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APPROVED MINUTES

AUDIT COMMITTEE SPECIAL MEETING

September 7, 2023

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, September 7, 2023.

The meeting was held in the Commission Chambers located at the Port of Seattle Headquarters Building, 2711 Alaskan Way, Seattle, WA, and virtually via Microsoft Teams. Committee members present included Commissioners Cho and Mohamed and Public Member Sarah Holmstrom (non-voting).

1. Call to Order:

The committee special meeting was called to order at 9:00 a.m. by Commissioner Mohamed. The agenda was approved without objection.

\*Internal Audit Department presentation is found here and contains information for Agenda Items 4 through 8 and 12.

2. Approval of Audit Committee Meeting Minutes of June 30, 2023

The minutes of the Audit Committee special meeting of June 30, 2023, were approved without objection.

EXTERNAL AUDITS

3. Office of Washington State Auditor – 2022 Accountability Audit Opening (Report and Presentation)

Presenters:

Joseph Simmons, Program Manager

Maddie Frost-Shaffer, Assistant Audit Manager

The Office of the Washington State Auditor presented regarding the 2022 accounting audit opening.

The opening audit addressed:

- scope of the accountability audit – January 1, 2022 through December 31, 2022, examining the management, use, and safeguarding of public resources to ensure there is protection from misuse and misappropriation; and evaluation if there is reasonable assurance for adherence to applicable

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state laws, regulations, and policies and procedures;

- the audit will review the work of other auditors;
- the audit process and levels of reporting;
- reporting cybersecurity issues general information;
- the peer review process of the Washington State Auditor's Office;
- Washington State Auditor's Office resources; and
- emerging issues affecting local governments.

Members of the Committee and audit staff discussed if the cyber check-up and resource guide translate well to share with organizations the Port partners with.

Members of the Committee thanked the Office of the Washington State Auditor for their presentation.

UPDATES AND APPROVALS

Internal Audit Director Glenn Fernandes recognized Ritika Marwaha as the new Port of Seattle IT Audit Manager.

4. Approval of 2024 Proposed Budget

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- an overview of the Internal Audit Department - controls and oversight of the department;

- 2024 department major initiatives;
- Internal audit organization structure;
- a review of the proposed 2024 department budget;
- a new budget request – for outside temporary services to backfill staff on maternity leave; and
- capitalized outside services.

The motion, to recommend adoption of the 2024 proposed Internal Audit Department budget to the Port Commission, carried by the following vote:

In favor: Cho and Mohamed (2)

Opposed: (0)

5. Open Issue Status

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the status of Open Issues, reporting as of August 23, 2023.

The presentation addressed outstanding issues over one year from the target date of completion and technology issues that do not have target dates and are not included in the aging chart.

Mr. Fernandes noted:

- efforts over the last year to review open items; and

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- an open issue in the architecture and engineering category which will be later discussed.

Discussion ensued regarding the closure of issues and the updated chart provided.

6. 2023 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the status of the approved 2023 Audit Plan, including Limited Contract Compliance; Performance Audits; and Information Technology Audits.

The presentation addressed:

- the Washington State Auditor's Office also conducting an audit of the Police Department related to seizures statewide;
- removal of items from the 2023 Audit Plan, placed into the 2024 Audit Plan; and
- items added to the 2023 Audit Plan in place of items moved forward.

PERFORMANCE AUDITS

7. Concourse C Expansion Project (Pre-Construction) (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

Spencer Bright, Manager, Internal Audit- Capital

Debbie Townsend, R.L. Townsend & Associates LLC

Patricia Farrell-Shear, R.L., Townsend & Associates LLC

The presentation addressed:

- change orders to the project;
- using a cost-plus analysis approach to look at contractor rates;
- making sure port models are up to date with proper rate data;
- review of Turner's rates compared to the industry standard;
- virtual design and construction software investment rate were higher than industry standards;
- the B&O tax rate was also billed higher than Washington State rates;
- establishing reasonable rates for project management during pre-construction and establishing a reasonable cost evaluation process/rate established on actual cost or industry data; and
- fee costs in excess of standard fees.

Members of the Committee and staff discussed:

- the cost amount of change orders;
- if the Port has reviewed change orders across the types of port project contracts used and using that information to review the types of contracts used for projects moving forward;
- General Contractor/Construction Manager (GCCM) contracts utilization and lessons learned regarding benefits of using that type of contract during the pre-construction period;
- the general liability rate for this project and how that rate was arrived at;
- port CPO modeling compared to the rate; and

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• where issues in the CPO modeling may arise.

