

# INTERNAL AUDIT REPORT

Operational Audit – Capital

Supply Chain Disruption Management



Issue Date: March 21, 2023

Report No. 2023-04

**TABLE OF CONTENTS**

Executive Summary..... 3

Background ..... 4

Audit Scope and Methodology..... 5

Appendix A: Risk Ratings..... 6

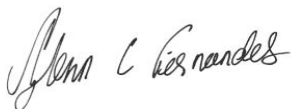
## Executive Summary

Internal Audit (IA) completed an audit of the Port of Seattle's Supply Chain Disruption Management processes and internal controls. The objective of the audit was to identify how the Port is addressing supply chain disruption management, assess the adequacy of its risk response plan to minimize the consequences of a risk event, and how those measures align with other agencies and the construction industry.

The COVID-19 pandemic severely disrupted global supply chains due to government-imposed shutdowns, demand instability, labor shortages, and bottlenecks in shipping and transportation, affecting the construction industry's ability to access key materials and equipment. To identify best practices for mitigating supply chain risks, IA interviewed personnel from the Port and benchmarked with other agencies and companies. We noted several effective processes, such as procurement of materials in advance, in addition to industry outreach and awareness to identify and mitigate long lead times for materials before bidding.

Based on our work performed, we conclude that the Port has established processes through close coordination between multiple departments including, the Central Procurement Office, the Project Management Group, and Construction Management. These processes address key risks from supply chain disruption. They also align with processes used by other agencies and the results of our research within the construction industry.

**We did not identify any issues that warrant reporting.**



Glenn Fernandes, CPA  
Director, Internal Audit

### Responsible Management Team

Loren Armstrong, Sr. Port Counsel

Eileen Francisco, Director Aviation PMG

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Stuart Mathews, Assistant Director Aviation PMG

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## Background

The COVID-19 pandemic had a significant impact on the global economy, including the construction industry. During the pandemic, one of the major challenges faced by the construction industry has been supply chain disruption.

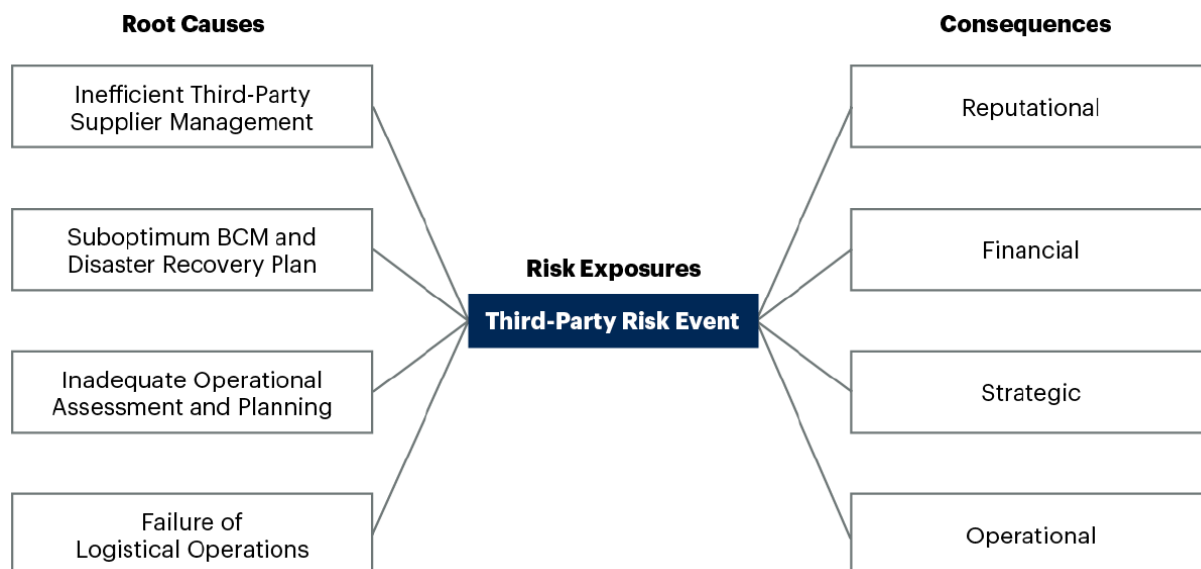
The construction industry relies heavily on a global network of suppliers and manufacturers to provide the necessary materials, equipment, and components required for construction projects. The pandemic disrupted the supply chain in several ways:

1. **Shutdowns and restrictions:** Governments imposed lockdowns and restrictions on businesses, including manufacturers and suppliers. These shutdowns and restrictions led to a reduction in production capacity and delays in delivery times.
2. **Labor shortages:** The pandemic caused labor shortages in the construction industry. Workers were unable to travel due to restrictions on movement, and some contracted COVID-19, leading to reduced productivity and delays in construction projects.
3. **Transportation delays:** The pandemic caused significant delays in transportation, as countries closed their borders and restricted movement. This led to delays in the delivery of materials and equipment required for construction projects.
4. **Price increases:** The disruption in the supply chain led to price increases for certain materials, such as lumber, due to increased demand and limited supply.

Overall, these disruptions led to delays, increased costs, and challenges for the construction industry. At the time of this report, these disruptions were still being experienced.

### Supply Chain Disruption Risk Bow-Tie Diagram

Illustrative



Source: Gartner, Inc.

## **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. The audit included the following procedures:

### Current Supply Chain Disruption Management Processes and Internal Controls

To evaluate the Port's current supply chain disruption management processes and internal controls, we performed the following procedures:

- Obtained an understanding of the Port's current supply chain disruption management processes and related internal controls.
- Conducted interviews with personnel from Construction Management, Project Management, and the Central Procurement Office, to assess their awareness of supply chain disruption issues and to understand their roles in managing those risks.
- Reviewed the processes and internal controls the Port has in place to mitigate the risk of supply chain disruptions.
- Performed a walkthrough of a laydown area, to confirm internal controls are properly designed and implemented.

### Outreach and Benchmarking

- Performed outreach with other airports and ports, government agencies, and consulting firms, facing similar issues, to identify best practices and opportunities for improvement.
- Obtained an understanding of these external organizations' processes and internal controls to mitigate risks from supply chain disruptions.
- Assessed whether there were opportunities for the Port to implement and improve their practices, based on best practices of other agencies.

## 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.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
<b>High</b>	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
<b>Medium</b>	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Moderate probability for external audit issues and / or negative public perception	Requires attention
<b>Low</b>	Minimal	Functioning as intended but could be enhanced	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention