[00:00:26] Foreign.

[00:00:32] Fellowman calling to order the Port Committee and semester meetings. Today is June 4th and the time currently is 10:10. We're meeting today at the Port of Seattle headquarters Commission chambers and virtually on Ms. Teams. Present with me today are Commissioner Muhammad and public member Sarah Holstrom.

[00:00:53] To make this meeting more accessible to the public. The meeting is digitally recorded and will be uploaded to the Commission's website. A call in telephone number is also provided for anyone who would like to listen into the meeting. Our first item of business is approval of the minutes from committee. From committee's March 19, 2026 meeting.

[00:01:14] Are there any corrections to the Min.

[00:01:23] Hearing? None. Are there any objections to approving the minutes as presented?

[00:01:30] Hearing None. The minutes are approved as presented. Next on our agenda are external audits. We will hear from Baker tilly regarding the 2025 financial statement on audit results. Director Fernandez, please, please introduce the item and our presenters today.

[00:01:47] So commissioners and Sarah. Today we have Anna Waldron from Baker Tilly, previously Moss Adams, who will be leading us through the presentation. Welcome, Anna. And the floor is yours. All right, thank you so much and thank you for your time.

[00:02:01] Just hearing about the results of our audit which we completed this spring. We can move to the next slide and also skip the agenda. I just wanted to call out. The audit is overseen by audit principal Olga Darlington. She's traveling internationally today so isn't able to join, but she's very much involved in the process as well.

[00:02:23] The scope of our audit is here. We do a number of different audit reports as a result of the procedures we perform. No change in scope from what we've done in previous years, but the primary deliverables we have are an audit opinion over the financial statements which is included in your Port of Seattle annual financial report. We did have an unmodified opinion on the financial statements of the Enterprise Fund as well as the Warehouseman's Pension Trust Fund and that those are materially presented in accordance with US gaap. And then as part of performing our audit under governmental audit standards, we do also include a report over internal controls over financial reporting.

[00:03:04] That's just calling attention to the work we do over internal controls. Happy to report no control findings and no compliance findings that were included there. And then we do a number of compliance reports as well that are required for the Port. The first is the report on compliance of the major federal programs related to the federal grant funding that's received by the Port. And we had no control findings and no reportable findings of non compliance.

[00:03:33] And we can move on to the next slide and then two other compliance reports we do are a audit report on the PFC or Passenger Facility Charge Program and then also the schedule of net revenues available for bonded debt service. On both of those, happy to report no compliance findings and no internal control issues. So across the board, clean audit opinions and just a very good result for the Port of Seattle. Next slide please. In addition to the audit work we do, we do also do two additional engagements that are called agreed upon procedures.

[00:04:13] Those are for the Washington State Department of Ecology as well as the Environmental Protection Agency regarding the CFO Assurance Letters. And no compliance findings were noted in either of those AUP reports as well. So in general, just good news to share, which is definitely great and reflective of the hard effort at the Port of Seattle. Next slide please.

[00:04:41] Wanted to just spend a little bit of time talking about where we spend the most time and focus as part of our audit process. The first area is the internal control environment and that's really time spent walking through the different control cycles specifically around it. General controls, financial close and reporting, the capital assets and project management controls, cash receipts, payroll disbursements, essentially all the critical cycles that cover the internal controls at the organization. We have conversations throughout the organization with those control owners to understand the process and then do some testing of those controls to ensure there's a good foundation supporting the financial reporting. We also spend some time looking into management's estimates.

[00:05:28] This can be a riskier area in financial statements, just given those can't be necessarily tied directly to contracts, invoices, supporting documents. So that's where management judgment might come into play. There can be a little bit of additional risk. And so we do look at those estimates year over year, ensure there's sort of a consistent approach taken to how those estimates are being made. And that, you know, as we look back, we see that those are materially consistent with how things have actually occurred.

[00:05:59] Because the NWSA joint venture also comes into the financial statements of the Port of Seattle. We do look at the relationship with the joint venture, including those related party transactions between the two entities. And of course this year a little bit of significant activity with the, the lease termination payment. That was a little bit more of a significant item from NWSA this year. Capital assets, always a very large area of our audit, just given the dollars that go to the Capital Asset Program and the ongoing projects.

[00:06:30] As part of our work there, we're we're testing additions to cip, looking at invoices, payments. We meet with a selection of project managers to understand how they're monitoring their projects and communicating with accounting and then also looking very closely at sort of that critical time when assets are being finalized and need to be placed in service and sort of the process for making sure that communication between the project managers and accounting is moving smoothly. Next slide please.

[00:07:03] And then debt transactions. There was some new debt issued this year. So as part of that we do look at the bond issuance documents. We also send external confirmations directly to the financial institutions to gain comfort over the balances that are owed. Also some issuance of commercial paper related to the purchase of the stock building.

[00:07:23] And then again just relying on those external confirmations to support that balance that's reported on the financial statements. We do also do some testing over the warehouseman's pension trust fund. Looking primarily since there isn't a ton of activity in that fund, just the investment balances, the contributions the port is making and then the distributions to retirees. And then the final area of emphasis is the single audit which supports that opinion over the federal awards that are reported by the organization. There's about $41.5 million reported on the CEFA this year.

[00:07:59] We selected major program Airport Improvement Program which is the the vast majority, about 41 million of that total balance. So in the AIP program we're testing the grant funding received, agreeing that to the actual grant agreements, making sure the port is following the necessary requirements outlined in those agreements. Next slide please. And then just wanted to run through some of our required communications. For those who are charged with the governance of the financial statements.

[00:08:33] A reminder about what our responsibility is as your third party external auditor. We are responsible for forming and expressing an opinion on the financial statements about whether those are free from material error in accordance with generally accepted accounting standards. We perform our audit in accordance with generally accepted auditing standards as well as governmental auditing standards. And then we can move to the next slide. Also wanted to call out that our financial statements audit does include some work around internal controls primarily to form the foundation of how we develop our audit procedures.

[00:09:15] However, the purpose of our audit is not specifically to provide an opinion on the internal control environment of the Port. We can move to the next slide. Next slide. Just some quick hits here. So the significant accounting practices of the Port are summarized in footnote one to the financial statements.

[00:09:35] Generally not any significant changes to the financial statements compared to previous years, a few unusual transactions this year. Certainly a little bit of a slower year than last year with the cyber event this year we are really focused on the Habitat Credit score sales that was just under 50 million. Definitely a little bit of an unusual transaction for the port, though we understand that that may be a little bit more in the norm in the future. So part of that, management prepared a very comprehensive white paper going through the the facts and circumstances of that sale, their interpretation of the accounting presentation. We had some good back and forth and really got that process started very early in the audit process.

[00:10:17] So definitely kudos to management for being on top of that. Also had the debt issuances that I mentioned, as well as the purchase of the stock building and some new leases coming on as a result of that. So a little bit of new and different things this year that we took a look at overall financial statement disclosures. We do read through the full set of financial statements, ensuring that we agree that disclosures are consistent, clear and understandable for the readers. And then at the conclusion of our audit, we do request certain representations from management via a management representation letter that is signed.

[00:10:56] Next slide. No consultations with other auditors that we're aware of. Did not become aware of any illegal acts, any going concern issues or any issues with fraud affecting the financial statements. And while the purpose of our audit isn't necessarily to identify fraud, we do perform things like targeted journal entry testing, running that through some of our AI programs to identify sort of any unusual journal entry transactions, sending those third party confirmations outside of the organization, and then talking with a number of individuals throughout the organization just about their comfort with the tone at the top, whether they're aware of any fraud or suspected fraud. And nothing came to our attention as a result of those conversations.

[00:11:46] Next slide please. Happy to report no significant difficulties and no disagreements with management. As I mentioned, they're extremely collaborative. It was a very smooth process. This year we were able to issue our audit reports and opinions, I think the earliest we've ever done in the last decade or so.

[00:12:04] So definitely a heavy lift from the team to get that done and just really speaks to their organization and their commitment to moving things along in a timely F fashion. Next slide. No other findings or items that would impact our auditor's report. Next slide. And then there was one uncorrected misstatement.

[00:12:29] This was identified by management as part of their controls surrounding an end of year look back on any invoices that come in subsequent to year end that should be considered for recording. In 2025, management identified an invoice about $3.6 million. Given the size is not material to the financial statements and sort of coming late in the process, Management determined that it wasn't necessary to record this entry. And we evaluated that and also felt comfortable with management's assessment. So just needed to report it as it is above our threshold for reporting.

[00:13:06] But it's great that this was already identified by management and evaluated appropriately. And then just a note that our audit is over. The financial statements. But those financial statements are included in the annual report with some additional information, the introduction as well as the statistical section. While we read through those sections, our opinion does not extend to those pieces of the annual report.

[00:13:33] Next slide.

[00:13:36] And then just a note about upcoming accounting standards. So of the three that are sort of on the horizon, GASB 103, the financial reporting model improvements is the one that's probably going to have the heaviest lift for management to implement. Management's been proactive already having conversations with us and putting together a white paper about what they think the impacts of that adoption are going to be. And so we'll be eager to sort of get that process early. So it's not coming up right before we're trying to issue our report.

[00:14:08] But do expect maybe a little bit of change to the geography of the financial statements. Maybe some additional disclosures that you'll see next year. The other two are pretty minor. Wouldn't expect a significant lift there and are sort of what we'll be looking at over the next two years. And then the next slide, please.

[00:14:32] And then finally wanted to close with some acknowledgments. I think just a reminder that an external audit is a. Is a heavy lift. It sort of asks the Port personnel to do a lot of extra work outside of just their day job, answering our questions, giving us hundreds of pieces of support. And we very much appreciate all of the help.

[00:14:53] The port members make themselves extremely available to answer our questions. Always very transparent and willing to sort of work with us to. To make sure we're understanding things correctly. So just a shout out and a huge thank you for the work that goes into these audits. As I mentioned, we do talk to a lot of members of the executive team as well as others throughout the firm or throughout the organization, asking questions about the tone at the top and support from management.

[00:15:21] And have just observed a very strong tone at the top and just can't understate how critical of a control that is for the organization. Sort of an intangible item, but very much something we see throughout the organization and did want to call that out. And then finally wanted to report back just on our use of subcontractors. So just in alignment with the Port of Seattle's initiative to make sure they're supporting small minority and women owned businesses. We do work with two subcontractors as part of our audit teams and provide a percentage of our contract fees to those subcontractors.

[00:16:01] We've been working with Ryland and Branch Richards for many years. It's been wonderful. Sort of developing a relationship with those audit team members that join our team. And Branch Richards is, is local and she comes out when we come work at the Port of Seattle. She comes out with our team and it's just, it's been really lovely to be able to collaborate with these people.

[00:16:23] And in total, it's about 14% of our contract fees for this year.

[00:16:30] We can go to the next slide. Just a reminder of your service team. I know we always report at the beginning and end of our audit process, but our team is always available to meet with you if you ever have any questions or concerns. Really it's an annual ongoing process, so please don't hesitate to ever reach out to us. And that concludes our prepared remarks if there are any questions.

[00:16:57] Thank you, Anna and the whole Baker Tilly team. Also appreciate Steph's responsiveness to your work and your acknowledgment about how much additional work it takes to do that and also the transparency that you experience. This is all very encouraging and thanks for all the guys that put that made that possible. So are there any questions for this extensive audit? No, just wanted to say thank you as well.

[00:17:24] Yeah. All right. So I had a couple. So I never heard of this. The ecology procedure review.

[00:17:33] Was that related to the Habitat credits or. No, it's related to the financial assurance letter that is submitted by the CFO to the EPA related to ongoing liability. Super fund related sort of stuff. Yes, that, that little, that little financial exposure. I could imagine that takes a little bit of accounting of.

[00:17:56] Yeah, no, that's great. Yeah. And for that we're. We're essentially agreeing. The information that's included in that CFO letter submitted to the EPA to what's in the financial statements and what we looked at as part of our financial statement audit.

[00:18:09] So we started doing this pay it forward thing. We created a fund, something like $10 million a year. The commission sort of, I think we referred to it as our college fund or we're going to get schooled by the epa. So is that accounting something that you were addressing? I don't believe that was included in the scope.

[00:18:32] It's just that the true EPA noted liabilities just that we have the ability to meet our Obligations. So that Habitat Credit program is novel though, right? You're earning money by protecting the environment. That was. And you said the staff were proactively helping you get your head around that.

[00:18:55] Yeah, it's definitely a material amount and just sort of where the proceeds that were received from those sales should land in the financial statements. So we did sort of analogize to a sale of an intangible asset as other non operating income in the financial statements. It's nice when the environment is considered intangible or invaluable or something. Something like that. And just real quick, I would imagine the accounting with the joint venture with the Seaport alliance is.

[00:19:28] Does that pose any challenges? Are we only looking at like our part of the accounting or is it. Do we look at how Tacoma deals with it or. Yeah, we. We do.

[00:19:38] So specifically in the scope of the Port of Seattle's audit. It is just looking at the Port of Seattle side of things. However, Baker Tilly and myself is involved in the Northwest Seaport alliance financial statement audit as well. So we have the benefit of seeing the full picture. And as well as auditing the Port of Tacoma.

[00:19:57] And so we do see 100% of the 100% of the activity from both sides to make sure that's being consistently treated across all the parties. That's really good. I knew that, but I forgot that. Yeah, it's a little extra coordination, you know, with all the parties, but has never been an issue. Always runs very smoothly.

[00:20:16] And it is a huge advantage being able to sort of see all the sides. I can imagine being very complicated otherwise. Great. Thank you again. I really appreciate everybody's attention and effort to that and happy with the results.

[00:20:31] Thank you. Okay, so next on our agenda, we'll hear from Ford Hill regarding the Baggage Optimization Phase 3 Construction Audit Director Fernandez, please introduce the item and our presenters. Commissioners. One of the things, when we have a GCCM or general contractor construction manager type construction method, the RCW requires us to look at certain pay applications for certain subcontractors, basically audit them. And in this case we have an external firm, Fort Hill, that's doing the work.

[00:21:04] It's real time where he, Doug, looks at the work and provides guidance back to the port, which we address right away. And Doug, with that, if you can unmute yourself, introduce yourself and the floor is yours. Good deal. I appreciate it. Everybody can hear me?

[00:21:21] All right? Yes. All right. Perfect, perfect. So appreciate the intro again.

[00:21:26] I'm Doug Plyler with Fort Hill Associates. And you know the project we're working on is the Baggage optimization project phase three. And if you'll flip this, if you'll flip the slide or go ahead. Next slide please. Michelle.

[00:21:42] The And Doug, if your camera works, you might want to turn it on. Yes, I'm sorry, I didn't realize. There we go. So I'll give you a brief 15 second interview about us. But you know, we're, we've been in business about 20 years or so.

[00:21:58] I'm our office, I'm down in South Carolina actually. But pretty much all the work we do is virtually for the port. I'm a certified construction auditor. Our team is certified construction auditors as well. To date we just submitted our review of payout number 10 which covers the first $60 million of billings through pay ups 1 through 10 on the project.

[00:22:19] Next slide if you will please. And a little bit about our, our scope is, you know, it's kind of what you expect. So we come in every month and we're basically trying to ensure that you know, all, basically all amounts flow correctly from one pay app to the next pay app. But additionally that all calculation, all calculations are done correctly. But also we've got backup for every cause and that backup, the backup is incompliant with the underlying contract.

[00:22:49] So as you can imagine, you know, you might have labor rates for each of the different partners that we've got to validate. You might have, you know, a cost for a small tool. But we want to make sure that contract that first off that backup exists and that cost is reimbursable anyway. And you know, those are kind of the three main things that we try to do if you'll move ahead to the next slide. And our goal in this project is we want to be a collaborative partner.

[00:23:16] We're trying, we do not want to hold up payment. So it's very important to us that we hit our seven day turnaround. And so you know, when a payout comes like this last one, I think it came last Tuesday, a week ago we received it. We you know, spend our time on reviewing it, validating all costs that we could. We got it back on this past year.

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[00:23:38] It was right at seven days. And then ultimately the comments that we have, it does not hold the payment up. But you know, after, you know, a week or two or before the next payment application, we'll get comments back from the CMN or the port and there'll be one, clearing some of the items we need to clarified. Two, hey, there was an issue here, let's remedy those now as opposed to later or three and it might Potentially end up in a revised payout. So that's, that's really what we're trying to do.

[00:24:09] Audit in real time, not hold up payment and be ready to incorporate any comments into the next payout when it comes out a few weeks later to go to the next slide and I'm going to give you some high level examples of findings. I really want to take you through the one of the reports that we did. I think that those resonate better. But yes, discrepancies in build amounts, sometimes they're calculation errors, sometimes they just get changed from one to the next is do we have supporting documentation for all costs? Do we have the hours billed per employee?

