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Exit Conference: Port of Seattle

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2022 through December 31, 2022 – see draft report.

Audit Highlights

- We appreciate the Port's commitment to the safeguarding of public funds and developing control systems that ensure compliance with laws and regulations.
- The Port responded promptly to our requests and provided all documents necessary to complete the audit in a timely manner.
- We would like to thank Lisa Lam, Andrew Cartica, and Glenn Fernandes for participating in weekly status update meetings. It allowed for increased communication and kept the audit running smoothly.
- Self-Insurance – We would like to thank Sandra Spellmeyer, Greg Key, and Sanders Mayo for walking us through various self-insurance areas and programs.
- Sofia Mayo during our review of Procurement.
- Diane Campbell and Tonya Shum while reviewing electronic wire transfers.
- Eloise Oliver while following up on electronic funds transfers (EFTs).
- Small and Attractive Assets – We appreciate Carmen Strand and Tanaya Covey's detailed explanation of the Port's controls to safeguard small and attractive assets. Our on-site audit in November felt smooth and accommodating thanks to them.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or noncompliance with laws or regulations that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Work of Other Auditors

[Link]

<https://portal.sao.wa.gov/SAOPortal>

A financial statement audit and federal single audit was performed by Moss Adams LLP of the Port. Professional audit standards require us to evaluate relevant work done by other auditors and communicate certain matters to the governing body.

- We performed procedures to ensure we could rely on the work of the external auditors and reference their audit in our audit report. These procedures included consideration of attendance at key meetings, evaluation of the firm's last peer review report, review of the other auditor's work, review of the other auditor's results and communications with the other auditor.
- We did not become aware of any instance in which the work of the other auditors gave rise to concern about the quality of their work.
- There were no limitations that restricted our analysis of the other audit(s).
- We did not become aware of any instance in which a material misstatement of the financial statements has or may have resulted from fraud or suspected fraud.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via email in a .pdf file. We also offer a subscription service that notifies you by email when audit reports are released or posted to our website. You can sign up for this convenient service at <https://portal.sao.wa.gov/SAOPortal>.

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$128,000 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in Fall of 2024 and will cover the following general areas:

- Accountability for public resources
- Review of CPA workpapers

The estimated cost for the next audit based on current rates is \$139,000 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics,

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training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally, this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation at the Office of the Washington State Auditor offers services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean process improvement, peer-to-peer networking, and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at

[Center@sao.wa.gov](mailto:center@sao.wa.gov).

Questions?

Please contact us with any questions about information in this document or related audit reports.

Kelly Collins, CPA, CFE, Director of Local Audit, (564) 999-0807, Kelly.Collins@sao.wa.gov

Wendy Choy, Assistant Director of Local Audit, (425) 502-7067, Wendy.Choy@sao.wa.gov

Joe Simmons, CPA, Program Manager, (206) 613-7628, Joseph.Simmons@sao.wa.gov

Madeleine "Maddie" Frost-Shaffer, Assistant Audit Manager, (206) 613-7627, Madeleine.Frost-Shaffer@sao.wa.gov

Kieu Nguyen, Audit Lead, (206) 613-7640, kieu.nguyen@sao.wa.gov

Accountability Audit Report

Port of Seattle

For the period January 1, 2022 through December 31, 2022

Published (Inserted by OS) Scan to see another great way

we're helping advance

Report No. 1034153 #GoodGovernment

[Link]

<mailto:webmaster@sao.wa.gov>

Office of the Washington State Auditor
Pat McCarthy
Issue Date – (Inserted by OS)

Board of Commissioners
Port of Seattle
Seattle, Washington
Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Port operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Port's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

Insurance Building, P.O. Box 40021 ? Olympia, Washington 98504-0021 ? (564) 999-0950 ? Pat.McCarthy@sao.wa.gov

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Port operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Port of Seattle from January 1, 2022 through December 31, 2022.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Port's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2022, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – electronic funds transfers, electronic wire transfers
- Tracking and monitoring of theft sensitive assets, such as computers, tools, and equipment
- Procurement – competitive exceptions
- Self-insurance with health and welfare, unemployment, workers compensation and paid family and medical leave
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

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P.O. Box 1209
Seattle, WA 98111-1209
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Port of Seattle

January 1, 2022 through December 31, 2022

This schedule presents the status of findings reported in prior audit periods.

Audit Period: Report Ref. No.: Finding Ref. No.:

January 1, 2021 through December 31, 2021 1032352 2021-001

Finding Caption:

The Port lacked adequate internal controls over electronic payments, which resulted in losses of public funds

Background:

The Port reported two phishing incidents to our Office. These incidents resulted in eight payments of public funds, totaling \$572,683, to fraudulent bank accounts.

We reviewed the Port's policy and operating processes over electronic funds transfer (EFT). We found that although the Port had procedures in place to protect EFT payments from loss, staff did not consistently or adequately follow them. Further, the training the Port provided to employees was ineffective, as staff missed key red flags common to phishing schemes, such as misspellings in the email body and email address, as well as the bank declining EFTs due to closed accounts.

