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INTERNAL AUDIT REPORT
Operational Audit
Social and Environmental Reporting

January 2022 – December 2022
Issue Date: June 20, 2023
Report No. 2023-05

Social and Environmental Reporting

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Social and Environmental Reporting
Executive Summary

Internal Audit (IA) completed an audit of Environmental and Social Reporting for the period January 2022 through December 2022. The audit was performed to determine whether internal controls were in place and to validate that information presented to Port of Seattle (Port) stakeholders, including Port Commission and the public was accurate and reliable. We audited 1) The Diversity in Contracting 2022 Annual Report, 2) The Office of Equity, Diversity, and Inclusion 2022 Report, and 3) The Aviation and Maritime 2022 Environmental Year in Review. The Port established aspirational goals to triple the number of WMBE firms that contract with the Port and to increase the amount spent over a five-year period. These were developed as aspirational goals, because studies showed a disparity with economically and socially disadvantaged firms. Additionally, Initiative 200 prevents the state from "discriminating against or granting preferential treatment to individuals or groups based on race, sex, color, ethnicity, or national origin in public employment, public education, or public contracting." The Port of Seattle WMBE program is guided by resolution 3737 which defines WMBE as a business that is at least 51 percent owned and controlled by women and/or minority group members. It does not explicitly mention economically disadvantaged, nor does it require a certification process or validation of WMBE firms. Accordingly, approximately 55% of firms reported as WMBE by the Port, were self-declared. We concluded that management complied with this resolution as it was written. The Washington State Office of Minority & Women's Business Enterprises (OMWBE), however, has a certification process, and two additional requirements, which consider economic disparities. The differences between resolution 3737 and OMWBE is discussed in Appendix B of this report. We concluded that what was reported generally agreed to supporting documentation. However, exceptions were identified in the Diversity in Contracting annual report and the OEDI report.

Those issues are briefly discussed below and discussed in more detail, beginning on page seven of this report.

1. (Medium) - The Diversity in Contracting 2022 Annual Report contained duplicate WMBE firms. This highlights the need to perform validation procedures (internal controls) so that duplicates can be identified and removed.
2. (Low) - The Office of Equity, Diversity, and Inclusion 2022 Report stated "1,219 People hired into jobs through the SEA Employment Center." This number should have been reported as 1,479.

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[Link]
<https://www.portseattle.org/about/our-mission>
Social and Environmental Reporting
Background

ESG stands for Environmental, Social and Governance and while each of these disciplines has its own set of standards, collectively they represents an organizations dedication to achieving the greater good. ESG is a subset of non-financial performance indicators that aim to serve a broad stakeholder base.

While definitions are somewhat broad and varied, Environmental generally refers to how a company performs as a steward of nature and the global environment and how it manages the organizations carbon footprint. Social refers to how it manages relationships with employees, suppliers, customers, and the community it serves. Governance is a broad concept, but can generally be described as how leaders and those in power (Boards, Commission, Executive Leadership) make decisions. Because stakeholders rely on these decisions, governance is incredibly important, because poor decisions can result in harmful consequences. As a public agency, transparency and accountability are paramount.

Source: <https://www.all4inc.com/4-the-record-articles/esg-and-what-it-means-to-businesses/>
The Port of Seattle's mission states, in part, "We are committed to creating opportunity for all, stewarding our environment responsibly, partnering with surrounding communities, promoting social responsibility, conducting ourselves transparently and holding ourselves accountable." Although not all encompassing, the commitment to the Port's mission, is summarized in the following three reports:

Diversity in Contracting 2022 Annual Report: The Diversity in Contracting (DC) policy, adopted in 2018, requires producing an annual report to Port Commission. The report provides data on women and minority business enterprises (WMBE) participating on Port contracts and progress towards established goals.

Office of Equity, Diversity, and Inclusion 2022 Report: Four years ago, the Port of Seattle became the first port authority in the country to establish an office of equity. The report highlights the efforts OEDI has made to partner with communities, to build a culture of belonging and inclusion within the Port, and to transform policies and practices to advance equity.

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Aviation and Maritime 2022 Environmental Year in Review: Highlights progress in protecting the environment and health of local communities. The updates include greenhouse gas emission reduction, airport noise mitigation, habitat restoration, underwater noise reduction, and

community engagement and partnership.

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Audit Scope and Methodology

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

In some cases, we used a judgmental method to determine the samples selected for our audit test work. The results of this work cannot be projected to the full population as we did not select a statistical based random sample.

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

Internal Controls

- Conducted inquiries with key employees to gain an overall understanding of processes for validating the accuracy of information provided.
- Performed research to gain a general understanding of ESG principles, risks, and strategies that organizations should use to best promote ESG concepts.

Reporting: Diversity in Contracting 2022 Annual Report

- Selected 33 items from the DC Report and validated that documentation agreed to what was reported.
- Of the 33 items selected, additional procedures were performed. Those procedures included:

? Confirmed certification status of WMBE firms by cross-referencing what was reported to the Washington State Office of Minority & Women's Business Enterprise.

? Agreed prior years data when referenced in the 2022 report.

? Reviewed the report and validated the consistency of information reported.

? Recalculated utilization and annual spend for mathematical accuracy.

- Selected 40 WMBE firms and determined whether they met requirements of the Washington State Office of Minority & Women's Business Enterprises.

Reporting: Aviation and Maritime 2022 Environmental Year in Review

- Selected nine items from the Aviation and Maritime 2022 Environmental Year in Review and validated that documentation agreed to what was reported.
- Re-calculated tables to validate that they footed correctly.

