

Port of Seattle Audit Committee

June 28, 2019

Pier 69, Commission Chambers

11:00 AM – 1:00 PM



Awards & Recognition



Audit Committee Recognition

- Christina Gehrke
 - 8 years of outstanding voluntary service
 - 2011 - 2019
 - 3rd term
 - Provided invaluable expert counsel to commissioners and to Internal Audit

Internal Promotions

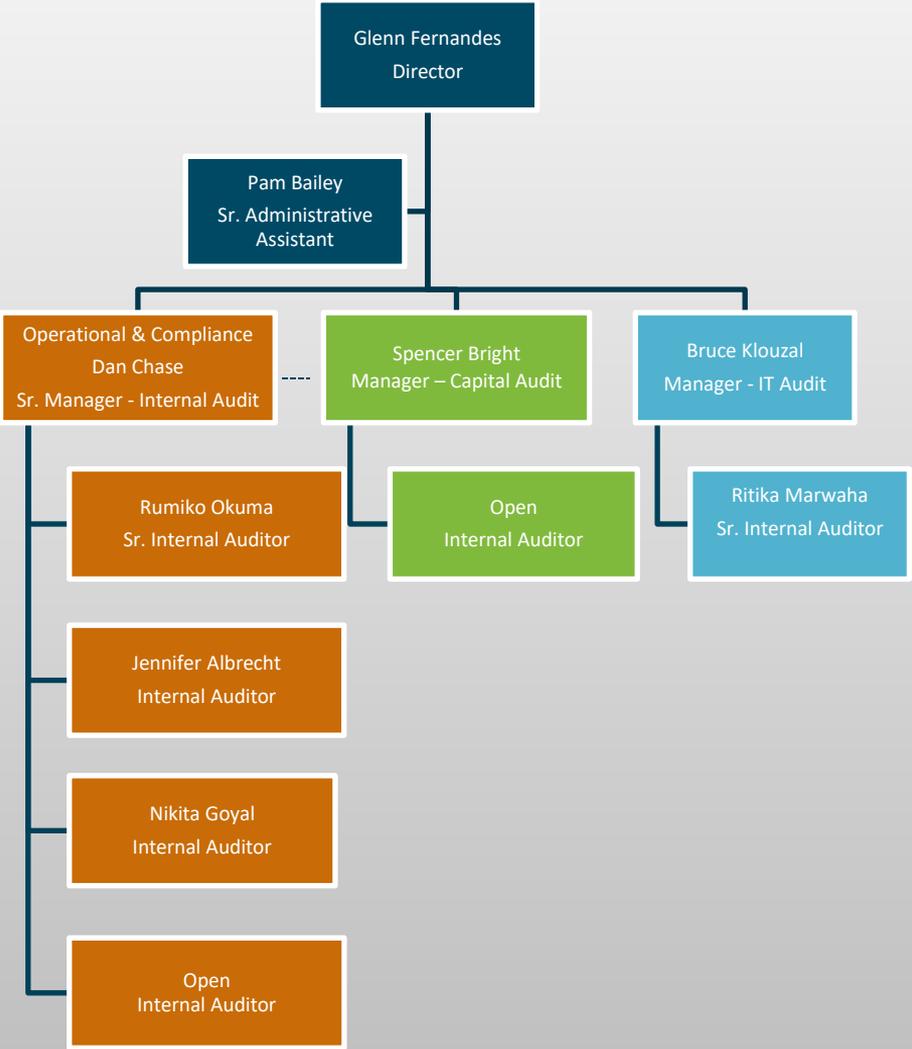
Spencer Bright – Capital Audit Manager

- Hired January 2017
- Certified Internal Auditor, Certified Fraud Examiner

Rumi Okuma – Senior Internal Auditor

- Hired November 2018
- CPA, Certified Internal Auditor, Certified Fraud Examiner

Internal Audit Organization Structure



2019 Audit Plan

Limited Contract Compliance

- Sixt Rent A Car LLC
- Enterprise Rent A Car
- Anton Airfood
- Mad Anthony's
- Marketing Fund-Concessions

Operational

- Airport security screening program
- Diversity Program
- Marine Maintenance

Capital

- Baggage Optimization
- Noise Insulation Programs (FAA Part 150)
- Concourse D Hardstand Terminal
- Shilshole Tenant Service Building

Information Technology

- Security of Personally Identifiable Information
- HIPAA – Compliance
- PCI-Quality Security Assessor
- Closed Network System Security
- T2 Airport Garage Parking System Replacement

2019 AUDIT PLAN STATUS

Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sixt Rent A Car LLC	Limited Compliance	Complete	Complete	Complete									
Marketing Fund-Concessions	Limited Compliance	Complete	Complete	Complete									
Security of Personally Identifiable Information	IT	Complete	Complete	Complete									
Noise Insulation Programs (FAA Part 150)	Operational - Capital	Complete	Complete	Complete	In Process	In Process	In Process						
Marine Maintenance	Operational	Complete	Complete	Complete	In Process	In Process	In Process						
Mad Anthony's	Limited Compliance		In Process										
Baggage Optimization	Operational - Capital			In Process	In Process	In Process	In Process						
Anton Airfood	Limited Operational			In Process	In Process	In Process	In Process						
Diversity Program	Operational				In Process	In Process	In Process						
Closed Network System Security	IT		In Process										
Enterprise Rent A Car	Limited Compliance					In Process							
Airport Security Screening Program	Operational						In Process	In Process	In Process	In Process			
Concourse D Hardstand Terminal	Operational - Capital						In Process	In Process	In Process	In Process			
HIPAA Compliance	IT						In Process	In Process	In Process	In Process			
Shilshole Tenant Service Building	Operational - Capital								In Process				
PCI Quality Security Assessor	IT					In Process							
Add: Inventory and Control of Hardware Assets	IT						In Process						
Add: Architectural, Engineering & Related Support Services	Operational - Capital								In Process				
Remove: T2 Airport Garage Parking System Replacement	IT												

Key:	Complete
	In Process
	Request to Remove/Add from Audit Plan

Audits to be discussed

- 1) Marine Maintenance Shop
- 2) Diversity in Contracting
- 3) Checked Baggage Optimization - Phase I
- 4) Noise Insulation Program
- 5) Mad Anthony's, Inc.
- 6) Anton Airfood

Marine Maintenance Shop

- Maintains Port waterfront properties, fleet, and equipment
- 14 specialized crafts (Plumbing, Painting, Electrical, Carpentry, etc.)
- Operates one central repair facility at 25 South Horton Street
- Performs small works projects, generally < \$300,000

Results

High – (self-identified) A process to issue and track keys and badges needs to be enhanced.

- ✓ Comprehensive list of physical access points did not exist
- ✓ Segregation of duties for authorization, custody, distribution did not exist
- ✓ Badges of terminated employees were still active
- ✓ Badge applications, showing authorization not retained
- ✓ Policies and procedures not established

Results

High – Internal controls to monitor and account for fleet and fuel usage need to be strengthened.

- ✓ Certain Fuel Master controls (functionality) need to be used
- ✓ Process to assure Fleet vehicles are only used for business purposes
- ✓ Process to monitor fuel usage for unusual patterns
- ✓ Fuel logs were not always complete / lost
- ✓ Surveillance camera on fuel pump

MANAGEMENT RESPONSE

Management to discuss in person. Detailed response presented in audit report.



Diversity In Contracting

- Audit required per Policy Directive

- Revised Code of Washington 49.60.400

“The state shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting.”

- Washington State Attorney General opinion
 - ✓ Provides measures not prohibited: aspirational goals, outreach, training

- I-1000
 - ✓ Clarity of definitions / expanded scope

Results

Medium – The Port established a five-year goal to increase to 15% the amount spent on WMBE contracts and to triple the number of WMBE firms. However, the starting point or baseline that management was using to measure the goal was not consistent with the date within the Policy Directive.

Table 1:

2018 Baseline - WMBE Goals	2018	2022
Percent of Total Spend	11.8%	15.0%
Number of Firms	244*	732

* Adjusted to correct for overstatement of 14 firms

Table 2:

2016 Baseline - WMBE Goals	2016	2020
Percent of Total Spend	5.3%	15.0%
Number of Firms	118	354

Results (Continued)

Medium – 2018 WMBE utilization was overstated by 14 firms in the Diversity in Contracting 2019 Annual Plan.



MANAGEMENT RESPONSE

The five-year goal was formed under good faith efforts based upon the information we had at the time. Work began in 2017, where we had a full year of 2016 data to review; however, full Diversity in Contracting Program implementation was not complete until 2019. Staff recommends maintaining the 2016 baseline for the 5-year measurements to 2020. If 2018 is determined to be the starting point, staff recommends Commission re-evaluates the Diversity in Contracting utilization goals.

During the audit process, the Planning and Analytics team discovered the problem, reported the issue to the audit team, and have developed standard reports that remove duplicate records. This will prevent double counting in the future.



TALSON SOLUTIONS LLC



Port of Seattle Operational Audit – Checked Baggage Optimization June 28, 2019

Checked Baggage Optimization Project Phase I

Project Background

- Designer – BNP Associates, Inc.
 - \$12 million Service Agreement
- Contractor – PCL Construction Services, Inc.
 - \$52 million Lump Sum Agreement
 - \$2.5 million of change orders increased contract to \$54.5 million
- Reviewed progress at 83% complete at June 2019
 - Target Completion - *December 2019*
 - Actual Completion - *Delayed (projecting March 2020)*

Audit Scope

- Evaluate Contract Compliance
 - Lump Sum Agreement
 - Subcontract Agreements
- Assess Project Management
 - Pay Estimates
 - Change Order Management
 - Reporting
 - Communications
 - Testing
- Schedule Analysis

Checked Baggage Optimization Project Phase I

Audit Area	Description
Contract Compliance	Adequate by POS and PCL. Includes assessing pay estimates, submittals and project reporting
Project Management	PCL lacked proper oversight of subcontractors (J Webb) causing delays – MEDIUM RATING
	J Webb submittals delayed fabrication, delivery, testing and installation
	High turnover of project staff and lack of experienced professionals for specialized project
	Current PCL Project Manager was not approved by formal submission to POS per specifications and lacks BHS experience
Schedule Analysis	Contractor schedule appeared to be adequate to meet contractual completion dates
	POS has not formally accepted PCL's revised completion dates / Liquidated damages can be pursued
	Potential additional three week schedule delay due to replacement of water damaged EDS equipment

What Went Well

1. POS Project Oversight

- Use of Serial Letters to document project risks / concerns
- Use of POS staff to mitigate testing and installation schedule risks
- Overall project cost management....sufficient contingency

2. Employment of Industry Best Practices

- Change Management Process
- Openness to accept the audit and recommendations

Audit Recommendation

1. Continued suitable oversight by POS project staff to maintain current budget condition and mitigate further scheduling delays
2. Upon completion of Phase I, Port management should calculate and pursue liquidated damages from PCL

Management Responses (to be provided in person)

Management agrees and intends to pursue liquidated damages for unexcused delays.

Questions

Ken Brzozowski, CCA, CCP
Engagement Director

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Noise Insulation Program

- Commission requested IA look at program
- Established in 1985 to reduce noise in homes, condominium complexes, and schools
- \$400 MM spent to date
- Historical mitigation costs funded by airport funds
 - ✓ Future costs 80% FAA grants and 20% airport funds
- Audit focused on 2013 through 2016, work performed by Burton Construction Inc.
- Reviewed costs associated with 20 out of 48 houses

Noise Insulation Program (cont.)

