

# Port of Seattle Audit Committee

## Internal Audit Update

Glenn Fernandes - Director, Internal Audit

September 16, 2025

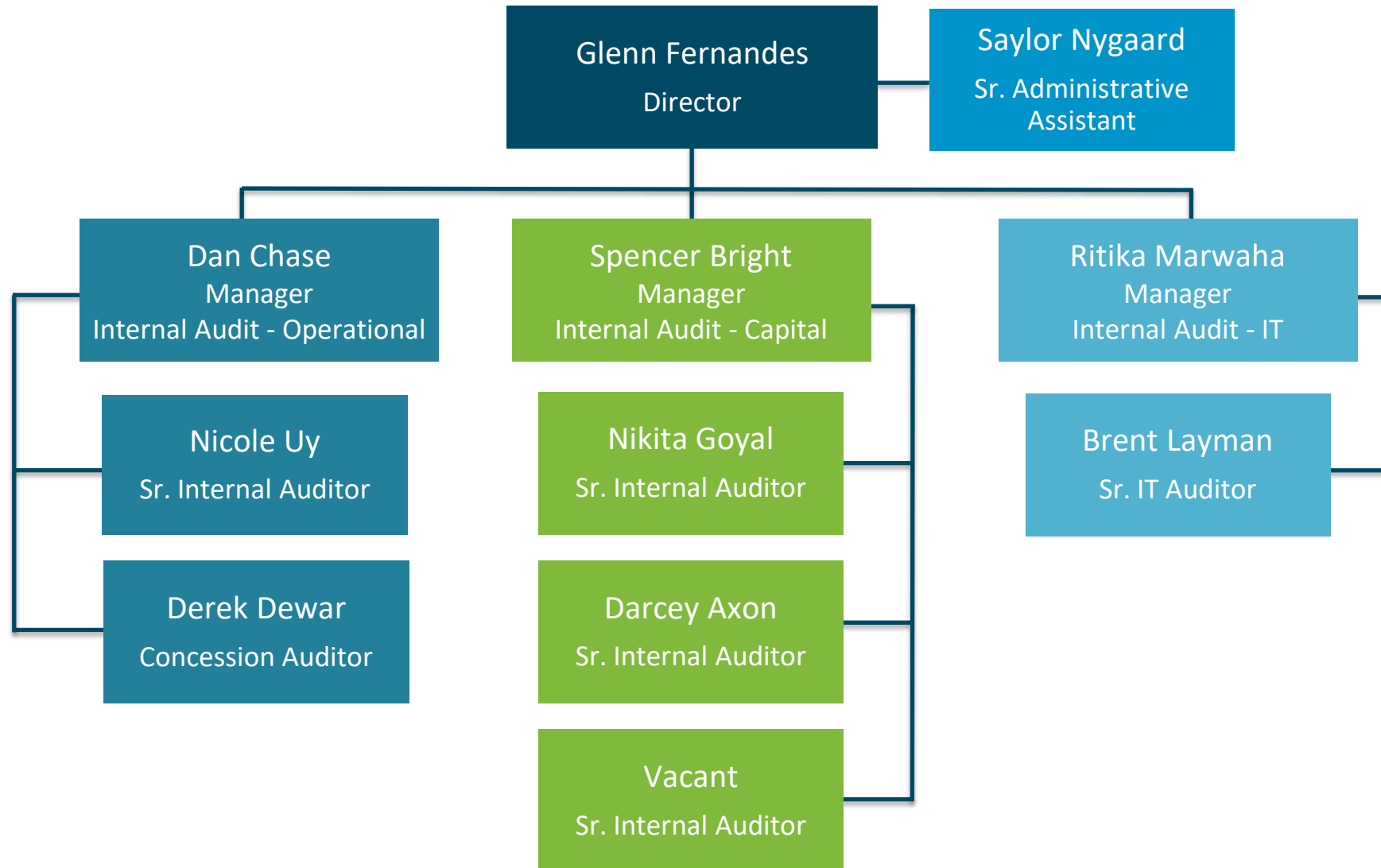
P69 Commission Chambers

12:30 PM – 2:30 PM

# Internal Audit Overview

- Internal Audit, through an annual Audit Plan, provides assurance that the Port's controls are effective and efficient. The department facilitates four public Audit Committee meetings per year, and non-public meetings, as needed.
- The department facilitates RCW required independent audits on GC/CM Projects and periodically assists in the required Payment Card Industry audit.
- The department provides advisory services to the Port, to the extent that it does not compromise the department's independence.
- The department maintains its independence and objectivity by reporting administratively to the Executive Director and functionally to the Audit Committee.

# Internal Audit Organization Structure



# 2026 Baseline Budget Overview

	Org/Node Name	2024	2025	2026	26 Bud to 25	26 Bud to 25
Line	Account Description	Budget	Budget	Budget	Bud Change \$	Bud Var %
1	Salaries and Benefits	2,118,896	2,193,568	2,375,925	182,357	8.31%
2	Equipment Expense	563	563	0	(563)	(100.00%)
3	Supplies & Stock	1,000	1,000	1,035	35	3.46%
4	Outside Services	42,095	2,095	2,265	170	8.11%
5	Travel & Other Employee Exp	52,287	60,812	60,511	(301)	(0.49%)
6	Promotional Expenses	0	0	0	0	0.00%
7	General Expenses	505	505	825	320	63.37%