Reporting: Port of Seattle Office of Diversity, Equity, and Inclusion 2022 Report

- Selected ten items from the Port of Seattle Office of Diversity, Equity, and Inclusion 2022 Report and validated that documentation agreed to what was reported.
- Re-calculated the tables to validate that they footed correctly.

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Social and Environmental Reporting
Schedule of Findings and Recommendations

1) Rating: Medium

The Diversity in Contracting 2022 Annual Report contained duplicate WMBE firms. This highlights the need to perform validation procedures (internal controls) so that duplicates can be identified and removed.

Our testing of Non-Public Works identified 17 duplicate WMBE Firms. When removed, the actual Non-Public Works "WMBE firm count" reported in the Diversity in Contracting 2022 Annual Report (below) should have been reduced from 271 to 254. We did not test Public Works (Construction) firms, accordingly, we are not providing assurance on the 87 WMBE firms reported or the 351 total firm count.

*Source: Page 11 Diversity in Contracting 2022 Annual Report

Reducing the number of WMBE firms impacts the actual results for the Century Agenda goal "to triple the number of WMBE firms that contract with the Port."

Recommendations:

Develop internal processes to validate that the data is accurate and can be relied upon so that duplicates are identified.

We also recommend assessing Diversity in Contracting reports published from 2019-2021 to identify any duplicates that might have been reported in prior years.

Management Response/Action Plan:

We concur with recommendations to check and validate data on WMBE firms prior to publishing the Diversity in Contracting annual report.

We will also review reporting data from previous years to identify any duplicate firms and adjust results from those years as needed.

At the time of Resolution 3737's passage, the Port considered whether to require some type of certification for WMBE businesses working with the Port. We elected not to require certification. When the resolution was being considered, certification processes were lengthy, cost money, and provided companies little or no benefit in terms of competing for Port projects. Given these circumstances, we were also concerned that requiring certification could become a barrier to WMBE participation on Port projects.

DUE DATE: 12/31/2023

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2) Rating: Low

The Office of Equity, Diversity, and Inclusion 2022 Report stated "1,219 People hired into jobs through the SEA Employment Center." This number should have been reported as 1,479.

When the OEDI 2022 report was published, the final numbers were not available and instead an estimate was used. While the difference is somewhat harmless, as the OEDI program evolves and becomes more core to the Port's culture, reporting processes should also mature.

Recommendation:

We recommend indicating in the OEDI report that this is an estimate or alternatively waiting to publish the report until the numbers are final.

Management Response/Action Plan:

Office of Diversity, Equity and Inclusion staff agree with the audit report's findings and will work to implement stronger managerial controls. The current number has been updated in the report with the correct annual numbers and is posted on the Port website now. We have underreported numbers from the annual job placements for Port Jobs and it sounds like that is because we did not align our report to be able to report on a full year. We will align the timing of our reporting so that we have all final numbers and if we do not have final numbers at the time of our reporting, we will indicate them as preliminary.

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Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Financial Internal Commission/

Rating Compliance Public

Stewardship Controls Management

High probability

Non-compliance

Missing or not for external audit Requires

with Laws, Port

High Significant followed issues and / or immediate

Policies,

negative public attention

Contracts

perception

Moderate

Partial

Partial controls probability for

compliance with

external audit Requires

Medium Moderate Laws, Port

Not functioning issues and / or attention

Policies

effectively negative public

Contracts

perception

Low probability

Functioning as Mostly complies Does not

for external audit

intended but with Laws, Port require

Low Minimal issues and/or

could be Policies, immediate

negative public

enhanced Contracts attention

perception

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Appendix B: Resolution 3737

Port Resolution 3737 only requires firms to be Women or Minority owned. The Washington State Office of Minority & Women's Business Enterprises (OMWBE) has two additional requirements to obtain WMBE certification status. The definitions and further information between the Resolution and OMWBE is discussed below.

Port Resolution 3737

Adopted by commission in January 2018 and defines Women or Minority business (WMBE) as: "a business that is at least 51 percent owned and controlled by women and/or minority (including, but not limited to African Americans, Native Americans, Asians, and Hispanics) group members." Port procedures do not require OMWBE certification, rather firms are allowed to selfdeclare. Accordingly, approximately 55% of firms reported as WMBE in the Diversity in Contracting 2022 Annual report were self-declared.

Washington State Office of Minority & Women's Business Enterprises (OMWBE)

Is the sole agency statewide that certifies minority- and women-owned business enterprises to participate in public contracting and procurement. The guiding principles of OMWBE are diversity, equity, and inclusion. The agency recognizes that inequalities and privileges exist which are caused by differences in race, ethnicity, gender identity, gender expression, sexual orientation, socio-economic status, age, ability, religion, region, veteran status, citizenship status, and nationality.

To qualify for certification, the OMWBE has three requirements:

Socially disadvantaged: The owner must be a minority or a woman who own at least 51%.

Economically disadvantaged: The owner must have a net worth of less the \$1.32 million. This is a person whose ability to compete in business has been impaired due to diminished capital and credit opportunities.

Small: The business must have a three (3) year average gross annual receipts less than or equal to \$30.4 million.

Testing

We tested 40 of 254 WMBE firms (non-public works) and while for the majority we were unable to determine whether they were small or owned by economically disadvantaged persons, we identified some firms that didn't meet state requirements.

Most notably, one firm had annual revenue of \$2.5 billion and the second had \$14.5 billion. The owner of the latter was on the 2023 Forbes World's Billionaires list with a net worth of \$6 billion. We also identified another firm that was publicly traded and had revenue of \$5.4 billion.