[00:24:49] Does that tie off with the time worked by the employee? Can there be discrepancies there? Were there any assets procured on the project? You know we might have supporting documentation but it may not be complete. It may be insufficient.

[00:25:02] You know we've got equipped on this project. Are those rates compliant with what the contract states? We might have updates to labor rate schedules. So we may be missing rate supports that we may be missing rate support whereby hey, we need the, the most recent labor bill rate sheet or we need to go create one because we've got new positions here that we that were not on there originally. We might have potential non reimbursable charges.

[00:25:28] You'll go to the next slide and you know that's kind of the, the big things that we look at here. And I, I wanted to kind of take you through an example of a report again. I think this resonates better. This is payout five. We received it on January 26th.

[00:25:43] We had our review sent back on the 2nd and then we got the comments back a few days later. But if you kind of go through the report I'll show you kind of what one looks like. Some of the observations that we actually have. If you'll go to the next slide, if you will.

[00:26:01] And that's just the COVID slides. You can see the COVID slides that this payout was for about $2.978 million right there. And next slide in the observations that we identified here, first off we had some that were just flat out missing support. There was no backup. The you know we discussed this and I think this is ultimately the port was fine with with the new backup existing for these items because it was not required for these specific for the bidpack subs once you had the discussions there.

[00:26:33] So you know things like that they get cleared. We had other mis supporting the activation of $6,000. You know that Was subsequently corrected. We had discrepancies employee bill rates. This was one here where there was a week ending on November 30th where the missing out the hours were not accounted for properly.

[00:26:53] So we got these types of situations remedied. Michelle, if you'll move on the next slide. We had here discrepancy in build amounts and you can see there were three of them here. There was a nice $36 discrepancy, but we did identify it, got it got corrected. So I mean some of these are very minor, some are could be more important.

[00:27:16]

Some are relatively small that over, you know, 40 pay apps or so can add up to a big amount if you don't catch them in real time. We also had here down at the bottom we had a discrepancy or you know, what we thought was a disruption in build amounts between pay apps, meaning pay app 5 did not flow to pay app 6 directly. We got that clarified and taken care of and got comfortable with that. Michelle, you go to the next slide. You know, we had missing rate support for you know, several positions here.

[00:27:49] This is only like $11,000 in this pay app. But you know, we got a new labor rate schedule put into place to account for all these positions. You know, again, you don't know what your. It's $11,000 this month. That'd be.

[00:28:02] It probably would have been the same the following month and so forth. So we wanted to make sure we had rates that everybody was comfortable with to vet against as opposed to just assuming. Well guess what, the first person here, that's what the cost was. Moving on down, we had a potential issue on. It looked like there's a double billing of tax, the Washington state tax.

[00:28:23] And so that was something I had that ported research. I think they got comfortable with it but it was something that I felt warranted getting brought to the owner's attention. And I think we feel good about it now. But again we're auditing this to try to correct problems in real time. But also we want to have a paper trail if you know, for whatever reason, let's say the state were to come to all this job as well.

[00:28:43] I'm not sure if that happens or not, but we want to have the audit trail for them as well. Moving on down here, we had, you know, a few charges that were deemed potentially non reimbursable. It was for some IT related equipment and you know, pursuant to, I guess a summary matrix of the cost allocation, IT charges were considered part of the specified general conditions. Clarification. Clarification was needed and ultimately these were deemed to be outside of that.

[00:29:13] So they were cleared.

[00:29:16] Moving up a page, if you will, unless I put you to sleep. Michelle.

[00:29:25] Yes. So, yeah, here we're hurt. We had some. There were just some. What we thought were some inconsistencies in the hourly billings.

[00:29:33] We ultimately got comfortable with that as well. Moving on down, we had a situation where I think it was ve anyway, I believe. But some of the hourly rates were not available for review. There was no rate schedule with the. For a particular field employee.

[00:29:52] Ultimately got that rectified. We had a. An updated rate schedule there for the. For the warehouse and the Stockman rate on the bottom there. So these are the types of things I won't bore you with, with everything.

[00:30:07] A lot of them are like this because, you know, we've got. You got. Vika, you got. I'm trying to think here. Gosh, homebird, you got, you know, all these various subs that were identifying these same kind of similar type issues.

[00:30:22] And so ultimately, when we submit a report like this, probably half of them seem very kind of tedious and small. But we get those rectified, you know, some of these will be cleared and some of them are more major issues that get ultimately the payout resubmitted and. Or fixed on the next one. So that's kind of what we're trying to do here. Be glad, open up for questions.

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[00:30:45] Thus far, I think it's been a really good relationship. I believe Bruce Davis and the Port would. Would concur with that. I think the CM would also. And you know, I'm an auditor, so.

[00:30:56] So we're kind of. Sometimes it's not like we nitpicky but. But we like it. If something says this is what it's supposed to be in the contract, that's what we like to see build. Anybody has any questions, I'll be glad to answer any.

[00:31:14] Well, thank you, Doug and the Fort Hill team. I can't believe we do this monthly. It's pretty extraordinary. Are there any questions from the committee members at this time?

[00:31:30] I must say it's been a while since I've been on the audit committee and the fact that this is a monthly review and just the idea that folks would be subject to this seems to be a remarkable way of keeping folks on the job. And very impressed. And thank you so much for doing that and for the port being able to be subject to this. I guess the only question I had was like, of all the discrepancies, I was really concerned about the $26. But other than that, was there something in particular that you would want to highlight?

[00:32:09] I mean, to me, it's the labor rate variances. Because, you know, from our perspective, we have no problem at all with labor rates in a contract as long as they're vetted. So when we have positions that were not vetted originally to be put in that rate schedule, it's something that can get out of control very quickly. And so if you're looking at a project like this, labor is a big part of it. And, you know, it's the side of things where there's always a position that is not thought of earlier or until that position is actually on the job working, because guess what?

[00:32:47] We didn't realize we needed this. So there's always positions like this. But it's such an easy place for a construction manager to make extra money. Not from the sense they're trying to rip you off or anything like that. But if, you know, if I was building, building my budget, I'm going to take my, my worst case scenario for each position as well to make sure I've got my costs covered.

[00:33:07] However, knowing full well that the worst case scenario does not happen for each position. And so it's, it's that constant getting that updated labor rate schedule as people are added or whatnot, I think is very important because we've just seen millions of dollars on some projects similar to this that get. Basically it's just extra profit for the construction manager because, you know, the worst case scenario was taken for each position from a cost standpoint. All right, thank you. I just know that baggage claim has been one of those things that have been going on, I think, since my tenure.

[00:33:42] It's one of the most important things that nobody pays attention to. But so is this often subject to this review is this particular issue, I mean, all, all GCCM type projects have to have this type of review, and we coordinate a lot of that. So there's multiple people in there working. But, you know, for baggage phase three, it's Fordhill and Doug on the team that do it. Fantastic.

[00:34:10] Well, thank you very much. Everybody doesn't pay attention to baggage until theirs is missing. So it seems to be working well. All right, so if there are no additional questions or comments for this item, we'll move on to the next topic of updates and approvals. Thank you very much.

[00:34:28] Okay, so item five on our agenda is the update from Director Fernandez regarding the open issues report. Glenn, you have the floor. Thank you, Commissioner. While we wait for Michelle to pull the Slides up.

[00:34:47] Next slide please, Michelle.

[00:34:52] And actually we're going to go two forward. One more. So, you know, one, this commissioner is. This is a good news story, especially for Sarah. Those bars of outstanding issues were really high and through hard work and you know, that's come down.

[00:35:11] The port has really addressed a lot of them. So we have one open issue on the public side and that relates to leak detection system on the maritime side. So we had an audit a few years ago where there was some leaks, primarily on aviation, but also in maritime. And when a leak occurs, we lose a lot of water. We're the second largest water consumer in the Seattle area.

[00:35:40] The port of Seattle is. So the aviation side has put leak detection systems in their pipes. You know, leaks can occur anywhere in a remote area of the airfield or under a dock and maritime is still working in there. So that's still opened at this point. And that concludes open items so we can close this item out.

[00:36:05] And I believe Stephanie Jones Stebbins will be here later in about 15 minutes to talk about her audit so we can raise the issue there if need be. Otherwise we can move forward to the next item. And it's back to you, Commissioner, to item six. Yeah, we're closed down with that.

[00:36:27] The second largest water user in the state in city in this area. So do we know what is the primary. I know our little fountain over at 60 seconds, you dub. But, but you know, it's. It's neck and neck.

