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APPROVED MINUTES

AUDIT COMMITTEE SPECIAL MEETING

March 28, 2024

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, March 28, 2024. 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 Calkins and Mohamed (Alternate for Commissioner Hasegawa) and Public Member Sarah Holmstrom (non-voting).

1. Call to Order:

The committee special meeting was called to order at 10:00 a.m. by Commissioner Calkins. The agenda was approved without objection.

*Internal Audit Department presentation is found here and contains information for Agenda Items 4 through 9.

2. Approval of Audit Committee Meeting Minutes of December 14, 2023

The minutes of the Audit Committee special meeting of December 14, 2023, were approved without objection.

EXTERNAL AUDITS

3. Office of the Washington State Auditor (Presentation and Report)

Presenters:

Joseph Simmons, Program Manager

Kieu Nguyen, Assistant State Auditor

Maddie Frost-Shaffer, Assistant Audit Manager

The Office of the Washington State Auditor presented regarding the results of the 2022 Accountability Audit of the Port.

The opening audit addressed:

- Accountability Audit results;

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- areas examined during the audit;
- work of other auditors reviewed in the process;
- the Port received a clean audit report;
- audit costs in alignment with original estimates; and
- the next audit will be conducted in Fall 2024.

Members of the Committee thanked the audit team for their presentation and discussed the timeline cycle for these audits.

4. Director's Annual Communication – Independence, Internal Audit Charter, Quality Assurance, and Follow-Up

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- internal audit organization structure;
- auditing standards its new structure;
- governing the internal audit function;
- the Internal Audit Director's annual communication required by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing;
- the Internal Audit Charter, most recently update in September 2020;

- independence requirements for the audit process; and
- quality assurance requirements.

Members of the Committee thanked Mr. Fernandes for the annual communication and for his presentation.

UPDATES AND APPROVALS

5. Open Issues Status Report

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the status of Open Issues, reporting as of March 14, 2024.

The presentation addressed three issues outstanding for over one year from the target date of completion; and three information technology issues that do not currently have target dates assigned.

Discussion ensued regarding:

- charts provided and audits re-estimated for completion time;
- if Internal Audit agreed with the removal of anything from the listing – and one item where risk was mitigated by other internal controls; and
- changes in management that also affected audit timelines.

Members of the Committee thanked Mr. Fernandes for the report and for actively working to address outstanding audits.

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https://meetings.portseattle.org/portmeetings/attachments/2024/2024_03_28_AM_07_Attachment_Concourse-A-Expansion-Audit-Report.pdf

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6. 2024 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the approved 2024 Audit Plan, including limited contract compliance; performance; and information technology planned audits.

The presentation addressed:

- internal audit capital GC/CM continuous audits;
- construction contract review;
- status of audits to-date in the plan; and
- audits completed in the first quarter 2024.

Discussion ensued regarding:

- the role of the Port's legal department vs. the role of Internal Audit with respect to construction contract process review; and
- participation from the Internal Audit Department when the Commission holds their study session on emerging technologies.

Members of the Committee thanked Mr. Fernandes for the report on the status of the 2024 Audit Plan.

PERFORMANCE AUDITS

7. Concourse A Building Expansion for Lounges (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

Kerem Onat, Senior Internal Auditor

The presentation addressed:

- the Concourse A Expansion for Lounges Project being conducted under a Tenant Reimbursement Agreement (TRA) between the Port and Delta Air Lines;
- Hensel Phelps selected as the general contractor;
- project design and construction of a 52,000 square foot building addition in Concourse A, including 36,000 square feet of new leasable space;
- design of the base building was approved by the Commission in April 2021 with construction anticipated to be completed in the Fall 2024;
- agreement between Hensel Phelps and the Port's Risk Management Department settled on \$10M in Commercial General Liability Insurance (GLI) at an estimated cost of \$559,500;
- Hensel Phelps subsequently materially overbilled the Port for \$100M in GLI, at a cost of \$1,120,784;
- Internal Audit's recommendations to update contract insurance language and TRA language, with a determination from Risk Management with respect to the final reimbursable insurance cost and accordingly adjusting the Guaranteed Maximum Price;
- lack of supporting documentation provided by Hensel Phelps to support their request for reimbursement; and

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- the Port's opportunity to revise its procedures on future TRA projects in order to decrease the potential of reimbursing unallowable or duplicate costs within general conditions.

