

Financial Stewardship

Accountability

Transparency

Port of Seattle Audit Committee

Internal Audit Update

Glenn Fernandes - Director, Internal Audit

June 20, 2024

P69 Commission Chambers

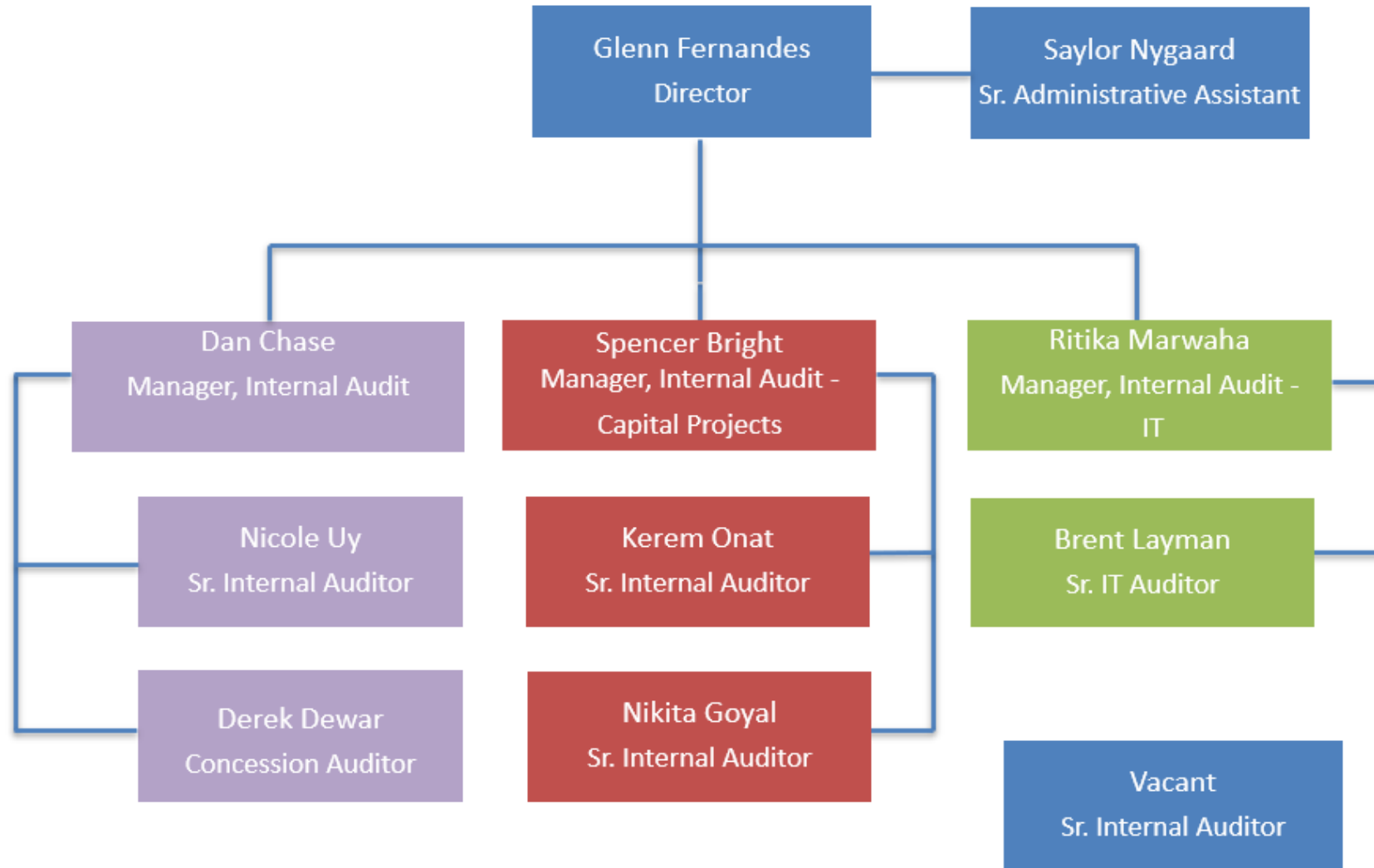
10:00 AM – 12:00 PM

Operational Excellence

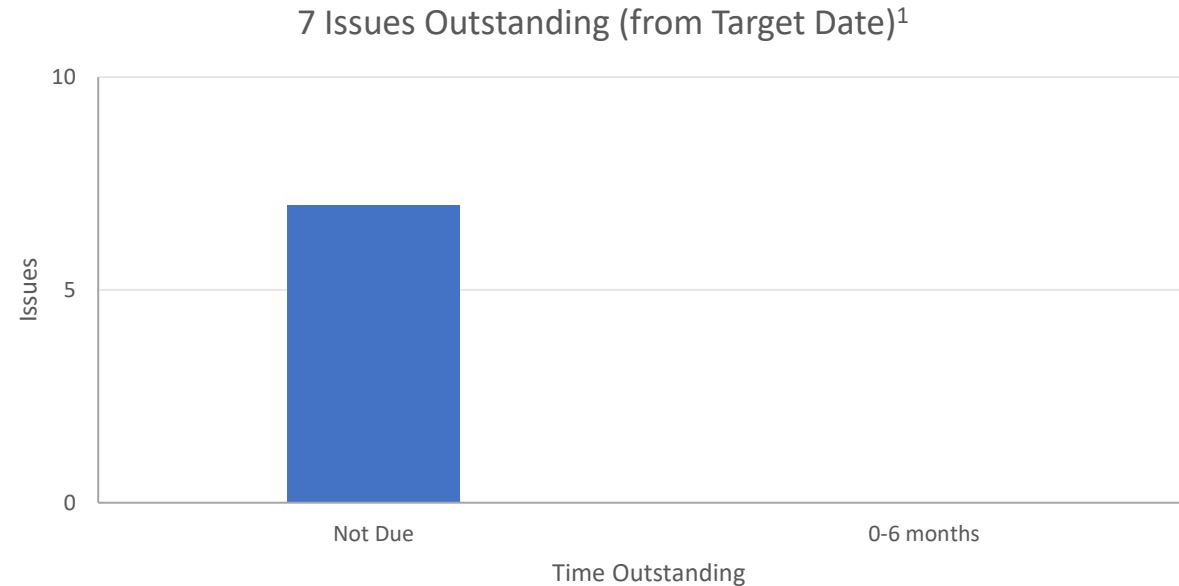
Governance



Internal Audit Organization Structure



Open Issues Status – Aging Report as of June 04, 2024



1. Security Sensitive issues from Information Technology and Performance audits are excluded from the Public Session Open Issues Status presentation and will be discussed at the September non-public session.

See **Appendix A** for a detailed listing of outstanding issues, including Report Finding, Issue Owners, and Current Status as of June 04, 2024.

Approved 2024 Audit Plan

Limited Contract Compliance

- Stellar Bambuza SEA, LLC
- Seattle Food Partners, LLC
- 1915 KCHouse Concepts – SEATAC, LLC
- Pallino SeaTac, LLC

Performance

Performance

- Fire Department – PFAS Use, Storage, and Phase-out
- Time Approval Controls
- Delegation of Authority
- Equity Policy Directive Compliance
- Utility Management – Port-wide

Capital

- Concourse A Building Expansion for Lounges/Delta TRA¹
- T-117 Sites 23-25 Restoration Project GC/CM Closeout
- TSE - Phase 2 Bollards and ADA Ramps
- Parking Garage Elevator Modernization

Information Technology

- Application Software Security
- Network Infrastructure Management (ICT)
- TSA Cybersecurity

1. This audit was started in the Fourth Quarter of 2023 and was completed in the First Quarter of 2024.

Internal Audit Capital GC/CM Continuous Audits

- RCW 39.10.385 requires an independent audit, paid for by the public body, to confirm the proper accrual of costs.
- We procure the independent auditor, provide oversight of work performed, and assist in fieldwork as needed.
- The independent auditor will provide the Audit Committee with annual updates and final reports upon completion of each project.