[00:36:42] It's very close. We can easily. So what is the primary source? Is it just. Airport.

[00:36:47] Airport. The building. It's. The airport is serving 53 million people. Is that.

[00:36:51] That's all? Yeah, but, but you know, the seaport uses a chair of water as well. Interesting. But I had no idea where I was. Remarkable.

[00:37:02] All right, well, we did have a. Commissioner, we did have a pipe burst by the tyre golf course outside the airport and for over a year that was leaking water and that was like a, you know, huge amount of water. But they've. They've got it fixed and, and they've got some sensors in the pipes now. So if that happens at least at the aviation side should raise a flag.

[00:37:25] All right, so since we are waiting for. We can move on to the next. All right, so. But is there. Can we do the motion on the update of the internal audit plan with.

[00:37:35] Yes on item six? So we're going to move to item six on the agenda and we'll do the motions there. All right, so we have no questions at this point. So. All right, so moving on to six on the agenda.

[00:37:50] It's an update from Director Fernandez regarding updates to the 2026 audit plan. Please continue. Okay, so this slide is just a Gantt chart of where we stand with our audit plan. Everything in green or yellow is in process. Well, green's finished, yellow is in process, and the pinkish will kick off shortly.

[00:38:12] So next slide please. Michelle. So commissioners, we talked about baggage optimization phase three and Fort Hill presented earlier today. These are all the large GCCM projects that are in process that we've got to basically look at the pay apps every month on a consistent basis. And they're all large projects at the airport that are done by various external auditors.

[00:38:39] And some of them are being done internally as well, such as the primary fire station and the concourse low voltage. But, but you know, at one of the future OTTER committee meetings on an annual basis, we try to get at least one of the external firms in to talk about what they're seeing out there. You can see R.L.

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townsend has quite a few and Towson is doing the south concourse evolution, which is a really large project.

[00:39:09] Next slide please. So on the updated plan, everything is going to fine. We're down one head. So we're asking. We're going to defer Enterprise EA and Alamo national holdings to next year.

[00:39:26] And that's the only update that we have in the plan. Everything else is, you know, going as planned. So that's the change. And that concludes item six for me and goes back to you commissioners to approve it.

[00:39:44] Thank you, Glenn. Do we have any questions?

[00:39:51] No. Very good. We could do all those rental cars like on a regular circle. Right. So every five years or so and we'll, we'll hit it up, we'll audit it next year.

[00:40:01] So it'll just be. So no concern there. All right, so without any questions, is there a motion and a second to approve the updated 2026 internal audit plan? As a general reminder, the public member is a non voting member for the purposes of conducting business. So moved.

[00:40:18] All right, we'll second and then if there has been made and seconded, there are no objections to the approval of the motion. And we hear none. So the motion is approved.

[00:40:30] Okay. Now moving on to item seven. On our agenda is the adoption of the Global Internal Audit Standards. Director Fernandez. So, commissioners, there are two standards out there.

[00:40:42] The Governmental Auditing standards, which are also known as the Yellow Book, and the Global Internal Audit Standards, known as the Red Book. The Red Book is published by the Institute of Internal Auditors, domestic think tank and widely used in about 2012. The external member at the time had had a discussion with the audit committee and with us and, well, my predecessor and had said, you know, you need to adopt the red book of the global Internal Audit standards. So the port did, but they, they kept both standards, the red, the government and the global. Next slide, please, Michelle.

[00:41:29] Over the course of it, the ports, as we do our work and we get more into it, the yellow book or the governmental audit standards, actually, when you have an internal audit function such as ourselves, just because of what the red book is doing today, suggests that organizations such as internal audit functions should be using the red book. So we are using the red book and even the yellow book kind of guides us towards the red book. But there is an issue with using 2dune2. It creates a lot of complexity and additional work. Next slide, please, Michelle.

[00:42:13] So we benchmarked and talked to a lot of the airports in the US and we found that the majority of them, like 90% of them, use the red book. Only the few that use the yellow book or use both, usually managed by cities, and the cities follow the yellow book. So accordingly, they just extend that onto the airport for staff. Using two standards is just duplicative and it requires them to basically do everything twice. And it just creates confusion for them and adds additional work.

[00:42:50] So, you know, it doesn't mean that by following one or the other, you're going to miss anything. You're essentially, you're covered. They're very similar. But it does require duplication. And, you know, many of our staff members seem to like the global standards that pass the IIA's certified internal audit exam, and they develop in that manner.

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[00:43:19] So. Next slide, please, Michelle.

[00:43:24] So essentially what we're requesting is to basically make the red book or the Global Internal Audit Standards the primary guidelines that we'll follow. It doesn't mean we're not going to follow all the good practices that aren't covered that might be in the yellow book, that might not be in the red book. But for the most part, I think everything's covered. And our external peer reviewers that came in also this year suggested we pick one or the other, and it creates work for them as well when they come in and review us. So going forward effectively in third quarter, we'd start using the Global Internal Audit standards and we'll update our internal charters and so forth.

[00:44:14] So that's our request and I'm open to questions at this point. Thank you, Glenn. Are there any questions?

[00:44:24] I love the fact that there's like an audit of the audit. That's peer review. There should be nothing that doesn't get peer review. I feel very confident in the process here. So is there a motion and a second to adopt the global internal audit standards?

[00:44:39] So moved. Second. So the motion has been made in second. If there are no objections to the moment. Motion hearing none.

[00:44:48] Motion is approved. Very good then. Thank you, Glenn. Moving on to the performance audit is the on the section of the agenda, item number eight, Performance audit time approval controls Marine Maintenance. And we have director Joan Stebbins with us.

[00:45:07] So, director Fernandez, you have the floor to introduce the item. Thank you, commissioners. So today we have Dan Chase and Presley Morrison, who's the director of Marine maintenance at Dan will present. Dan Chase is a audit manager and Presley will respond or provide guidance. And then we've got managing director Stephanie Jones Stevens here as well to answer questions.

[00:45:36] So with that, Dan, the floor is yours. I just want to say thank you for scheduling this into you. I understand you have a busy day, so I appreciate you making time. Yeah. Great.

[00:45:46] So I'll get started here. And so thanks for introducing Presley Morrissey, who is again the director of Marine maintenance.

[00:45:56] And Presley, I think you've been here for about what, five months or so. So fairly new. So first time at the audit committee. So what I'll do is I'll go through the slides and then I'll turn it back to the audit committee for questions and follow up. This audit had a scope of January 25 through February of 26.

[00:46:13] The port has about. If we go to the next slide, please. Thank you. About 2,500 employees. And Marine Maintenance says about 160 to 170 employees.

[00:46:28] The objectives of the audit were to was to evaluate the approval process, segregation of duties, and then compliance with policies and procedures. Next slide.

[00:46:40] So payroll costs are by far the largest operating cost at the port. In 2026, there will be about 453 million in operating costs. A little bit about how the payroll process works at Marine Maintenance.

[00:46:57] Every day the employees entered their time into Maximo and then it's reviewed on a daily basis. And it's done this way to allow for time to make corrections and adjustments as needed, as opposed to waiting till two weeks when payroll is processed.

[00:47:15] The then once it's loaded into Maximo, there's an upload to PeopleSoft that occurs every two weeks. And then AFR processes it for payment. And there are still adjustments that are required after it is processed and corrections that need to be made. To be fair, some of those adjustments are from FMLA requests that come in after, you know, payroll has been processed. So, you know, the FMLA has a whole process where the doctor provides a note and then it's two or three weeks.

[00:47:52] So those are unavoidable adjustments if we go to the next slide. So what we found is the payroll process has some opportunities to improve.

[00:48:06] And part of what makes it more challenging is that we don't have a time system where employees can log in and log out that record their time in and out. So it's really hard, you know, for marine maintenance management to, you know, it's a challenge to validate the time that employees are submitting. It also makes it hard from an audit standpoint because we don't have, you know, if somebody's charged 50 hours for the week, there's no record that we can go to that logs. Okay, well they came in at, you know, 8 o' clock and left it, you know, whatever, 6 o'. Clock.

[00:48:44] And yeah, that checks out. I'll go through some, just some high level examples. There were 919 corrections within the 14 month period after it was uploaded to PeopleSoft. For the crew chiefs, there's no real formal review over their time. One of the questions we asked was how do you assess how long it's going to take to work on a project?

[00:49:13] And what they said is that the work orders typically have an estimate for how long it should take. Some of those work orders didn't have any time, there was no time allotted. Others, they were 15, 20 years old, so they couldn't rely on them. There is a project right now underway that they're going through and updating those with more accurate time projections.