8	Other Expenses	8,397	8,004	8,343	339	4.24%
9	Total Charges To Capital	0	0	0	0	0.00%
	<b>Non Payroll Subtotal</b>	<b>\$ 104,847</b>	<b>\$ 72,979</b>	<b>\$ 72,979</b>	<b>\$ (0)</b>	<b>0.0%</b>
	<b>Total</b>	<b>\$ 2,223,743</b>	<b>\$ 2,266,547</b>	<b>\$ 2,448,904</b>	<b>\$ 182,356</b>	<b>8.0%</b>

# 2025 YTD Actuals

	Org/Node Name	2024	2024	1H 2025	1H 2025	1H 25 Bud to 1H 25 Act	1H 25 Bud to 1H 25 Act
Line	Account Description	Budget	Actuals	Budget	Actuals	Bud Change \$	Bud Change %
1	Salaries and Benefits	2,118,896	1,854,092	1,083,234	1,139,274	56,040	5.2%
2	Equipment Expense	563	4,849	489	2,402	1,913	391.2%
3	Supplies & Stock	1,000	995	492	812	320	65.0%
4	Outside Services	42,095	21,653	2,095	1,181	(914)	(43.6%)
5	Travel & Other Employee Exp	52,287	47,274	55,675	22,892	(32,783)	(58.9%)
6	Promotional Expenses	0	0	0	0	0	
7	General Expenses	505	(1,750)	505	2,660	2,155	426.7%
8	Other Expenses	8,397	8,317	4,002	3,845	(157)	(3.9%)
9	Total Charges To Capital	0	0	0	0	0	
	<b>Non Payroll Subtotal</b>	<b>\$ 104,847</b>	<b>\$ 81,338</b>	<b>\$ 63,258</b>	<b>\$ 33,792</b>	<b>\$ (29,466)</b>	<b>-46.6%</b>
	<b>Total</b>	<b>\$ 2,223,743</b>	<b>\$ 1,935,430</b>	<b>\$ 1,146,492</b>	<b>\$ 1,173,066</b>	<b>\$ 26,574</b>	<b>2.3%</b>

# (Capitalized) Outside Services

GC/CM Audit Costs (Outside Services) are directly capitalized to each Project and are not reflected in the expense budget. Below is a summary of GC/CM spending for informational purposes.

