments \$31.25 / event X 32 events = \$1,000	37.89	6.64	Target - Refreshments
	Refreshments \$31.25 / event X 32 events = \$1,000	94.69	63.44	Taste of Congo - Park Cleaning Event
Partner in Employment	Crew Lead \$25 * 360 hours = \$9,000	9,352.50	352.50	Staff / Contractor Time
	Youth Stipend \$1,000 * 5 youths = \$5,000	9,826.00	4,826.00	Volunteer Support
Highline College Foundation	Class Roster of Enrolled Participants in RiVET, AutoCAD or Civil3D courses (\$19,530)	32,000.00	12,470.00	Class Roster
Friends of Normandy Park	2 weed wrenches X \$10.25 = \$20.50	79.24	58.74	Weed Wrench
	20 gloves X \$1 = \$20	187.24	167.24	Gardening Gloves
	Refreshments \$35 / event X \$6 events - \$210	39.53	4.53	Starbucks Coffee
	Refreshments \$35 / event X \$6 events - \$210	39.53	4.53	Starbucks Coffee
Bhutanese Community Resource Center	1 Hand Washing Station X \$70 = \$70	79.18	9.18	Handwashing Station
	25 boxes garbage bags X \$20 = \$500	523.76	23.76	Garbage Bags
	25 compost bins X \$46 = \$1,150	1,277.10	127.10	Compost Bins
Tilth	Staff Training / Volunteer Coordination \$30 X 260 hours = \$7,800	7,923.70	123.70	Staff Support
	Guest Instructor Stipend \$250 X 4 speakers = \$1,000	1,700.00	700.00	Guest Instructors
	Project Supplies \$3,000	3,526.30	526.30	Project Supplies
Bridging Cultural Gaps	Plants \$500	1,800.00	1,300.00	Plants