

# INTERNAL AUDIT REPORT

Operational Audit  
Port Management Governance Committees

January 2024 – June 2025

Issue Date: September 03, 2025  
Report No. 2025-15

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## Executive Summary

Internal Audit (IA) completed an audit titled Port Management Governance Committees for the period January 2024, through June 2025. The audit contained two objectives. First, to determine whether management oversight committees adhered to requirements within their charters, such as the occurrence of meetings and attendance of members. Second, to assess the Trade Business and Community Development (TBCD) process specifically how requests are made and approved.

### Objective 1

The Port of Seattle (POS) website lists eight standing committees or boards that engage in outreach efforts and communicate Commission priorities to the public. Unlike the POS Commission, the standing committees are not legally authorized to act on behalf of the POS. Rather, they are sanctioned to evaluate information, advise, and make recommendations to the POS Commission.

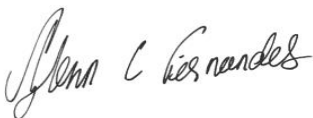
### Objective 2

TBCD expenditures are allowed only to the extent they are specifically authorized for port districts under the laws of the State of Washington and must be associated with one of four categories: 1) trade promotion, 2) promotion of tourism, 3) economic development programs, or 4) education and awareness.

No exceptions were identified for Objective 1. Within Objective 2, one low-rated issue was identified. Management has also commenced improving how TBCD requests are processed, thus we provided some opportunities that could assist in this process. These opportunities are listed below and discussed in more detail beginning on page six of this report.

1. (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 RCW's have not changed, an opportunity exists to modernize the language in Resolution 2779 and to update internal policy documents.

We extend our appreciation to Port management and staff for their assistance and cooperation during this audit.



Glenn Fernandes, CPA  
Director, Internal Audit

### **Responsible Management Team**

Lisa Lam, Director, Accounting Finance & Reporting  
Chris Leopold, Sr. Port Counsel  
Aaron Pritchard, Chief of Staff, Commission Services

## **Background**

Global Internal Audit Standards, which guide the internal audit profession, defines governance as “the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward achievement of its objectives.”

### **Standing committees of the Commission**

The POS website lists eight standing committees or boards that engage in outreach efforts and communicate Commission priorities to the public. Unlike the POS Commission, the standing committees are not legally authorized to act on behalf of the Port. Rather, they are sanctioned to evaluate information, advise, and make recommendations to the POS Commission.

Appendix B lists the eight committees and includes a brief description of their purpose.

### **Trade, Business, and Community Development (TBCD)**

The Port has the authority to make promotional expenditures if and only to the extent they are specifically authorized for port districts under the laws of the State of Washington. Funding may be provided where there is a clear, identifiable, and compelling connection between the event, program, organization or activity and the Port’s specific purpose and authority. Gifts, donations or contributions to the general community or charitable organizations are generally not authorized.

TBCD requests are evaluated and approved through the Development Funding Review Committee. Requests under \$1,000 may be approved by General Counsel or their designee. Requests must be associated with one of the following four categories:

#### **I. Promotion of Port Properties and Facilities/Trade Promotion**

Trade promotion expenditures are undertaken with the specific intention of fostering continued or increased trade in the region.

#### **II. Promotion of Tourism**

The Port’s ability to encourage tourism is limited to advertising, publicizing, or otherwise distributing information. The Port has no authority to directly finance, or sponsor events directed generally at promoting tourism, or that support a particular local or regional event, unless that expenditure will result in a direct benefit to the Port and its properties and facilities.

#### **III. Economic Development Programs**

These programs are developed and managed by the Port or are programs funded by the Port but administered by a third party (i.e. Port Jobs).

#### **IV. Education and Awareness**

These expenditures are related to informing the public about the role of the port district, its facilities, programs, and/or services. Although these events are often focused on a local or an affected community, they are typically open to the public and often held in venues spread throughout the port district.

## Audit Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and The Institute of Internal Auditors' Global Internal Audit Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides such a basis.

The period audited was January 2024, through June 2025 and included the following procedures:

### Interviews and Process Walkthroughs

- Conducted walkthroughs and inquiries with key personnel to gain an understanding of the TBCD requests and approval processes

### Document Review

- Obtained and reviewed key documents, including:
  - Port policy AC-4 (Promotional Hosting; Trade/Business and Community Development Expenses)
  - Resolution Number 2779
  - TBCD Funding Application
  - Promotional Hosting and TBCD Frequently Asked Questions
  - State of Washington, Office of the State Auditor Division of Municipal Corporations – Bulletin No. 404

### Standing Committee Validation

- For the period beginning January 2024, through December 2024, the following procedures were performed:
  - Assessed whether a charter existed
  - Meetings occurred as required and were attended by Chair and Co-Chair
  - Minutes were prepared and retained

Note: See the listing of Committees included in the scope for this procedure.

### TBCD Validation

- For the period beginning January 2025, through June 2025\*, the following procedures were performed:
  - Determined if a TBCD application was completed
  - Validated if the request was approved by the Development Funding Review Committee
  - Assessed whether the expenditure was captured in the approved budget for 100% of requests made between January 2025, through June 2025
  - Determined if the request was approved by an authorized individual

\* To gain a broader understanding of why requests were declined, the scope for declined requests was extended from January 2024, through June 2025.

## Schedule of Observations and Recommendations

### 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 RCW have not changed, an opportunity exists to modernize the language in Resolution 2779 and to update internal policy documents.**

Policy documents are broad in nature while procedures are more detailed and specific. Collectively, they function to serve the organization to minimize the likelihood of errors and deviations from regulations, laws, and/or internal requirements. Procedures also serve to make sure processes are understood and consistently followed as employees change and institutional knowledge is lost.

In the absence of procedural documents, IA reviewed data in the SharePoint flow to gain an understanding of how requests are initiated and approved. We used these criteria as reflected in SharePoint, to assess the process. The SharePoint data is not always updated and occasionally incorrect as identified below:

- 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.” Port Policy AC-4 captures this requirement which states “Expenditures in the Trade, Business and Community Development account (Account #66400) must be included in the Port’s Approved Budget.” Of the 130 approved requests, 27 (\$264,840) reflected “false” or not budgeted. Budgeted expenses have not been exceeded as of the audit date, however, the incorrect data in the file indicates a need to maintain comprehensive and accurate data.

We reviewed Commission Resolution 2779 and Port Policy AC-4 (Promotional Hosting; Trade/Business and Community Development Expenses) and had the following observations:

- The Policy has not been updated since February 2018. The reference for further guidance or information lists a contact no longer employed by the Port. Although state law governing TBCD has not changed, and Resolution 2779 is the foundation for Policy AC-4.
- The title of the Policy is Trade, Business, & Community Development. Community Development can be misconstrued to mean something other than Community Outreach to raise public awareness of the Port, its facilities, programs, and/or services, as specified in the RCW.
- The Policy falls within Accounting and Financial Reporting (AFR), and decision making resides among three groups (AFR, Legal, and External Relations). The decision-making process is grounded in compliance with State Law (RCW 53.08.255). The Policy states, “If approved, the application will be approved by the General Counsel and/or Committee.” Two critical departments that are a key control and need to remain on the committee are the Legal and AFR Departments.

**Recommendations:**

- Procedures should be created, and the SharePoint file should be completely and accurately filled out with robust documentation by all committee members. Reasons for any decisions should also be included.
- The TBCD Committee should be owned jointly by Legal and AFR.
- The Committee should provide education to Port staff and the Commission on what constitutes an allowable expenditure per the RCW and Port Policy.
- 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 about what type of expenditures are permitted.
- 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, without compromising the requirements of the respective RCWs.

**Management Response/Action Plan:**

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.

As stated in the prior audit findings from the State Auditor’s Office in 2005, the Washington State Constitution prevents the gifting of public funds. As such, RCW 53.36.140, 53.08.255, and 53.08.245 and Resolution 2779 define the legal framework for allowable TBCD expenses, promotional hosting expenses, and the requirement for a review committee. These laws remain unchanged, and any modifications to allowable TBCD expenses must be adopted by Commission resolution. AFR and Legal will review Resolution 2779 to determine if updates are warranted in order to clarify the relevant state law requirements.

Currently, the Review Committee and/or General Counsel evaluates each application for proposed business expenses as allowable costs within the law, and adequate supporting documentation exists to justify the qualifying TBCD expenses. At least two of the three committee members must agree before an application is approved; there is never a situation where there is a tie.

We are pleased to note that Internal Audit has affirmed the effectiveness of internal controls in the TBCD expense approval process to ensure compliance with Port Policy and applicable RCWs.

The Review Committee will update the AC-4 Policy, including its name, to enhance clarity on allowable costs as prescribed by RCW 53.36.120, 53.36.140, 53.08.245, and 53.08.255. We expect the

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workgroup to complete the policy review and development of the procedures in 2025.

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

## Appendix A: Risk Ratings

Observations identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for an observation to be rated High, Medium, or Low. Low rated observations will be evaluated and may or may not be reflected in the final report.

Rating	Financial/ Operational Impact	Internal Controls	Compliance	Public	Commission/ Management
<b>High</b>	Significant	Missing or partial controls	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
<b>Medium</b>	Moderate	Partial controls  Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Moderate probability for external audit issues and / or negative public perception	Requires attention
<b>Low</b>	Minimal	Functioning as intended but could be enhanced	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention

## **Appendix B: Standing Committees of the Commission**

### Audit (Not in scope)

Provides review and oversight authority on matters related to the Port's internal control environment.

### Aviation

Provides recommendations about fulfilling the Port's Century Agenda goals to meet the region's air transportation needs at SEA for the next 25 years. The committee focuses on airport capital infrastructure programs.

### Board of Ethics (Not in scope)

Addresses advisory questions pertaining to the application of the Commission's Ethics Code or substantive complaints filed to the Board of Ethics.

### Equity and Workforce Development

Institutes policies and practices that address the systemic inequity of economic opportunities, working conditions, impacts on local communities, and participation in Port affairs.

### Governance

Addresses Governance matters specific to Commission operations.

### Port-wide Arts and Cultural Board

Over sees the public art program at SEA.

### Sustainability, Environment, & Climate

Provides information, advice, and recommendations to inform commission policy development in pursuit of the Port's Century Agenda environmental and sustainability goals.

### Waterfront & Industrial Lands

Promotes policy and activities that support maritime and industrial businesses and industrial lands.