[00:49:43] Another piece is that employees can change their time after it's been submitted directly to the time administrator without the manager knowing, and then the collective bargaining agreement it requires. So sometimes what employees do, and this is kind of an informal thing that's happening, is that when they work through lunch, they're given one hour of overtime as opposed to 30 minutes that's required by the CPA. Next slide. So our recommendations develop a formal process of reviewing and approving timesheets, updating the work orders, which they're already working on, and then going through managers when you're requesting to change your time card. One of the things that we suggested, which is easy to suggest but is a heavy lift, is to implement a time system.

[00:50:45] It requires resources, both financially and human resources as well, in addition to coordination among various groups.

[00:50:58] If we go to the next slide, and this is my final slide, or My. Oh, that's management response. Let's. If that's okay, we'll go through the rest of it because I'm almost done, and then we can ask for management questions at that point. So, next slide.

[00:51:14] So this is. We've had lots of discussions around this. What we agreed on. What we all agreed on was that we need our senior managers, who the crew chiefs report up through, to be included in approving payroll. So they were largely absent from the approval process.

[00:51:38] And so we had lots of discussions and varying degrees of agreement on why we should do this. But what we did agree on is that we agree that the senior managers need to be involved with approving employees times. So with that, if we go to the next slide.

[00:52:00] Okay. Yeah, that's. That's our recommendation there. Pretty straightforward. So that.

[00:52:04] That concludes my comments. Glenn, do you want to add anything? No, I think at this point, yeah, we could pass it on to Pressley to talk about what they're doing. So thank you. Thanks, Dan.

[00:52:15] Perfect. Good afternoon, everyone. First of all, I just want to say. Appreciate it. Working with.

[00:52:19] Excuse me one second. Could we. Dan, thank you for that presentation. Can we take some questions before we go for the next one? Absolutely, absolutely.

[00:52:26] Especially because you can't be held responsible for any of this. Right. So thank you. Do questions. Yeah, I do.

[00:52:34] I have two quick questions. Clarifying questions, and thank you for presenting. Based on the issue, how many FMLA requests resulted in the changes in the system out of the. That. What is it?

[00:52:51] 919? Yeah. I don't have the number offhand, but I can find that out easily and get it to you. Is there a rough estimate? Is it 10%?

[00:53:00] Is it 5% of that? I would probably. You have an idea? I think it's. It's.

[00:53:04] It's a sizable number. I mean, I'm not sure of the exact number. That's something we can get back to you on, but it is. It is a sizable number. Okay.

[00:53:16] And then if somebody has the answer. 500. So half of 450 to 500. Yeah, yeah. So nearly half of it is FMLA related.

[00:53:30] And my second clarifying question is, so if senior managers aren't approving the payroll, are individuals approving it just themselves and going back into the system, correcting it themselves. So very good question. What I will say is I got. The person on record for approving it is one individual. Right.

[00:53:54] That doesn't work with that group. That doesn't work, obviously. So. So it's. It's one.

[00:53:59] So of the 160ish employees. The person on record that. That shows that they've approved it. Going from Maximo into HCM uploaded to payroll. That's one individual.

[00:54:13] Now I don't believe that that one individual is, is responsible for all of that. You know, I mean there are processes and things that happen. Right. But if you were to look at the system of record, it's that one individual. I, I can see that.

[00:54:28] And then that helps me understand the recommendation because obviously that one person can't not reasonably say they know that's exactly the hours of those and that one person doesn't. They. All those people don't flow through that. That's one person. That makes sense.

[00:54:44] Okay. That those were helpful clarifications. Yeah. Thank you. Sarah, do you have at this time on the second issue, I don't understand the second bullet point.

[00:54:56] I acknowledges the critical role of represented employees, but believes that non represented managers retain responsibility for oversight. What are you saying there? What do you mean?

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[00:55:08] Exactly what we said in there. We think that the senior managers. Who is this like the crew chiefs or whatever we referenced earlier. So the senior managers are non represented employees. Okay.

[00:55:19] Right. And the crew chiefs and everybody else rolls through those individuals, the senior managers. So we want the senior managers to be included and approving crew chiefs time and at least overseeing the individuals that report to the crew chiefs, them being represented or non represented is. Doesn't really matter. It's.

[00:55:44] It's just not that one person approving all 161 people. Basically that's what this is coming down to saying that's what it reflects. I think that when you're looking. When I'm asked to do a payroll approval process at Marine Maintenance and we have senior managers who aren't approving time and they're not on record of approving time. I've got to say something.

[00:56:11] Right. I've got to say. So what we're saying here is we want those senior managers to approve the time. This other process that's going on for someone that's not really involved. Correct.

[00:56:20] Also, I just wanted to clarify with the mat thing. Yeah, go ahead, Stephanie. I believe there's some crew chief review as well that you're not.

[00:56:36] Introducers. For the record.

[00:56:41] No, for the record, you're still not on. You should be able to. There we go. Okay. For the record, my name is Stephanie Jones Stebbins.

[00:56:50] I'm the managing director of the Maritime division. So thank you for allowing me to speak and thank you for the work together to look at improving our timekeeping system. Because that is much appreciated. So today the crew chiefs, the representative workers report the crafts report to the crew chiefs and they do review time and let the one person who approves it know if that's okay or not. What has been identified here is that there's an additional step of the people that the crew chiefs report to, which is the senior manager also look at the time.

[00:57:28] It's an added, an added level of review. And we agree that that makes total sense. The one, the person that approves 160, they are not just doing it alone. They rely on the crew chiefs today to tell them did people work that time? But this process has identified an extra recommended step which we totally think makes sense not to get ahead of Pressley's response.

[00:57:54] So sorry, but just it's a complicated system. So thank you. Thank you for the clarification, Pressley. Now you can dig into the details. Thank you.

[00:58:03] Good afternoon, everyone. Yes, first of all, I'll start by saying it was nice working closely with Dan and his team through this process. I will say that the major of our actions revolve around standard operating procedures and setting clear expectations with our crew chiefs and ascending managers within Marine maintenance to accomplish some of these recommendations over the course of the next year. You know, we're going to develop, you know, the overtime piece was mentioned there. And what we're going to do is we're going to develop a SOP around how overtime is submitted and approved, utilizing a formal system so we can also track data on that over time.

[00:58:40] And then we're also going to do the same thing with the CBA process and you know, extending that lunch hour for overtime. We're going to set clear expectations, which we have already begun to do. And our crew

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chief expectations that we will review annually with the staff on our team and then around the estimates and work orders. We do actually have a, have a goal going into next year where as preventative maintenance items come up throughout our system, we're going to also set expectations with the staff on our team that they're going in there, looking at that, looking at the estimate, and have a feedback loop to our asset management team who ultimately updates our maximo system preventative maintenance work order items. So overall our actions really just focus on improving SOPs, training our staff and setting clear expectations which will involve some of that senior manager level involvement so we can improve on some of these items that were identified as a part of this audit.

[00:59:39] All right, thank you. Presley. Do we have further questions?

[00:59:46] Okay, I have a follow up question. So the, the crew Chiefs are the ones that are basically submitting the record, the time sheet to the one individual who then approves it in the system. Is the, Is that correct? Yes. Okay.

[01:00:03] And is the need for changing that system because you can't identify who the crew chief is that has submitted or is there. I'm trying to understand why, why there's a change that needs to happen if there is a step with, if the crew chiefs are involved. And so what I'm asking is, when the one individual receives the record from the crew chief, are we not able to identify who that crew chief was or is that what's happening? I just want to make sure I'm understanding what's happening or am I missing something here? Well, when the crew chiefs are reviewing time, they're doing it in our work order maximo system, which is where we track work orders and time for each individual job.

[01:00:55] And that gets translated to hcm. The person who does it in HCM is just the one singular person. Our crew chiefs are not operating within that system. They operate within Maximo because that's how they're able to drill down and keep track of like every, not just the overall how many hours, how many hours somebody worked in the day, but exactly what they worked on, how long they worked on that task. And that's done in Maximo with great detail.

[01:01:18] And that's what's managed and overseen and approved by the crew chiefs. So then, are you, are they going to be required to do double the work now that they have to? They're going to do it in Maximo and then they're going to do it in this new, in this other system too. We disagree that they will do it in the HEM system that would require a level of effort and involvement with multiple departments and you know, working closely with labor relations to have them do that. We are going to continue to have them work within Maximo as they do today, and then we'll integrate through those SOPs, the senior management, senior manager involvement as a part of that process.