Management provided their responses noting their agreement with the recommendation to improve future TRA contract language. The stated they will work with other project delivery groups and risk management to establish clear guidelines as they relate to acceptable insurance requirements and thresholds. Management also noted a project team will work with the Aviation Department that generates TRAs to determine the required documentation for reimbursement for general requirements and standard operating procedures will be updated to require adequate backup document to support reimbursement requests.

Discussion ensued regarding:

- if there is an estimated timeline to update the standard operating procedures;
- a working group meeting every two weeks to incorporate recommendations by 2025;
- the North Terminal Tenant Reimbursement Agreement not being within the scope of this audit;
- Delta not passing along insurance amount requirements to Hensel Phelps;
- the need to require amounts of general contractors in standard operating procedures for the Port's contract with the main party;
- being cautious about forbidding a higher amount of insurance for general contractors;
- how legal is involved when there are inconsistencies between the contract and what the Port agreed to;
- making it clear that any proposed changes to a Tenant Reimbursement Agreement needs to be submitted via change order;
- if changes can be implemented now; and
- why lump sum invoicing was used.

Members of the Committee thanked Internal Audit for their audit report and management for their response.

INFORMATION TECHNOLOGY AUDITS

8. Payment Card Industry (PCI) – Qualified Security Assessor (QSA) Assessment Results (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- The 2023 PCI assessment completed on December 14, 2023, by Secured Net Solutions Inc., an external party, and a Qualified Security Assessor (QSA) with the work performed to assure the Port's compliance with the Payment Card Industry Data Security Standard (PCI DSS) version 3.2.1.;
- PCI requirements for merchants to complete an annual Self-Assessment Questionnaire (SAQ) to verify to their acquirer that their security controls over credit card data handling meets requirements;
- the Port accepts credit card payments for taxi driver usage fees, moorage services at its marina facilities, and parking at the Seattle-Tacoma International Airport;
- the Port received an overall "Compliant" rating, demonstrating full compliance with the PCI requirements.

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https://meetings.portseattle.org/portmeetings/attachments/2024/2024_03_28_AM_09_Attachment_Pallino-SeaTac-LLC-Audit-Report.pdf

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Internal Audit Director Fernandes and Members of the Committee acknowledged the compliant audit and congratulated staff in this regard.

LIMITED CONTRACT COMPLIANCE AUDITS

9. Pallino SeaTac, LLC (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- Internal Audit's performance of an attestation engagement to assess compliance with the Lease and Concession Agreement;
- performing specific, agreed-upon procedures to review concession fees for completeness, accuracy, and timeliness;
- the review period of January 2023 –June 2023; and
- no exceptions identified.

Discussion ensued regarding the six-month review period, cycling through data at a faster pace and more often.

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

13. Committee Comments

Commissioner Calkins recognized Rumi Okuma, Senior Internal Auditor, and Pam Bailey, Senior Administrative Assistant, for their work and contributions at the Port in anticipation of their respective upcoming retirements.

Commissioner Calkins encouraged the Port to look for ways to recognize and celebrate where innovation finds significant cost savings. Dan Thomas, Director of Finance, responded that the Port is often underspent due to project delivery and stated more comprehensive reporting regarding Capital spend is possible.

14. Adjournment

There being no further business, the special meeting adjourned at 11:31 a.m.

Prepared: Attest:

Michelle M. Hart, MMC, Commission Clerk Toshiko Hasegawa, Audit Committee Chair

Minutes approved: June 20, 2024.