- Port utilized the Job Order Contract (JOC) project delivery method for noise insulation of single family residential residences
 - ✓ Burton Construction paid \$2.8 million
 - ✓ Subcontracted more than 90% of work, as required
- Job Order Contracting Delivery Method
 - ✓ Price Book used to establish Job Order pricing
 - ✓ Contractor bids a price “co-efficient” to cover overhead, profit and management costs
 - Contractor submits a work authorization request for each project by priced item list

Noise Insulation Program (cont)

➤ Example of summary costs by description

Work Order #9

CSI Summary of Work Order Items Listed in Unit Price Book					
Item	CSI Division Description	Bare Cost Total	Cost Index	Contractor Coefficient	Division Total Price
1	General Conditions	\$ 11,945.52	1.038	0.898	\$ 11,134.71
2	Abatement	\$ 5,996.87	1.038	0.898	\$ 5,589.83
3	Demo	\$ 1,994.47	1.038	0.898	\$ 1,859.09
4	Doors & Windows	\$ 25,639.07	1.038	0.898	\$ 23,898.79
5	Drywall	\$ 577.00	1.038	0.898	\$ 537.84
6	Paint	\$ 3,365.39	1.038	0.898	\$ 3,136.96
7	Mechanical	\$ -	1.038	0.898	\$ -
8	Electrical	\$ -	1.038	0.898	\$ -
	Total:	\$ 49,518.32	1.038	0.898	\$ 46,157.21
Total of all base items listed in Price Book					\$ 46,157.23

The coefficient is bid by the JOC

Billed amount is "Bare Cost" X "Cost Index" X "Contractor Coefficient"

Abatement not consistent with asbestos/lead and work done

Work Order No.	General Conditions	Total WO (sales tax not included)	General Condition %
9	11,134.71	46,157.23	24%
11.1	12,831.67	38,598.12	33%
11.2	18,987.58	56,359.08	34%
11.3	19,081.78	57,533.49	33%
14.1	23,222.37	79,510.24	29%
14.2	16,275.86	55,618.09	29%
14.3	12,882.80	43,599.45	30%
14.4	13,017.83	42,244.56	31%
15.1	11,851.33	39,599.44	30%
15.2	13,937.78	49,138.72	28%
15.3	17,167.25	61,088.47	28%
15.4	20,240.53	71,343.28	28%
17.1	16,280.50	56,309.71	29%
17.2	19,708.10	67,773.78	29%
17.3	19,061.89	64,762.95	29%
17.4	17,103.90	54,962.00	31%
21.1	19,054.01	59,303.92	32%
21.2	11,572.65	38,775.37	30%
21.3	16,376.74	53,602.84	31%
21.4	11,422.44	37,878.96	30%
23.1	12,499.36	39,541.39	32%
23.2	16,035.61	49,686.46	32%
23.3	16,389.28	52,092.58	31%
24	21,595.85	61,802.42	35%
Total	387,731.82	1,277,282.55	30%

- General Conditions: Costs of a general and administrative nature
- Per “Blueprint to Construction Auditing”, should average 5-8%
 - ✓ High General Conditions % warrants further review
- Burton averaged 30%

Noise Insulation Program (cont)

➤ General Conditions / Adjustment Factors for Work Order 24

Work Order No. 24 (Adjustment Factors/General Conditions)

Description	Amount (residence 1)	Amount (residence 2)	Totals
Material handling & storage limitations	\$2,461.96	\$3,174.49	\$5,636.45
Equipment usage curtailment, max	2,457.36	2,921.37	5,378.73
Equipment usage curtailment, minimum ¹	2,457.36	494.87	2,952.23
Cut & patch to match existing work	2,649.10	3,295.37	5,944.47
Dust protection, add max	2,836.24	3,416.24	6,252.48
Protection of existing work, max	2,271.75	2,884.87	5,156.62
Taxes (unemployment, state/fed, social security, etc.)	3,254.62	3,540.56	6,795.18
Small tools as % of part of bare labor costs	377.35	410.50	787.85
Add to labor for working in existing occupied space	2,830.10	3,078.75	5,908.85
General equipment rental, truck, pickup, ¾ ton, wheel drive	304.62	304.62	609.24
Mobilization/demobilization, small equipment	1,714.59	857.29	2,571.88
Cleanup of floor area, continuous per day, during construction	97.03	102.58	199.61
Cleanup of floor area, final GC at end of job	63.43	67.06	130.49
General rental equipment, temporary toilet, chemical	334.21	334.21	668.42