[01:02:00] I guess just a follow up question. Why would, why would you not have the senior manager, that of the, of the employees that they're approving, why would you not have them be the system, be the person on record in HCM approving the payroll? I mean, it just, I don't think it would take a lot. I mean, it's just, it's the, that's the person that's. That they report through.

[01:02:26] So why would you have somebody else do it? So this is actually, I would say a port Wide question we have typically across the whole port. Not used. Like, supervisors don't. We don't use our time system to approve every.

[01:02:42] Like, yes, you. My direct reports were here, so that's not. I think what we want to always be clear is that we

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have a separation of duties and that. So I think the point. The question is actually not something that I understand, like who puts it in hcm.

[01:03:01] I don't think that was actually raised in the. In your recommendations. If I'm. Yeah. And if I could just add one more item.

[01:03:11] Yeah, so. So you do have the crew chiefs. Sorry, the. The crew chiefs who. I believe their time.

[01:03:19] Nobody's approving their time. So there's no system for approving the crew chief's time. So these. The. The senior managers do need to review the crew chief's time.

[01:03:27] Right. So I think we're in agreement. And we do agree with that. And that. And we will be doing that.

[01:03:31] Yes. Okay. That we agree. That piece. The other thing we suggested is just more involvement from the senior managers, not only for the crew chiefs, which they do need to approve, but just having some sort of oversight over the rest of the time rather than being largely absent from it.

[01:03:50] Okay. The other processes are fine. Okay, got it. So the crew chief right now, they just kind of enter. No one's really approving their time, so they need somebody approve it.

[01:04:02] And we all agree on that. That makes sense going back to the rest of the folks. So if you did. Or I guess you. We did do an audit.

[01:04:13] So through the audit, are you able to go back and see who from the crew chief approved someone's actual time so that you're not having to create this additional step in HCM that sounds like director Joan Stebbins doesn't see as very necessary. But if you. When you were doing the audit, are you able to. To. If you picked out one of those documents or one of the records, could you on paper or in some sort of record, identify who that crew chief was that approved that individual's time?

[01:04:50] Yes. Okay. That's good. Yes. And that's the.

[01:04:53] That's the report I was referring to with the 161Q employees. That reflects that one individual that's approving everybody's time. To Stephanie's point, there are things that happen before it gets there, but the documented control. The person who's approving it is that report that I obtained. Right.

[01:05:18] The answer is no to your question. Well, I would say that if somebody were to ask me who's approving time, I would Say it's the individual on that report, because that's the. When I review. Now, we don't put our time in Maximo. Right.

[01:05:32] But when I review time every week, I'm reviewing my people and I'm hitting a submit button, and that signifies that I reviewed it and approved it, and it's ready to go. Right. It sounds like there is a system to find out who the crew chief was that approved an individual's time. Like, you can pull that record up. There's a way to pull it up, but it's not in the actual system.

[01:05:59] However, I feel like what. What the issue here is, if there is a discrepancy or if someone is entering their time incorrectly, there's not an easy way or, like, just a way to quickly pick up that there's an error that has been made without an actual audit. And obviously that's not good. Yeah, it's an efficiency issue. Yeah.

[01:06:21] And I would say it's also a control issue as well. I mean, I think there's definitely an efficiency issue, which is kind of a different conversation because they're doing it daily because it requires a lot of work. Right. But to press Lee's point and to Commissioner Muhammad's, if we go into Maximo, we can see we can kind of build up a trail a little bit. Right.

[01:06:41] On who's doing what. There were just other issues that. So you're advocating for. Just, let's clean this up and have one system so that there isn't room for error. It's tighter controls.

[01:06:54] And then I hear director Joan Stebbins saying, well, that this is how the whole entire organization works. And let me just say I 100% agree that we need to tighten it up, have standard procedures, have better oversight, and make sure that we are implementing it across the board with accountability. There's no question about that. So I just want to say I agree with that. I think where there's maybe debate over which system and who.

[01:07:27] I mean, for instance, the time approver for me is an administrative assistant in our group. That's because the time rules for pto, fmla, all that is complicated. But she is also relying on the fact that, okay, this matches what your supervisor has approved. So the time approver. It doesn't mean that, like, Steve doesn't have to approve.

[01:07:53] Like, yes, I saw Stephanie in the office. If we rely. I mean, there's. It. But there is, like, an accountability track as well.

[01:08:02] So I think how we implement it has to work for the system. We totally agree that this is something that needs to be tightened up, that we should have more oversight from the senior managers. That so all of that I think it's really like we're starting to get into the details of how we do it. So I apologize. And it is actually quite, quite confusing.

[01:08:24] So that's. Or complicated I should say. Which is maybe why it seems also like we're getting confused as we explain it. So I'm understanding, I'm following you guys. It is confusing for sure, but I think I've tracked it well in my head.

[01:08:40] Maybe this is a question for Deputy Executive Goon. I know for instance, or maybe not a question but a comment that is about the organization broadly. I know for the city of Seattle that I've worked for moved over to workday and it's a whole new system. Took an arm and a leg to make that transition over but it made some of this tracking system easier and it really took HR's leadership to move the organization on workday and it allows you to see who's approving what and even, even with some of the like the FMLA requests and when those changes are coming to create a tighter control. But I mean switching a whole entire organization to a new platform.

[01:09:26] I've had firsthand experience with the issues and the challenges it raised, but once you get over those growing pains, it is a lot. It's a better system I think today and stronger controls. And so that maybe is just like a conversation for the future and not just about this particular definitely. I've been in a couple of different organizations that have gone from their own homegrown systems to a workday and it is a culture shift. It's a very large one.

[01:09:55] And I know that AFR and CPO are looking at some enterprise wide systems right now in terms of how they're handling some of our processes. Again, getting a good idea on what your requirements are before you make a move like that is kind of fundamental. I did want to add one comment that maybe might add some clarity. I'm not sure we have Maximo. Maximo is our asset management system.

[01:10:22] And what I'm understanding Maximo pushes to hcm. So all the data is entered in by the crew chiefs and that's the area that Presley and her team are going to be focusing on making sure that SOPs are adhered to and followed as they enter the data into Maximo, which then pushes that payroll information to hcm. So when Stephanie's time is similar to how I enter my time, I will go in and put on my calendar my admin assistant will enter into hcm. Exceptions like when I'm on PTO or I'm on sick leave, I'll review it and affirm it. And so it's very simple for me because I'm only in hcm.

[01:11:08] Whereas Stephanie's team, they're in that asset management system. They're using it to plan their work. They're using it to do estimating and scheduling and then time assessment, too. So we're working with two systems. And it sounds like Stephanie and her team are looking at more SOPs and oversights on the Maximo part, not necessarily HCM.

[01:11:30] So that when that information moves into HCM, there's more oversight and surety about it when people press submit. So I hope that helps. It raises more questions in my mind, but yes.

[01:11:46] Well, now that that's clear as mud, so I'll turn it to Sarah. But I am concerned. And maybe in the course of answering that, you're saying that having an electric time clock is a big lift, and it just seems it shouldn't be that big a lift. But, Sarah, you have a more detailed question. Okay, so I have a overall question that kind of goes along since we kind of ended on that part of the conversation, and then I have some more detailed questions.

[01:12:12] But my overall comment is this is the second time we're going through pretty major stuff with payroll when we're looking at issues. The last one was around overtime, the way through, totally different area of the port. But it's the second time these are, like, pretty major items that have. I mean, again, payroll is the biggest expense. So this is major dollars we're talking about to not have a system in.

[01:12:33] And this is just of the ones Glenn and his team have looked at. These are two pretty big ones. So it does seem like it'd be worth at least looking at that. Okay, I want to go back to Maximo. So is Maximo like a work order system?

[01:12:47] Is that like, where the work orders are that say we're going to work on this project and it's going to take 60 hours or whatever? Is that what it is? Yes. All of the crafts within Marine Maintenance don't. Do not perform any work without a maximum work order.

[01:13:01] So, yes. So explain to me how that works when we have the comment of, like, work orders aren't. The work order estimates aren't up to date and they're old. So if that's what we're basing all of it on, how is that helpful? How does it work?

[01:13:17] Like, if I have a work order that's super old, but my staff are working on it. How does it, what does it look like? Well, so that was kind of what we were getting at. We asked the question like, how do you know how long it takes or how long it should take to work on. On a project?

[01:13:32] Right. And the response was, well, we don't sometimes because the work orders are. Don't have those, those hours that should be entered in there. Right. Or they're old and we can't rely on them.

