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APPROVED MINUTES

AUDIT COMMITTEE SPECIAL MEETING

December 8, 2022

The Port of Seattle Commission Audit Committee met in a special meeting Friday, December 8, 2022. The meeting was held in the Commission Chambers located at Port of Seattle Headquarters, 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 2:38 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 11.

2. Approval of Audit Committee Meeting Minutes of September 8, 2022:

The minutes of the Audit Committee special meeting of September 8, 2022, were approved without objection.

3. Moss Adams – 2022 Audit Engagement Service Plan
(Presentation)

Presenters:

Olga Darlington, Partner; Anna Waldren, Senior Manager

Anna Waldren, Senior Manager

Olga Darlington and Anna Waldren of Moss Adams, provided the Audit Entrance Conference overview to the Members of the Committee, including a review of the audit service team; scope of services; responsibilities of both the auditor and management; audit processes; consideration of fraud; areas of audit emphasis; audit timeline; and recent and upcoming accounting developments.

Presentation of Audit results to the Audit Committee is scheduled for May 2023.

UPDATES AND APPROVALS

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4. Internal Outreach Project Update

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes presented an update to the Members of the Committee regarding the Internal Audit Department's ongoing outreach project to promote the awareness and understanding of the Port's Internal Audit process and the significance of internal controls and risk mitigations internally and externally through outreach, education, and socialization. The project will also help small entities the Port has business with and who have limited resources to educate and train their staff on internal controls.

5. 2022 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the proposed Internal Audit Department's budget for 2023.

The presentation addressed:

- 17 audit reports completed in 2022: Performance (4), Capital Projects (4), IT (6), and Limited Contract Compliance (3);
- audits identified 4 High Risk, 19 Medium Risk, and 3 Low Risk rated issues for management action
- in addition, a construction audit of the International Arrivals Facility, performed jointly with HPM, LLC, a contracted consulting firm, has identified 8 issues;
- adapted workplan and recommended improvements to control weaknesses, when the Port

experienced ACH Fraud;

- Internal Audit's 2022 value proposition to respond to COVID-19 impact and associated business risks;
- 2022/2021 suggested recoveries; and
- 2022/2021 controllable cost overruns.

6. APPROVAL of Proposed 2023 Internal Audit Plan

Presenters:

Glenn Fernandes, Director, Internal Audit

Internal Audit Director Glenn Fernandes reported regarding:

- the Performance audit plan approach.
- proposed 2023 performance audits;
- the Capital projects audit plan approach;
- proposed 2023 Capital Audit Plan;
- the Information Technology Audit Plan approach;
- the Lease and Concession Audit Plan approach and 2023 planned audits;
- historical reports overview 2019 – 2023;
- limited compliance, performance, and information technology specific audits planned in 2023; and
- contingency audits for 2023, time permitting.

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https://meetings.portseattle.org/portmeetings/attachments/2022/2022_12_08_AM_08_Report_Port-IAF.pdf

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The motion, to approve the 2023 Internal Audit Plan, made by Commissioner Mohamed, carried by the following vote:

In favor: Cho and Mohamed (2)

Opposed: (0)

7. Open Issue Status

Presenters:

Glenn Fernandes, Director, Internal Audit

The Open Issues Status Aging Report as of November 22, 2022, was discussed.

PERFORMANCE AUDITS

Presenters:

Glenn Fernandes, Director, Internal Audit

Dan Chase, Manager, Internal Audit

Spencer Bright, Manager, Internal Audit – Capital

Jake Ortego and Valerie Smith, External Presenters

8. International Arrivals Facility (See Report)

The presentation addressed:

- missing important elements of the design-build approach resulting in unexpected costs due to rework and delayed payments;
- the need to enhance internal controls to validate invoice totals to payments;
- HPM, LLC - contracted by the Port's construction management contractor, AECOM, to perform an interim review prior to the final Guaranteed Maximum Price (GMP);
 - o Clark Construction was instructed to administer subcontractor contracts on a not-to-exceed basis; Clark administered subcontracts as lump sum;
 - o any savings that may occur from cost or process efficiencies over time would go to the subcontractor and not to Clark Construction and then the Port;
 - o General Liability Insurance (GLI) Rate;
 - o duplicated cost of Paid-Time-Off (PTO);
 - o Change Order and Early Work Authorization (EWA) support;
- Port of Seattle Internal Audit- Report No. 2018-14, dated December 7, 2018;
- GMP through Owner Change Order (OCO) No. 66 totals \$782,904,088;
- limitations of the audit;
- audit observations;
 - o overstated subcontract labor and labor burden charges estimated to range from \$4,527,000 to \$9,232,000;
 - o reconciled allowances show the remaining allowances to be returned to the Port total approximately \$2,273,738;
 - o allowance credits not traced back to Clark issued subcontractor changes totaled \$521,775;
 - o Clark recorded \$329,947 for Valley Electric reimbursement of 2018 sick time and 2019 PFML pay, including Clark mark-up, which appear to duplicate costs included in the labor rates;

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https://meetings.portseattle.org/portmeetings/attachments/2022/2022_12_08_AM_09_Report_South-Satellite-Infrastructure-Upgrade.pdf

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https://meetings.portseattle.org/portmeetings/attachments/2022/2022_12_08_AM_10_Report_South-King-County-Community-Impact-Fund.pdf

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- o Port Work authorization amounts did not reconcile to the recorded Clark issued amount, resulting in credits due of \$272,605;
- o Clark "Furniture Not Reimbursed by Owner" of \$220,547 does not appear to be reimbursable;
- o allowance usage not traced back to SCOs totaled \$129,799;
- o total potential GMP adjustments range from \$8.3 Million to \$12.9 Million;
- Clark has not responded to the audit questions sent on November 7 2022, as of November 30, 2022;
- the Port has not issued substantial or physical completion - calculated liquidated damages as of November 30, 2022, total \$17,168,000;
- improvement recommendations; and
- management response;
- o comments from Clark Construction as needed/in person;
- o Management to discuss in person - detailed responses will be presented in the audit report.

9. South Satellite Infrastructure Upgrade Project (See Report)

The presentation addressed:

- the South Satellite Infrastructure Upgrade Project (SSIUP) to improve the effectiveness, reliability, and increase the capacity of the Heating, Ventilation, and Air Conditioning system;
- construction estimate at approximately \$33 million;
- two bids were received, both bids were below the engineer's construction cost estimate;
- James W Fowler Co. (JWF) was the lowest responsible bidder and was awarded the contract in the amount of \$28.36 million;
- there were \$2.7 million in approved Change Orders (COs), increasing total construction cost to \$31.1 million;
- highlights;
- o Port management and JWF responded quickly to requests for documents;
- o the project was completed on-time and under budget;
- o based on discussions with management, it appears there was a positive working relationship between the Port and JWF, which resulted in a successful project;
- o opportunities were identified for Port management to strengthen controls over reconciliation of not-to-exceed (NTE) COs; going forward; and
- o management has made corrections based on recommendations from prior audits, and these should be reflected in future projects.
- Management's response;
- o Engineering – Construction Management agreed that the reconciliation of "Not-to-Exceed" Change Orders should be done as soon as practicable, and stated the need to investigate if there is a specific, reasonable timeframe to commit to based on project needs and staffing resources - stating at a minimum, language will need to be added to SOP 40.01 Change Management, to indicate this reconciliation process should be performed 'as soon as practicable.'