Project	Firm	Construction Cost Estimate	Est. Audit Spend over Life of Project	Audit Work
Post IAF Airline Realignment	RL Townsend	\$45 MM	\$82,044	In Process, expected completion 2027
C Concourse Expansion Project	RL Townsend	\$49.2 MM	\$304,000	In Process, expected completion 2026
Main Terminal Low Voltage Project	RL Townsend	\$55 MM	\$73,555	In Process, expected completion 2026
South Concourse Evolution	Talson Solutions	\$1B	\$634,310	In Process, expected completion 2032
Primary Fire Station (Eastside)	FACT Financial Solutions	\$15 MM	\$21,805	In Process, expected completion 2026
Industrial Wastewater Treatment Plant-Heavy Civil GC/CM	Not Selected	\$150 MM	\$118,500	Expected timeline 2026 - 2029
Baggage Optimization 3	Fort Hill & Associates	\$300 MM	\$217,500	In Process, expected completion 2027
Concourse HVAC Improvement Renewal/Replacement Program (CHIRRP)	Not Selected	\$200 MM	\$180,000	Expected timeline 2026 – 2032
Terminal 25 South Restoration (Heavy Civil GC/CM)	Not Selected	-	-	Expected timeline 2026 – 2029 Construction and audit budgets not established
Main Terminal Improvement Program		\$520 MM	\$499,200	Expected timeline 2026 - 2034
Concourse Low Voltage Upgrades	RL Townsend	\$22.3 MM	\$27,195	In Process, expected completion 2026
<b>Total</b>		<b>\$2.35 B</b>	<b>\$2.15 MM</b>	

2025 AUDIT PLAN STATUS													
Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Recovery Effort - Data Integrity - General	Performance												
Banking/Fraud Controls	Performance												
Community Initiatives - ANEW <sup>1</sup>	Performance												
Consultants/Contractor Management	Performance												
Port Management Governance Committees	Performance												
Terminal 91 Berths 6 & 8 <sup>1,2</sup>	Performance - Capital												
Maritime Center at Fishermen's Terminal	Performance - Capital												
2023 Airfield Projects - Contract 2	Performance - Capital												
Widen Arrivals Roadway	Performance - Capital												
Recovery Effort - Data Integrity - Construction Management	Performance - Capital												
Club at SEA <sup>4</sup>	Performance - Capital												
Closed Network System - Satellite Transit System (STS) (AVM)	IT												
Third-Party Risk Management (ICT & AVM)	IT												
Access Control Management (AVM)	IT												
Access Control Management (ICT)	IT												
Baggage Conveyor System (AVM) <sup>3</sup>	IT												
New IT Environment - Information Technology General Controls (ITGC) <sup>5</sup>	IT												
Gate Gourmet, Inc.	Contract Compliance												
BF Foods, LLC	Contract Compliance												
Concourse Concessions, LLC	Contract Compliance												
SSP America SEA, LLC (Ballard Brew Hall)	Contract Compliance												
SSP America SEA, LLC (Mi Casa Cantina)	Contract Compliance												
SSP America SEA, LLC (Le Grand Comptoir)	Contract Compliance												
SSP America SEA, LLC (Camden Food Co.)	Contract Compliance												
Sun's, Inc. <sup>3</sup>	Contract Compliance												
The Yarrow Group, LLC <sup>3</sup>	Contract Compliance												
LaTrelle's Flight Kitchen. LP (Wendy's) <sup>3</sup>	Contract Compliance												

<sup>1</sup> Audit renamed to better align to scope

<sup>2</sup> Scope of Terminal 91 audit will include Construction Solicitation/Bidding

<sup>3</sup> Added to plan from contingency audit plan

<sup>4</sup> Addition to plan at request of Construction Management

<sup>5</sup> Deferred to 2026 Audit Plan at request of Port Management, added Contingency Audit in lieu of this Audit