Capital GC/CM Continuous Audits

- | | |
|--|---------------------------------------|
| • Main Terminal Low Voltage System Upgrade | <i>Under Contract</i> |
| • Post IAF Airline Realignment | <i>Under Contract</i> |
| • C Concourse Expansion Project | <i>Under Contract</i> |
| • Eastside Fire Station | <i>Anticipated Contract July 2024</i> |
| • Baggage Optimization Phase 3 | <i>Under Contract</i> |
| • Concourse Low Voltage Upgrade | <i>Anticipated Contract July 2024</i> |
| • South Concourse Evolution | <i>Under Contract</i> |

2024 AUDIT PLAN STATUS

Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fire Department – PFAS Use, Storage, and Phase-out	Performance		In Process	In Process	In Process	In Process	In Process	In Process					
Time Approval Controls	Performance	In Process	In Process	In Process	In Process	In Process	In Process						
Delegation of Authority	Performance							Not Started	Not Started	Not Started	Not Started		
Equity Policy Directive Compliance	Performance							Not Started	Not Started	Not Started	Not Started	Not Started	Not Started
Utility Management – Port-wide	Performance				In Process	In Process	In Process	In Process	In Process				
Concourse A Building Expansion for Lounges/DELTA TRA ¹	Performance - Capital	In Process	In Process	In Process									
T-117 Sites 23-25 Restoration Project GC/CM Closeout	Performance - Capital										Not Started	Not Started	Not Started
TSE - Phase 2 Bollards and ADA Ramps	Performance - Capital						In Process	In Process	In Process				
Parking Garage Elevator Modernization	Performance - Capital		In Process	In Process	In Process	In Process							
Application Software Security	IT				In Process	In Process	In Process	In Process					
Network Infrastructure Management (ICT)	IT							Not Started	Not Started	Not Started	Not Started	Not Started	
TSA Cybersecurity	IT										Not Started	Not Started	Not Started
Stellar Bambuza SEA, LLC	Contract Compliance		In Process	In Process	In Process	In Process	In Process						
Seattle Food Partners, LLC	Contract Compliance						In Process	In Process	In Process				
1915 KCHouse Concepts – SEATAC, LLC	Contract Compliance		In Process	In Process	In Process	In Process	In Process						
Pallino SeaTac, LLC	Contract Compliance		In Process	In Process	In Process	In Process	In Process						
Seattle Chocolates Company, LLC ²	Contract Compliance							Not Started	Not Started	Not Started			

KEY	Complete
	In Process
	Not Started

1. This audit was started in the Fourth Quarter of 2023 and was completed in the First Quarter of 2024.
2. Added from the 2024 Contingency Audit Plan.

Audits Completed in Second Quarter - 2024

- 1) Time Approval Controls (Item #8)
- 2) Parking Garage Elevator Modernization (Item #9)
- 3) 1915 KCHouse Concepts – SEATAC, LLC ¹ (Item #10)
- 4) Stellar Bambuza SEA, LLC ¹ (Item #11)

¹ Limited Contract Compliance Audits without any issues will not be presented, however, the final reports are made available.

Time Approval Controls

- The Port of Seattle (Port) employs approximately 2,532 people, comprised of both represented and non-represented employees.
- The primary focus of this audit was Aviation Maintenance (AVM), specifically represented hourly employees within the department.
 - Focus was on the three departments with the largest headcount:
 - Aviation Electrical & Electronic Systems (135)
 - Aviation Mechanical Systems (124)
 - Facility, Fleet, Systems, & Grounds (116)

Time Approval Controls

- Most hourly represented employees are supposed to enter their hours worked in Maximo prior to leaving.
- All hours in Maximo, including Overtime, Vacation, and Sick Leave are tracked and linked to specific work orders.
- Ideally, supervisors review their crew's time on a weekly basis to verify the accuracy of the hours that are being submitted. Then, at the end of every two weeks, timesheets are submitted in Maximo and reviewed by the AVM Time Administrator.
- AVM Time Administrator runs various validation reports to assure that errors are corrected prior to Payroll's Monday deadline.

Time Approval Controls

- Most common checks performed:
 - Each employee has at least 40 regular straight time hours for each week.
 - Each employee has at least 8 or 10 regular straight time hours a day.
- Errors are emailed to the respective employee, Chief Foreman, and manager to resolve.
 - In 2023, there were over 3,400 adjustments that had to be remedied.
 - As of April 2024, there were over 430 adjustments needed.