Kyle Dilbert, Senior Manager, Construction Contracting, Central Procurement Office (CPO) Construction, and Nora Huey, Director, Central Procurement Office, provided the management response to the audit noting that:

- the table Turner provided was informational only and the Port did not use the rate build-out to negotiate the rates;
- the Port used fair and reasonable rates at market rate in its negotiation;
- the Internal Audit Department is now discussing going back and recreating the rate as a cost-plus fixed fee contract;
- the CPO tool wouldn't use the information provided in this project;
- fair market rate inputs into the tool and using market rates to create a calculation;
- using more than one data point to create the final rates in our tool and assessing those data points in practice;
- GCCM contracts commonly do not use a cost reimbursement approach;
- a strategy to push towards Port targets in negotiation;
- types of market information the Port gathers in its analysis and historical data that it has used over time;
- looking at further cost reimbursement models;
- risk management profiles between different contract types and administrative requirements associated with them;
- cost savings also involved in different types of contract approaches; and
- differences in terms between pre-construction contracts and construction contracts.

Discussion ensued regarding:

- Port process for making determinations;
- the Internal Audit Department's view that the rate tool needs to be revisited;
- other agencies' GCCM processes around the state and how this scenario compares to that;
- Revised Code of Washington statutes governing the GCCM process;
- disagreement between management and the Internal Audit Department on this issue;
- reviewing the data points that are used in the Port's calculations, including the historical data; ascertaining best practices of other agencies in rate setting; and continuing to review the issue to determine where things can be made better;
- how modeling and practices apply to WMBE businesses;
- lack of documentation supporting the approved rates in the project and files that were on a hard drive of an employee who left the port; files are now kept on a shared drive to ensure proper recordkeeping;
- an identified opportunity to strengthen controls during the pay application process; and
- reviewing standard operating procedures and making sure they are very clear.

Members of the Committee thanked the Internal Audit Department staff for their work on the audit, and management for their responses.

#### 8. Main Terminal Low Voltage Systems Upgrade Project (Pre-Construction) (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

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Spencer Bright, Manager, Internal Audit- Capital

The presentation addressed:

- another GCCM project, executed on August 9, 2019, with M.A. Mortenson;
- preconstruction was completed in November 2022;
- no deficiencies noted in change orders;
- pay applications – a recommendation for improvement was noted including strengthening controls during the pay application review process and in documentation;
- contingency – a recommendation for improvement was noted (The contingency budget and other stipulated direct costs budget were used for expenses related to completing pre-construction areas, not for expenses outlined in the contract and change order, additionally, the Port's approval for using these budgets was not maintained.); and
- recommendations to management – to review overpayments identified and collect overpayments from the contractor, as appropriate; assure compliance by requiring the contractor to submit all required documentation to support transactions; and maintain supporting documentation of port

management approval for all key personnel changes.

Management agreed to the recommendations and are reviewing best practices to ensure that contractors are submitting factual information.

Members of the Committee thanked the Internal Audit Department staff for their work, and management for their response, on this audit.

#### INFORMATION TECHNOLOGY AUDITS

9. Performance Audit – Portwide Payroll Controls (Carry-over IT issue only)

10. Email and Web Browser Protections (ICT and AVM)

11. Criminal Justice Information Systems (CJIS) Technical Audit Summary Report

Presenters:

Glenn Fernandes, Director, Internal Audit

Ritika Marwaha Manager, Internal Audit - IT

(Items 9, 10, and 11 are security sensitive and were discussed in non-public session.)

#### LIMITED CONTRACT COMPLIANCE AUDITS

12. Louis Dreyfus Company Washington LLC (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- this was a clean audit, with Louis Dreyfus complying with all terms of the lease and the department having no findings;
- volume of product produced from the grain terminal; and
- revenue brought into the Port from grain terminal operations.

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Members of the Committee thanked the Internal Audit Department staff for their work on this audit.

#### 13. Committee Comments

Glenn Fernandes, Internal Audit Director, thanked R.L. Townsend & Associates LLC for their knowledge, expertise, and participation in the meeting today.

Members of the Committee again thanked staff for their presentations and management for their thorough responses.

#### 14. Adjournment

There being no further business, the special meeting recessed at 10:44 a.m. and re-convened in a nonpublic session to address security-sensitive information technology audit information for Agenda Items 9, 10, and 11 for approximately 30 mins. The meeting adjourned immediately at the conclusion of the discussion and no further action was taken.

Prepared: Attest:

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Michelle M. Hart, MMC, Commission Clerk Hamdi Mohamed, Audit Committee Chair  
Minutes approved: December 14, 2023.