KEY	Complete
	In Process
	Not Started
	Deferred

# 2025 Audit Plan

Item #6

Limited Contract Compliance	Performance	Performance - Capital	Information Technology
<ul style="list-style-type: none"> <li>• Gate Gourmet, Inc.</li> <li>• BF Foods, LLC</li> <li>• Concourse Concessions, LLC</li> <li>• SSP America SEA, LLC (Ballard Brew Hall)</li> <li>• SSP America SEA, LLC (Mi Casa Cantina)</li> <li>• SSP America SEA, LLC (Le Grand Comptoir)</li> <li>• SSP America SEA, LLC (Camden Food Co.)</li> <li>• LaTrelle's Flight Kitchen, LP (Wendy's)<sup>3</sup></li> <li>• The Yarrow Group, LLC<sup>3</sup></li> <li>• Sun's, Inc.<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Recovery Effort – Data Integrity – General</li> <li>• P-Cards &amp; Accounts Payable Payments and Banking/Fraud Controls</li> <li>• Community Initiatives - ANEW<sup>1</sup></li> <li>• Consultants/Contractor Management<sup>2</sup></li> <li>• Port Management Governance Committees</li> </ul>	<ul style="list-style-type: none"> <li>• Terminal 91 - Berths 6 &amp; 8<sup>1,2</sup></li> <li>• Maritime Center at Fishermen's Terminal</li> <li>• 2023 Airfield Projects- Contract 2</li> <li>• Widen Arrivals Roadway</li> <li>• Recovery Effort - Data Integrity - Construction Management<sup>4</sup></li> <li>• Club at SEA<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Closed Network System – Satellite Transit System (STS) (AVM)</li> <li>• Third-Party Risk Management (ICT &amp; AVM)</li> <li>• Access Control Management (AVM)</li> <li>• Access Control Management (ICT)</li> <li>• Baggage Conveyor System (AVM)<sup>3</sup></li> <li>• <del>New IT Environment – Information Technology General Controls (ITGC)<sup>5</sup></del></li> </ul>

<sup>1</sup> Audit renamed to better align to scope

<sup>2</sup> Scope of Terminal 91 audit will include Construction Solicitation/Bidding

<sup>3</sup> Added to plan from contingency Audit Plan

<sup>4</sup> These are not full audits, they will be performed as reviews and a summary memo will be issued

<sup>5</sup> Deferring to 2026 Audit Plan at the request of Port Management, and added a Contingency Audit in lieu



# Internal Audit Capital GC/CM Continuous Audits

- RCW 39.10.385 requires an independent audit
- Third-party independent auditor provides the Audit Committee with annual updates and final reports upon completion of each project
- The following table represents GC/CM projects that Internal Audit is overseeing:

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>Under Contract</i>
Baggage Optimization Phase 3	<i>Under Contract</i>
Concourse Low Voltage Upgrade	<i>Under Contract</i>
South Concourse Evolution	<i>Under Contract</i>

# Audits Completed in Third Quarter – 2025

- 1) Port Management Governance Committees
- 2) Widen Arrivals Roadway
- 3) Access Control Management (AVM)<sup>1</sup>
- 4) LaTrelle's Flight Kitchen, LP (Wendy's)

<sup>1</sup>Security Sensitive - Exempt from Public Disclosure per RCW 42.56.420 - Issue Not Discussed in Public Session

# Port Management Governance Committees

➤ Scope: January 2024 – June 2025

➤ Objectives:

1) To determine whether management oversight committees adhered to requirements within their charters, such as the occurrence of meetings and attendance of members

- Eight standing committees or boards that engage in outreach efforts and communicate Commission priorities to the public
- Not legally authorized to act on behalf of the Port of Seattle (POS)
- Sanctioned to evaluate information, advise, and make recommendations to the POS Commission

# Port Management Governance Committees

## ➤ Objectives (continued):

2) To assess the Trade Business and Community Development (TBCD) process, specifically how requests were made and approved

- TBCD requests are evaluated and approved through the Development Funding Review Committee
- Must be associated with one of four categories:
  - 1) Promotion of Tourism
  - 2) Economic Development Programs
  - 3) Education and Awareness
  - 4) Promotion of Port Properties and Facilities/Trade Promotion

**1) Rating: Low**

**Procedural documents did not exist. Additionally, Resolution 2779 is approximately 50 years old, and internal policy documents have not been updated in six years. While the respective RCWs have not changed, an opportunity exists to modernize the language in Resolution 2779.**

- According to RCW 53.36.120, “trade promotion or promotional hosting shall be pursuant to specific budget items as approved by port commission at the annual public hearings on the port districts budget.” Of the 130 approved requests, 27 (\$264,840) reflected “false” or not budgeted.