1) Rating: High

There is no formal review and approval process performed over employees' timesheets assuring the accuracy of hours submitted every pay period.

- Current timekeeping process is disjointed and fragmented within the department.
- Some foremen review time almost daily, some review weekly, while some do not review at all, and merely wait to hear from the AVM Time Administrator.
- Due to the inconsistencies in the overall review process, the number of errors and adjustments greatly vary period to period.
- Overall burden primarily falls on the AVM Time Administrator, which is not sustainable and feasible due to the volume of AVM hourly employees (300+).

Recommendations

- Develop a formal process of reviewing and approving timesheets. Allocate administrative time for approvers to have adequate time to thoroughly review timesheets.
- Consider physical punch time clocks to improve accurate reporting of employees' entry and exit during every shift.
- Formal training opportunities to raise awareness about the importance of submitting time accurately and timely.
- Consequences for employees who regularly forget to submit their timesheets or require corrections and adjustments often.

Management Response

- Management concurs with the recommendation regarding a formal review and approval process to ensure the accuracy of employee hours submitted to payroll. AVM will develop and implement a time entry review and approval process for Maintenance Shop Supervisors to enable the validation of hours recorded by each employee.
- Management will explore opportunities regarding physical punch time clocks in shop locations to improve the current process and prevent manual data entries.
- Management will develop and deliver training, emphasizing the importance of recording hours worked accurately, as well as highlight the expectation that each employee should record hours worked on jobs daily.

DUE DATE: 3/31/2025

Management will discuss in detail. (Full response in Audit Report No. 2024-04)

2) Rating: High

A policy limit to control the amount of overtime employees work has not been established. Without a limit, the likelihood of accidents could increase, and employee well-being could decline.

- In 2023, a total of 74,264 Overtime (OT) hours were worked, with higher hours worked primarily during the summer and winter months.
- During our testing, we noted the following five employees within AVM with the highest number of OT hours:

Job Title	Total Overtime Double Time (OTDT) Hours in 2023
Aviation Field Technician	1,026
Aviation Field Technician	761
Aviation Field Technician	760
Laborer Parking/ Fuel Cleaner	856
Laborer Parking/ Fuel Cleaner	847

Issue Continued:

- Our testing identified the following:
 - One employee who worked a 34-hour shift
 - One employee who worked a 90-hour work week
 - One employee who worked several 20-hour shifts after already working a 10-hour day
- Additionally, Internal Audit noted that the longest streak of consecutive OT performed was four days.
- In 2023, the Port paid over \$8M in total overtime labor costs vs. the budgeted amount of \$3.3M.

Recommendations

- Develop a Port-wide policy to enforce a formal cap and limit on the number of consecutive hours that an individual can work within a 24-hour period, highlighting safety concerns and supporting employees' overall health and wellbeing.
- Integrate the language from the Port-wide policy into Collective Bargaining Agreements (CBAs).

Management Response

- Management concurs with the Audit team's recommendations. There is a definite need for a Port-wide policy to enforce a formal cap on the amount of overtime an individual employee can work; we as a management team share the same concerns around safety and the overall health and well-being of the employee.
- We also agree with the plan to integrate the Port-wide policy into each CBA to ensure standardization across the board. At this time, we will refrain from taking any action related to these recommendations at the department level.

DUE DATE: 12/31/2024

Management will discuss in detail. (Full response in Audit Report No. 2024-04)

3) Rating: Low

During testing, Internal Audit (IA) noted that for some of our selections, supporting documentation was missing and/or unavailable.

- Within AVM, different departments have varying policies regarding requests for Vacation, Leave without Pay (LWOP), FMLA, etc.
- Out of 45 total samples, we had eight items (three related to LWOP, four related to Vacation, and one related to FMLA), for which supporting documentation could not be provided since they were missing, lost, or non-existent.
- Since supporting documentation could not be provided, IA was not able to verify and substantiate that these hours were indeed approved appropriately.

Recommendations

- Streamline the entire request process and develop an AVM-wide policy regarding Vacation and Leave requests. Internal Audit recommends the usage of electronic requests to avoid any possible loss and misplacement of supporting documentation.
- Coordinate with the Port's HR regarding employees' FMLA requests to develop a more formalized and standardized process to avoid delays and errors when processing timesheets.