Status of Corrective Action: (check one)

? Fully ? Partially ? Finding is considered no

? Not Corrected

Corrected Corrected longer valid

Corrective Action Taken:

The Port of Seattle Commission Audit Committee was fully briefed in public session in early 2022 by the Port's Internal Audit department on the cyber-crime experience, after conclusion of their audit. Also, in late 2022, the full Port Commission was briefed on the cyber-crime experience in public session as part of Internal Audit's report on audits completed in 2022. This cyber-crime experience in 2021 resulted in a total loss of \$50k related to the crime insurance deductible, after recovering over 91% through direct recovery of \$357k and \$166k in crime insurance coverage. As recognized by the professional audit industry, internal controls can only

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provide reasonable, not absolute, assurance against fraud exposure and loss. Therefore, along with having internal controls in place, the Port has a crime insurance policy which limits the risk of public funds loss exposure. Policy, procedural and systems controls have existed and were in place at the time of the cyber-crime experience. They were shared in detail with the State Auditor's Office. These controls have proven to be effective over the many years prior with no occurrence of a cyber-crime loss. There have also not been any control failures or loss to date since the cyber-crime experience in 2021. Despite the robustness of controls in place, the human element can become a factor in any well-designed internal control environment. This is what occurred in the 2021 cyber-crime experience, where ACH vetting protocols clearly established in Port policy and procedures were not specifically followed and became a point of failure. This risk exposure was immediately mitigated by instituting redundancy in controls and improving oversight. Also, staff of the Port departments involved in the 2021 cyber-crime imposter fraud experience attended mandatory cyber-fraud fictitious email training provided by the Port's Information Security department shortly afterward in 2022. This training became an annual mandatory refresher for all Port employees in 2023.

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<http://portal.sao.wa.gov/ReportSearch/?qItemValue=1728>

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<http://portal.sao.wa.gov/ReportSearch/?qItemValue=1728>

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's 2022 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

A firm of certified public accountants evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Port's major federal program. That firm's 2022 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

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INFORMATION ABOUT THE PORT

The Port is a municipal corporation of the State of Washington (the State), organized on September 5, 1911, under the State statute RCW 53.04.010 et seq. In 1942, the local governments in King County, Washington (the County) selected the Port to build and operate Seattle-Tacoma International Airport.

Port policies are established by a five-member Commission elected at-large by the voters of the

County for four-year terms. The Commission appoints the Executive Director (ED), who oversees daily operations of the organization. Through resolutions and directives, the Commission sets policy for the Port. These policies are then implemented by the ED and his executive staff. The Port is composed of three operating divisions, namely, Aviation, Maritime, and Economic Development. The Aviation Division manages the Airport. The Maritime Division manages industrial property connected with maritime businesses, recreational marinas, Fisherman's Terminal, cruise, grain, and maritime operations. The Economic Development Division focuses on managing the Port's industrial and commercial properties including conference and event centers, encouraging tourism, developing minority and/or women-owned business opportunities, and providing for workforce development in the aviation, maritime, and construction industries. For 2022, the Port had total operating revenues of \$797.9 million, which represents a 30.8 percent increase from 2021. Total operating expenses increased from \$362.6 million in 2021 to \$474.8 million in 2022. The Port's net operating income before depreciation increased \$75.9 million from 2021 to 2022.

Contact information related to this report

Port of Seattle

Address: P.O. Box 1209

Seattle, WA 98111

Contact: Lisa Lam, Director of Accounting and Financial Reporting

Telephone: (206) 787-4334

Website: www.portseattle.org

Information current as of report publish date.

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<http://portal.sao.wa.gov/ReportSearch/?qItemType=1&qItemDesc=Port%20of%20Seattle&qItemValue=1728>

Audit history

You can find current and past audit reports for the Port of Seattle at

<http://portal.sao.wa.gov/ReportSearch>.

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ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov Other ways to stay in touch

- Find your audit team • Main telephone:
 - Request public records (564) 999-0950
 - Search BARS Manuals (GAAP and cash), and find reporting templates • Toll-free Citizen Hotline:
 - Learn about our training workshops (866) 902-3900 and on-demand videos
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January 24, 2024

Office of the Washington State Auditor

3200 Capitol Blvd

P.O. Box 40031

Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of Port of Seattle for the period from January 1, 2022, through December 31, 2022. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all requested and relevant information of which we are aware, including:

- a. Financial records and related data.
- b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
- c. Other internal or external audits, examinations, investigations, or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
- d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
- e. Related party relationships and transactions.
- f. Results of our internal assessment of business risks and risks related to financial reporting, compliance, and fraud.

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2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.

3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts, and grant agreements.

4. We have identified and disclosed all laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

5. We have complied with all material aspects of laws, regulations, contracts, and grant agreements.

6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.

7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.

8. Except as reported to you in accordance with RCW 43.09.185, we have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.

9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.

Stephen P. Metruck
Executive Officer

Dan Thomas
Chief Finance Officer

Lisa Lam
Interim Director,
Accounting & Financial Reporting

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