**1) Rating: Low**

## Recommendations:

- The TBCD Committee should be owned jointly by Legal and Accounting & Financial Reporting (AFR).
- The title of the Policy AC-4 and the related account and approval process should be updated to remove “Community” Development, to better align with the RCW and to minimize confusion.
- Educate Port staff and the Commission on what constitutes an allowable expenditure per the RCW and Port Policy.
- An effort should be made to identify if the Port would benefit from updating Resolution 2779 to modernize the language and to better align to current operations of the Port.
- Procedures should be created, and the SharePoint file should be completely and accurately filled out.

# Management Response

- We appreciate the Internal Auditor's review of Port governance practices, specifically the AC-4 Policy, *Promotional Hosting; Trade/Business and Community Development (TBCD) Expenses*. Since spring 2025, the TBCD Development Funding Review Committee (Review Committee) has been actively engaged in a cross-functional work group including Commission staff to update the AC-4 Policy and develop associated procedures to ensure all required fields of the SharePoint application are properly documented, and reasons for denied applications are included. We acknowledge the need to enhance these procedures to improve clarity, streamline the process, and provide education for the appropriate use of funds budgeted for qualifying TBCD expenses. We expect the workgroup to complete the policy review and development of the procedures in 2025.

**DUE DATE: 12/31/2025**

**Management will discuss in detail. (Full response in Audit Report No. 2025-15)**

# Widen Arrivals Roadway

- The Project will expand the roadway to boost tourism and access
- This Project is one of four major within the broader Widen Arrivals Roadway Program
- Bus Canopy Project added to this Project to meet 2026 FIFA World Cup deadlines and avoid delays
- Port management's strong documentation process enabled continuity during cyber-attack system outage



## Widen Arrivals Roadway

- Original contract was \$52.6MM
- As of July 2025, there are \$4.4MM in change orders bringing the current contract to \$57.3MM
- Substantial completion is anticipated to occur in June 2026
- Period audited was August 2023 – July 2025

**1) Rating: Low**

**Payments issued by the Port exceeded the contractual timeframe and omitted a Port standard clause that aligns with state law.**

- Contract omitted the Port's standard 30-day payment clause
- Two pay estimates exceeded the 30-day timeframe:
  - #11 (34 days, due to cyberattack)
  - #16 (41 days, no justification)

**Recommendations:**

1. Future contracts should include the standard payments clause aligned with RCW 39.76.011(2)
2. Document and communicate payment delays to contractors

**2) Rating: Low****Misclassification of Change Order (CO) 31 as Lump Sum Instead of Not-to-Exceed (NTE)**

- CO 31 issued as lump sum, not NTE
- Lump sum conflicts with unit price cost tracking
- Misclassification risks overpayment or unintended contractor cost liability

**Recommendations:**

CO 31 should be reclassified as NTE; future variable costs should be managed with NTE orders for proper tracking and financial control.

**3) Rating: Low****Duplicate Payment Identified for Unit Price Bid Item.**

- Duplicate payment of \$5,387 identified for contaminated soil
- Port construction team verified and applied corrective credit on Pay Estimate 18

**Recommendations:**

No further action was required as the overpayment was identified and resolved prior to the issuance of the audit report.

# Management Response

We concur with the Auditor's recommendations.

**DUE DATE: 09/17/2025**

Management will discuss in detail. (Full responses in Audit Report No. 2025-17)

## LaTrelle's Flight Kitchen, LP (Wendy's)

This is a Limited Contract Compliance Audit without any issues and will not be presented during this meeting. However, the final report (No. 2025-18) is made available.

# Questions/Committee Comments

Item #11