Management Response

- Management agrees that a standard process or department policy is needed to ensure the whole department is using the electronic SharePoint leave form.
- Management will partner with HR to identify gaps in the current process related to FMLA. This process affects and involves multiple stakeholders currently including the AVM employee, AVM manager, AVM timekeeper, Corporate Payroll, HR, and Sedgwick.

DUE DATE: 12/31/2024

Management will discuss in detail. (Full response in Audit Report No. 2024-04)

Parking Garage Elevator Modernization

- The Project replaces ten elevators, nine motor drives, and upgrades all 27 elevator cabs at the SEA parking garage.
- The Project is being performed through a Design-Bid-Build project delivery method between Osborne Construction and the Port.
- The modernized elevators will use energy efficient regenerative drives that use less energy and produce less waste heat.
- Energy Savings Estimate: 56,000 to 211,0000 kWh/year, which aligns with the Port's goal to be the greenest and most energy efficient port in North America.
- Our work focused on the procurement process and change orders.
- Additionally, we performed tests on the Pay Application review process and insurance coverage.

Parking Garage Elevator Modernization

- The original contract was \$8.5 million.
- As of May 2024, contract was at \$12.5 million, because of approximately \$4 million in change orders.
- There are \$310,728 in Open Trends, which increases the projected final contract amount to \$12.8 million.

Schedule (Per May 8, 2024, Trend Log)	
Original Contract Completion Date	1/17/2024
Approved Time Extension (Calendar Days)	166
Days Project Suspended Due to Addendum Error	638
Port Estimated Completion Date	3/31/2026
Budget (Per May 8, 2024, Trend Log)	
Original Contract Sum	\$8,515,805.00
Executed Change Orders	\$3,975,042.00
Potential Risk (Open Trends)	\$310,728.00
Projected Contract Amount	\$12,801,575.00

- Project is anticipated to be completed by March 31, 2026.

1) Rating: Medium

Removal of important material specifications during the bidding phase resulted in post award change orders that are expected to increase the cost of the contract by \$3.5 million and incur additional Port soft costs of \$284,856.

- Addendum 5 erroneously crossed out material and pattern specifications.
- Error was identified during construction.
- Resulted in five change orders potentially costing \$3.5 million.
- Added 166 days to Project schedule (approximately \$284,856 in soft costs).
- CPO procedure lacks documentation requirements for Construction Manager (CM), Project Manager (PM), and Resident Engineer (RE) approvals.
- No Port estimate was performed for Change Order #1. It was approved for \$74,000, despite Standard Operating Procedures requiring an estimate for changes over \$50,000.

Recommendations

1. Revise the CPO procedure to specify required approvers prior to issuing addenda and maintain sufficient documentation.
2. Perform Port estimates in accordance with Standard Operating Procedures.

Management Response

- CPO agrees with the recommendation and will revise the CPO procedure to specify required approvers prior to issuing addenda and maintain sufficient documentation.
- Engineering Construction Management (CM) acknowledges the required estimate was missing from the Not-To-Exceed Change Order (CO) 01 documentation. Per Standard Operating Procedures, CO 01 requires a reconciling change order to execute the final amount for the change. This provides an opportunity for the project team to include an independent estimate in the reconciling change order. Targeted training will also be done with the CM Resident Engineers and CPO Contract Administrators on this topic during our bi-monthly training session.

DUE DATE: 07/31/2024

Management will discuss in detail. (Full response in Audit Report No. 2024-06)

1915 KCHouse Concepts – SEATAC, LLC

This is a Limited Contract Compliance Audit without any issues and will not be presented during this meeting. However, the final reports are made available.

Stellar Bambuza SEA, LLC

This is a Limited Contract Compliance Audit without any issues and will not be presented during this meeting. However, the final reports are made available.