Total WO 24 adjustment factors: \$24,109.72 \$24,882.78 \$48,992.50

¹ The Job Order Contractor included *equipment usage curtailment, maximum* twice on residence 1 instead of *equipment usage curtailment, minimum*.

Usage curtailment is billed twice; both the minimum and maximum

Per the RFP this should have been in the coefficient

A charge for a pickup truck?

Results

High – Port’s controls related to review of Job Order Contract proposed work not functioning effectively.

- ✓ Burton charged the Port a 51% average mark-up
 - Results are the same whether you look at mark-up or detail line items

- ✓ Assuring line items and quantities proposed are appropriate requires a diligent review and necessitates questioning items that appear inaccurate

- ✓ Our work indicated a reasonableness review was not always performed.

Results

Medium – Highline School District (HSD), an FAA Airport Improvement Plan grant recipient, was not always in compliance with Grant requirements.

- ✓ Port is responsible to verify subrecipient compliance with FAA grant requirements
- ✓ Failure of HSD to comply with requirements can jeopardize current federal grants
- ✓ Port working with HSD to assist with Federal Procurement Contracting guidelines and compliance with grant requirements

MANAGEMENT RESPONSE - JOC

Management to discuss in person. Detailed response presented in audit report.



MANAGEMENT RESPONSE – FAA Grant

Port staff appreciates and supports Audit's recommendation to enhance current processes to ensure grant recipient awareness. Our recent experience with the Highline School District (HSD) provides a good basis for that enhancement.

Management to provide more information in person.

Mad Anthony's

- Anthony's at Fisherman's Terminal (Chinook's)
- Lease Agreement established in 1987
- Percentage Rent 6.25% of gross sales in 1990 up to first \$3 MM, thereafter 8%
 - ✓ \$3 MM adjusted annually since 1990 using CPI
- Gross Revenue Range
 - 2014 – 2018 between \$6.600 MM and \$7.391 MM / year
- Annual Percentage Rent Range
 - ✓ 2014 – 2018 between \$437,000 and \$491,000 / year

Results

Medium – Revenue underreported by \$194,461 during the two-year audit period. \$15,557 in additional percentage rent due.

- ✓ Surcharge – 4% added to customer bills between January 2017 and March 2018. Half (2%) paid to kitchen staff (\$172,055) not included in Gross Revenue.
- ✓ Employee Meals – \$22,406 included family and friends of employees.

MANAGEMENT RESPONSE

Management accepts that Mad Anthony's has understated revenues during the audit period and will pursue collection of \$15,557.

Anton Airfood

- Anthony's Restaurant and Fish Bar at Sea-Tac
- Lease Agreement established in 2003, expired March 31, 2019
- Managed by Host
- Gross Revenues between April 2016 – March 2019 between \$18 - \$20 million / year
- Percentage Fees Paid between \$2.0 - \$2.3 million / year

Results

High – Anton did not provide a complete chart of accounts, the daily point of sale data, cash register z-tapes, and guest checks in its original format resulting in a scope limitation.

- IA unable to obtain sufficient and appropriate audit evidence to provide reasonable assurance.

Medium – Anton did not report \$42,022.90 in gross revenue in January 2019.

- \$5,420.46 in additional percentage fees is due to the Port.

MANAGEMENT RESPONSE

Management agrees with this finding. Airport Dining and Retail staff continues to work with Host and Internal Audit staff to resolve this specific issue and will emphasize to all ADR tenants, the need to maintain accounting records for three (3) years so as to avoid this problem in the future.

Management to discuss in person if needed. Detailed response presented in audit report.