[01:13:48] So yeah, if I may too, there are just, there are several different types of work orders that come into maximo and particularly the ones that are always going to have like a well defined. This is how long it takes to do something are preventative maintenance work orders. And that's part of the work that we're, you know,

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we've identified here as an action to go in and update those so they are more accurate. And of course there is work that comes in, it's corrective work, which you know, as we know is changing depending on the environment. When we get skilled craft that go out there and look at something, they might identify that it might take more time or less time.

[01:14:20] And they're working really closely with their crew chief and their senior manager as needed. And those corrective work orders are generally never standard because they're just one off types of work. And of course again, those preventive maintenance work orders are something that we're going to be looking at here in the near future to make sure that we're updating on a regular basis. So if the crew chiefs are going in and using work orders that, let's say it's an old one, that is the one that the staff's working on, are they just more looking at did this person work eight hours or did they work a reasonable amount of hours for the day? Is that kind of what I would imagine they're looking at?

[01:14:53] If it's not a super useful work order as far as hours go, they're the ones that actually schedule work as well. So before, you know, they're not only looking at it after the work's completed, they're assigning work before it gets completed. They're having conversations with their staff about how long something might take. And as a part of this direction that we're headed in, our action is there's an option to have a feedback loop to talk about, you know, how long the work order actually took versus what the estimate was or if it's on a preventative maintenance work order, then there's an option to put feedback in there to say, hey, this actually needs to be updated. But when something takes more time or less time, the crews are working with their crew chiefs on that.

[01:15:33] Okay, so then I guess the major part of the internal controls that I have questions about is if we're going to rely on Maximo and say, like, that's kind of where the people who are supervising these staff are looking at the hours. Can time be changed once it's gone from Maximo to this other system, once it's uploaded into HCM and then to afr? Yeah, like. So after Maximo goes to hcm, right? Yeah.

[01:16:04] There's a feed to hcm. Okay. Can it be. So you could. You could.

[01:16:07] You could make a change if AFR wanted to make a change. Right. Or if somebody need. There's a short window that you could. But typically what happens is payroll is processed and paid, and then those 919 adjustments that we're talking about, that happens after the fact.

[01:16:23] So the employee can't go in and change their time once it's come out of Maximo. That's correct. Right. Okay. Yeah.

[01:16:32] And in Maximo, does it show what people have done? Is there, like, is there an approval of time in Maximo?

[01:16:43] I don't know exactly what the approval looks like for the. The. How it goes from Maximo to hcm, so that's something I have to follow back up on. Okay. I feel like that's fundamentally the control we're looking for, Right.

[01:16:54] Is that somebody who knows what this person was doing approve their time. Now, if we can do that in Maximo, that's great, but if not, I think that's. That's a really valid point to say. We need to have someone who actually knows the time they spent in the system or on the work in the system that their times are being approved. I agree.

[01:17:13] And, you know, one of the questions, you know, some of what I heard was, well, you know, the senior managers, if you're going to ask them to approve time, right. They're going to be doing so blindly. Right. So that's troublesome to me. Right.

[01:17:29] Because if you have, you know, senior managers, and they're responsible for everybody that reports up to them now, they might not have the exact details of what somebody worked on day in and day out, because there's lots of things going on. Right. But they should at least have an idea that of, you know, and if there's errors like that somebody's making. Right. That there's got to be a feedback loop.

[01:17:50] So we correct those. Right. But I agree it's, it's, you know, worked is the crew chief, which is why it's very important they stay in the loop. Right. Also having the senior manager oversee that makes sense.

[01:18:06] But I, I. The idea of restricting post time entry changes or post approval changes I think is also. Which is what you were getting to before. That is one of the key recommendations. And I think what our proposal is that we need to make sure that any approval requests, because it could be the FMLA ones we were discussing that it has a documented justification and appropriate crew chief and senior manager visibility so that a time would never be changed after it was approved without those additional levels of approval.

[01:18:44] So I think that's a really key controls to be implemented.

[01:18:50] And then I guess my last comment would be, I think when we're thinking about this, it's a lot more difficult and we need more controls around hourly people versus like salary people that we just have to worry about the exception based pay. And when we're talking like overtime and how many hours somebody worked, I think it's like a whole different level of oversight needed, which is what we had in the other issue too is that it's the hourly people where we're finding those controls are really key and we're finding some issues. Yeah. At aviation maintenance, we did an audit a while ago and it is, I will say that it is. The, the, the collective bargaining agreements, they're, they're detailed.

[01:19:25] Right. And so there's different codes that you charge based on various things. Right. So it is complicated. I mean it's.

[01:19:32] And I think people are trying to do the right thing. But, but there are, you know, just by the nature of it, it's, it's challenging.

[01:19:42] I will say that Presley was great to work with. It's nice to have a fresh set of ayes and hopefully we can make some improvements.

[01:19:53] She just walked into this. Congratulations. Welcome to the Port of Seattle.

[01:20:01] Thank you. I think fresh shadow ayes is in fact a great thing. I do believe these recommendations are extensive and would require a review next year so that we make sure that this, any of these changes are accounted for. This electronic time clock for the hourly question seems pretty straight up. I don't know why it says it's a big lift.

[01:20:24] But you'll tell us what we choose to do next year, right? This to your point, fundamental to our single largest expense. Okay then, so if there's anything else to be discussed. Somebody else just jumped on here. All right, so we're going on now to item nine.

[01:20:49] Is there. Can I just Say one final thing on this. You know, I think, and it's kind of the last comment that I made, but I think it's important to just say it out loud and for the record, that it might be worth really considering an enterprise wide system change for HR and potentially moving to a different platform like Workday. That's one that I have experience with. So I can say that as an example.

[01:21:22] But I really think this discussion was important today. And Sarah, I think you made a really important point that payroll does represent a large amount of our expense as an organization and you're right on that. And so I think it's something that is worth taking very seriously to evaluate. And it's not just one department or one agency here that needs to think about this, but it's the entire organization. And I do hear Deputy Executive Goon on your point about that's going to require a whole cultural shift and change and there will be significant resistance I would think around the whole organization.

[01:22:11] And people don't get so excited about change all the time. And so I recognize that. But I think balancing that is important and beginning to think, to think about moving in that direction if it's going to help us in the long run would be worth starting that evaluation assessment across the organization. And you would have my support as a commissioner cho begin those conversations. And I would imagine my colleagues would also be in support of beginning that discussion and seeing what it would take to move in that direction at some point for the organization.

[01:22:48] So I just wanted to say that out loud. Yeah, I appreciate the comments and I, and I agree, I think they're spot on. It's not, it's not just marine maintenance. Right. Aviation maintenance is very similar.

[01:22:58] And so yeah, it's, it's, it would be a port wide decision to make. So I agree.

[01:23:06] Well, given that small consideration, I think a review, a review to see how you take this on next year will be most appropriate. And thank you for that broad thinking we are running. Given the significance of these conversations, we are definitely running a little late. But moving, moving on to question two, item number nine on the agenda is the performance audit for Capital Project prioritization. Glenn, please proceed quickly.

[01:23:36] Thank you, Commissioner. So this is probably the last item that we have to go into detail on. But we looked at the Capital Project prioritization again. We've got Maritime Stephanie Jones, Debbins and I'm going to call Spencer Bright and his team up. They'll be the presenters today.

[01:23:54] And they've done all the work, they've looked at Both aviation and at maritime. And we've got Jenny Lee, who looked at aviation, I believe, and Darcy, that looked at maritime. So I'll let Spencer introduce and take it away. Spencer tell you introduce yourself. Welcome.

[01:24:12] Thank you, Glenn. Good morning Commissioners and Ms. Holmstrom. I'm Spencer Bright, Capital Projects Audit Manager. With me today is Jenny Lee Finley and Darcy Axon. They performed the work on this capital project prioritization audit.

[01:24:35] So the port invests approximately $1 billion a year in capital projects. And there's, there's three primary divisions which include the Aviation, Maritime and Economic Development. This, this audit focused on the project prioritization process from the intake to the inclusion in the capital improvement plan focusing on aviation and maritime. Our main focus was on the approval of the projects into the capital budget, not necessarily the approval to spend funds, which is granted separately by the commission.

[01:25:26] And so I will, are going to start Jenny Lee on the aviation side. So I'll pass it on to Jenny Lee who will go

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over provide some background in what she observed on the aviation division. Okay. Good afternoon. Good Morning, commissioners and Ms. Holstrom.