Questions/Committee Comments



Appendix

A – Aging of Outstanding Issues as of June 4, 2024

Appendix A – Aging of Outstanding Issues as of June 04, 2024

Performance, Capital, and Limited Contract Compliance Audits

Audit Type	Audit Title	Rating	Target Date	Report Date	Days Outstanding (from Report Date)	Days Outstanding (from Target Date)	Issue Owner	Report Finding	Current Status from Management as of 06/04/2024
Performance	Airport Parking Garage	High	12/31/2024	11/30/2023	187	-210	Director, Airport Operations	Complimentary Parking – We identified 603 instances of misuse of complimentary parking cards issued to organizations that have business at the Airport. The cards, and the associated Port policy, allowed their staff to park at the Airport Parking Garage for 24 hours or less. This amounted to approximately \$74,000 in unbilled parking revenue, during our 18-month test period.	The Transportation Access Program Manager is project managing each recommendation to ensure the right staff are working on the appropriate issue in a timely fashion and documenting progress for management. All four recommended items are being worked on towards individual, target completion dates. One item related to card reissue is no longer relevant as a result of the discontinued practice. Agreed upon target date is 12/31/2024.
Performance	Airport Parking Garage	High	12/31/2024	11/30/2023	187	-210	Director, Airport Operations	Complimentary Parking – The Port needed to enhance controls relating to retrieving and shutting off complimentary parking cards for employees who leave the Port. By looking at the 1,397 active employee parking cards, we identified 99 active cards that were assigned to employees who were no longer employed by the Port, 16 of which continued to use their cards after separation from the Port.	The Transportation Access Program Manager is project managing each recommendation to ensure the right staff are working on the appropriate issue in a timely fashion and documenting progress for management. All three recommended items are being worked on towards individual, target completion dates. One item related to Employee ID number in the parking system is complete as the data field's existence. Agreed upon target date is 12/31/2024.
Capital	Concourse A Building Expansion for Lounges - Delta TRA	High	12/18/2024	3/13/2024	83	-197	Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Risk Management Director Aviation & Business Properties	An implicit agreement between Hensel Phelps and the Port's Risk Management Department settled on \$10 Million in Commercial General Liability Insurance (GLI) at an estimated cost of \$559,500. Hensel Phelps subsequently materially overbilled the Port for \$100 Million in GLI, at a cost of \$1,120,784.	Agreed upon target date is 12/18/2024.
Limited Contract Compliance	Seattle Air Ventures	Medium	6/30/2024	11/29/2023	188	-26	Director, Aviation Commercial Management	In 2021, a variance of \$142,500 in gross sales was reported between the externally audited financial statements and the amount previously reported to the Port. We also identified differences between point-of-sale revenue and the general ledger.	No update as of 06/03/2024.
Performance	Airport Parking Garage	Medium	11/30/2024	11/30/2023	187	-179	Director, Airport Operations	Complimentary Parking – Controls to deactivate complimentary parking cards at the end of a 12-month duration (unless reapplied and renewed), for contractors, consultants, and airline workers, were not functioning as intended. Online request forms were not used or, if used, some were incomplete or inaccurately reflected in the parking system.	The Transport Access Program Manager is project managing each recommendation to ensure the right staff are working on the appropriate issue in a timely fashion and documenting progress for management. All four recommended items are being worked on towards individual, target completion dates. Agreed upon target date is 11/30/2024.

Appendix A – Aging of Outstanding Issues as of June 04, 2024

Performance, Capital, and Limited Contract Compliance Audits

Audit Type	Audit Title	Rating	Target Date	Report Date	Days Outstanding (from Report Date)	Days Outstanding (from Target Date)	Issue Owner	Report Finding	Current Status from Management as of 06/04/2024
Capital	Concourse A Building Expansion for Lounges - Delta TRA	Medium	9/24/2025	3/13/2024	83	-477	Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Aviation & Business Properties	Hensel Phelps' request for Reimbursement Submittal (RSS) for General Requirements did not include adequate supporting documentation.	Agreed upon target date is 09/24/2025.
Capital	Concourse A Building Expansion for Lounges - Delta TRA	Medium	12/18/2024	3/13/2024	83	-197	Chief Engineer/Director, Engineering Services Director Aviation Project Management Director Aviation & Business Properties	The Port has an opportunity to revise its procedures on future TRA projects in order to decrease the potential of reimbursing unallowable or duplicate costs within General Conditions.	Agreed upon target date is 12/18/2024.