10. South King County Community Impact Fund (See Report)

The presentation addressed:

- the South King County Fund;

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https://meetings.portseattle.org/portmeetings/attachments/2022/2022_12_08_AM_11_Report_Federal-Grant-Administration-Audit.pdf

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- o 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;
- the South King County Community Impact Fund (SKCCIF)
- o in November 2021, the name was changed to the SKCCIF and aims to develop equitybased 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;

- contract values and reimbursements from January 1, 2021 – June 30, 2022;

- audit findings;

- o approvals were not always documented, expense reimbursements were not always supported with receipts, and expenses sometimes exceeded thresholds allowable by the contract;

- o although the financial impact is relatively small, these exceptions could be considered noncompliance with contract terms;

- audit recommendations; and

- o maintain documentation to evidence approval;

- o broaden contract reimbursement requirements;

- o granularity of contract language impacts efficiencies;

- o grass roots organizations/limited resources;

- o more time for stakeholder partnerships/community engagement;

- Management's response;

- o External Relations and the Office of Diversity, Equity and Inclusion staff agrees with the audit report findings and will work to implement stronger managerial controls; and

- o staff has implemented a procedure to address approvals not always being documented;

- o implementing broader contract language is fully supported by both External Relations and the Office of Diversity, Equity and Inclusion – they will work in partnership with the Central Procurement Office (CPO) to ensure whenever possible broader language is used which impacts Port efficiencies internally across multiple departments, and with community partners;

- o the authority to execute contracts with broader language exists with CPO, and their Service Agreements team who would need to authorize the new simplified contract language.

11. Federal Grant Administration – Aviation Division (See Report)

The presentation addressed:

- the Airport Improvement Program (AIP) - a major federal grant program, managed by the Federal Aviation Administration (FAA), which provides funds to public-use airports for planning and development;

- FAA AIP funding for FY2021 to the Port was \$135,865,813, including COVID-19 Relief funding of \$100,373,161;

- COVID-19 Relief grants have been administered and provided by the FAA to eligible airports, including Seattle-Tacoma International Airport, through the existing AIP model, as a mechanism for expeditious fund distribution;

- Internal Audit leveraged the overall risk and control assessments, and audit work and related testing for certain areas (e.g., COVID-19 Relief grants) of the AIP grants, performed by Moss Adams, the Port's Independent Auditor - this is required as part of the 2021 Annual Single Audit for a non-federal entity that spends greater than \$750,000 of federal funds in a fiscal year;

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- Internal Audit identified monitoring controls that are important to the current processes, including:

- o FAA Airport District Office's (ADO's) involvement in all phases of grant administration (i.e., annual planning, application approval, progress reporting, claims/reimbursements, and close-out);

- o the Port Commission's review and approval of the annual capital investment plan, budget, and status briefings;

- o Legal Department reviews;

- o CPO's construction contracting and procurement processes and protocols;

- o business leaders' ongoing monitoring engagement and grant coordination meetings internally and with FAA;

- o quality review and tracking of grants and claims by Aviation Finance and Budget and Accounting and Finance Reporting, which respectively possess subject matter expert knowledge;

- a sample of sixteen business leaders and staff interviewed were knowledgeable on and aware of the grant requirements through the grant life cycle;

- a follow-up on one issue related to inconsistent grant compliance from our 2019 audit of the Noise Insulation Program noted that the Port had strengthened monitoring controls over the Highline School District, a sub-recipient of AIP grant through the Port; and

- findings;

- o based on the work we performed, Internal Audit concluded that controls were designed

effectively and operating as intended;

o key stakeholders were aware of federal grant requirements throughout the life cycle of the AIP grants, and in the critical areas of grant administration.

INFORMATION TECHNOLOGY AUDITS

12. T2 Airport Garage Parking System Replacement

13. Audit Log Management (ICT)

Agenda Item Nos. 12 and 13 were discussed in non-public session, as they are security sensitive and all or part of the audit reports may be exempt from public records disclosure under RCW 42.56.420.

14. Committee Comments

Mr. Fernandes and Members of the Committee thanked the Management teams for working with the Internal Audit Department throughout the audits.

15. Adjournment

There being no further business, the special meeting recessed at 4:44 p.m. and re-convened in a nonpublic session to address security-sensitive information technology audit information for Agenda Items 12 and 13, 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: April 6, 2023.