[01:25:47] Holmstrom. So I primarily looked at the aviation side of the capital improvement plan and what we found. Well, first off, the capital improvement plan is developed on a five year plan at a time. And Aviation has more than 81 large capital projects on their plan with an estimated 7.5 billion in rough order of magnitude. They have had a prioritization process in place since 2016, but it has been more formalized in the last several years.

[01:26:34] And most recently In October of 2025, there was an external consultant skier group that came in and looked at the overall SIP governance process for Aviation. And they had several recommended enhancements and aviation is actively working on implementing them. Several have already been implemented and the rest, I believe are to be implemented by the end of this calendar year. The audit that we did focused primarily on the project intake, as Spencer mentioned, the approval and scoring methodology of projects. They have a formalized scoring methodology that aligns with the Century agenda and the executive director priorities.

[01:27:23] And we also looked at key controls over the SIPP governance and looked at documented policies and procedures. And so we didn't have any findings in the aviation area. We appreciate the support by management in the aviation group. We had Kerry Stevens and Mandy Zagoris and they're here supporting us today. They were very cooperative and helped us provide timely responses that expedited completion of the audit in our review.

[01:27:56] And we just wrapped up by verifying that controls and governance practices are functioning effectively in the aviation Division in terms of including projects in the overall capital improvement plan. And I will take any questions, if you have any, or turn it over to okay. Maritime. Good afternoon, everyone. Stephanie, thanks for being here.

[01:28:22] I think TIN is available online for if there's any questions afterwards. I just want to reiterate what Spencer had said, that the focus of our audit was really on from the intake process to the inclusion in the cip. So no authorization of funds or spending or anything like that. Maritime has. There used to be Maritime and edd, the Economic Development Group, were two separate groups.

[01:28:46] Now they roll up into the waterfront project. So there are at least seven lines of business that roll up into Maritime. So I wanted to make note of that. And when I talk about approvals in this audit, since I'm talking about approvals for the inclusion into the CIP plan. So again, we looked at the same areas that we looked at for aviation, meaning we looked at the intake process, we looked at a scoring methodology, and then we looked at key process controls.

[01:29:15] Though Maritime has a process in place that they are informally operating in, they do not have any documented processes for prioritization scoring. And so that's, that's the finding right there. The intake process. They, although they have a process that they follow, they have a process online where forms are submitted. There's a process to review the supporting documentation.

[01:29:42] Then there's a division review which includes stakeholders. There's just no formal documented policies and procedures. With that said, there's a review that happens at a divisional level, and then there's another retreat that happens which is narrowed down. There's less people involved in that meeting. And that is where the draft initial plan of the CIP is completed before it then comes for presentation at the commission meeting.

[01:30:09] Again, no formal approvals documented, no formal procedures in place. So we recommend that, especially now that there's all those lines of business rolling up to the waterfront, that they document the intake process, that they come up with some sort of standardized scoring process, and then they just outline those roles and policies in general. And I'll let Stephanie or Tin, if you guys want to talk, speak to your management. Response. Well, I think TIN is online.

[01:30:39] And just one thing I will say is that we have actually, within the last, well, this year actually set up a Chief Development Office office with TIN as a Chief Development Officer. And his key responsibility in the first, in his first year is to set. Is to more formalize and improve our prioritization system and the documentation. I would note that every project actually did have an intake and in fact Right now I'm. I've stepped out of our prioritization meeting that's happening.

[01:31:17] And then we will be coming to commission next month with our, our recommended prioritization for commissioners to then review and see if you agree with that. So. But it is actually a key part of our program right now to. To be formalizing these more. So.

[01:31:36] So concur.

[01:31:41] And we do have a system. I just want to be clear that we do have a system. It's not all. Every detail written down. Correct.

[01:31:48] It's an informal yes. Michelle, if you want to go to the next slide, the management response tin when our Chief Development officer is on. So I don't know, 10 of you would like to add. Yes, I am online. Thank you, Stephanie.

[01:32:03] And both of us stepped away from division review, which is one mechanism we use for that prioritization. I just want to say really thank you to Darcy and team. Really enjoyed working with them through the process here. One of the things I want to say here in this management response is that we do acknowledge this low finding for us on maritime. Unlike aviation, we don't have the amount of staffing that aviation does.

[01:32:31] And so for us, many, for many years, project delivery being project management, have not only delivered, but worked on the development of many of these CIP items. As we have grown in needs over the years, what we have done in the last couple years have grown a planning and capital development organization very similar to that that was mentioned earlier with Kerry and Manny Gazoris out at Aviation. And so part of what I'll be doing as Chief Development officer is really starting to think life cycle in terms of our capital investment needs and integrating our planning, capital development and project delivery functions together as a waterfront development office. And part of that office will be to make sure that these SOPs, which are right now informal, that they will be documented over time. One of the things I want to mention here around prioritization, what makes prioritization very tricky out on the waterfront is the diverse needs.

[01:33:35] Our programs differ dramatically from aviation. As you can see, aviation is big dollars, low volume. We are very high volume, low dollars, and spread across numerous business lines that compete for these dollars. And so our prioritization might not be as simple as just developing a project scorecard. One of the things I have been analyzing is the steer consulting report that was mentioned earlier with Aviation.

[01:34:05] One of the things we like to do is use that report to the benefit of maritime as well. And we'll be scrubbing for recommendations that would apply to us. So I would say that the last bullet point there around prioritization for me is we have limited capital dollars, we have a lot of aging infrastructure on the waterfront. Our goal is to best align that limited capital capacity with the highest need. And highest is something that is subjective.

[01:34:32] And our goal over time along with our asset management program is to turn something that is subjective to making it more objective in terms of programming out our CIP needs. And I'll leave it there. Thank you.

[01:34:48] Well, thank you very much for conversation and concurrence with the findings and fact that we have a new process going forward. I think that's, that's great. Certainly it's important to the commission to be able to know when something comes to funding that we are fully apprised of a process that brought us to there and opportunity costs for what we chose not to do I think are all very important. So anyway, do we have any further questions from our committee? All right.

[01:35:16] So this is also kind of a big overhaul. So we're going to have a review again come next year for see how these questions have been addressed. I do appreciate the fact they're trying to scrub the findings of the aviation findings that you know, if there's a need to go and do one specific. And I do appreciate the fact there's a lot of little things versus a few big things that's complicated to be able to prioritize within that. All the more reason having some sort of objective process would be helpful.

[01:35:48] So do we have a. We can make a recommendation for next year as well? Absolutely. All right, thank you again. So we are now going to move on to item 10.

[01:36:02] That's the performance audit for procurement personal services agreements. This audit did not identify any issues that warranted reporting. So I want to recognize the CPO team for their work in helping maintain a strong system of controls. And we'll skip discussing this report and proceed to the next item of particular. Thank you.

[01:36:20] To keep us on time. And now we are moving into information technology audits and on item 11. So Glenn, please take it on. Well, information technology audit is going to be non public sessions I believe. All right, so that does conclude.

[01:36:45] Well actually it shows item 11, data centers report. So next page, it's the next page with your notes.

[01:36:58] Oh, of course. It is a sensitive issue that, that we will not talk about in public. So I appreciate that and I'm sorry for my not reading ahead. This item will be discussed in closed session after the public session adjourns due to the security sensitive nature of the item and as such we'll now move to closing comments.

[01:37:21] All right, so.

[01:37:26] Do we have any closing comments from the dm? Yeah, for me, I just want to say thank you to Commissioner Muhammad for coming in today and subbing for us. Karen Goon for Deputy Executive Director for always being here and supporting us and Presley for making the trek in and and to Stephanie Jones. Stephanie. So thank you.

[01:37:49] And that's it for me. Sarah, just a really quick question on the other ones. When we have recommendations we usually have a due by date and we don't have it on these payroll ones. They are granular and and there's a lot of things in there. But we will make sure that the dates are put in and get back to you.

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[01:38:10] That's a really good point rather than just saying over the course of a year along the year we can make some sort of progress on that. Okay, so hearing no further comments, we'll now recess into the non public portion of our meeting to discuss audit matters related to security sensitive information. The non public portion of the meeting will last approximately 30 minutes and the meeting will adjourn with no further business after that time. Participants joining the non public portion of the meeting via Ms. Teams please close out the meeting link and join the non public session team invitation at 11:45.

[01:38:48] Given that we're at 11:47 and for everyone joining in the physical meeting room, please proceed to the third floor Conference Room 3 CC01 and the current time as I said was 1040 1148. Thank you.