[00:00:00] Sam, Good morning. This is commissioned Vice president Fred Felleman calling to order the Port of Seattle Commission Audit Committee special meeting. Today is September 3rd and the time is 11:01. We're meeting today at the Port of Seattle headquarters Commission chambers and virtually on Ms. Teams.

[00:00:50] Present with me today are Commissioner Muhammad standing in for Commissioner Calkins and the public. Member Sarah Holstrom is joining us remotely 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 the committee's 6-4-2026 meeting.

[00:01:18] Are there any corrections to the minutes?

[00:01:24] And Sarah, I can't see you so you can just say something to make me make sure I don't miss you. Hearing none.

[00:01:36] Are there any objections to approving the minutes as presented? No. Hearing none. The minutes are approved as presented.

[00:01:48] Next on the agenda are external audits. We'll hear from the Washington State Auditor's office regarding the start of the 2025 accountability audit. Director Fernandez, please introduce the item and our presenters today, Commissioners. Today we have Joe Simmons and team Sonia Kokar and Sophia Solom and they'll be talking about their opening meeting and their kickoff for the 2025 audit. So Joe, floor is yours.

[00:02:17] Welcome.

[00:02:20] And just say next slide when you want me to advance. Thank you. Thank you. Thank you Glenn. Thank you for inviting us here today to talk about our upcoming accountability audit.

[00:02:30] My name is Joe Simmons. I'm the audit manager for our team here with Sophia who's the assistant Audit manager who'll be supervising the audit and Sonia who is the auditor in charge. And as we note on the first slide, we also provided a packet with some information, additional information beyond what's in this presentation. This will be more of a high level summary of our plan for the audit along with some additional information about our office. And on the next slide talks about our office.

[00:03:01] We were established by the state constitution. We're led by elected State Auditor Pat McCarthy. We audit all state and local governments throughout the state and that includes 43 different government types. And as we say in the slide that we look at our mission as one to help promote accountability and transparency in government. And then on the next slide just has a little bit more detail on the different types of audits we conduct.

[00:03:28] Of course for our audit we'll be conducting an accountability audit where we audit for compliance with state law and your own policies and procedures. And also review for areas related to safeguarding of public assets. And here we note the other types of audits and engagements that we conduct. And with that, I'll hand it over to Sonya and she'll talk more about your accountability audit. Thanks, Joe.

[00:03:55] For the port, we will be conducting a accountability audit that will cover the period of January 1, 2025 through December 31, 2025. For accountability audits, we use a risk based approach in where we conduct many planning procedures, including risk assessment with key management analytical procedures and reviewing prior audit reports to determine areas that we will further evaluate. As Joe mentioned earlier, we evaluate, you know, whether the PORTS management and use of and safeguarding of public resources is, is adequate. And then in addition, we also look at compliance with applicable state laws, regulations, policies and procedures. And then currently we are in the process of performing our planning procedures for the audit.

[00:04:53] Once we have determined the areas that we will further evaluate, we will share those specific areas with with management. And on the next slide, since a financial statement and the PORTS Federal single audit is performed by Baker Tillery Tilly, which is covering the period of January 1, 2025 through December 31, 2025, it is important for us to review others work and ensure that we are able to, you know, look into it and see if there's any areas we could leverage for our accountability audit. In addition, we will review their work and determine if it's, you know, determine if anything causes concern and we will notify you if we notice any instances in which we have limitations in our analysis or notice any issues. And then on the next slide.

[00:05:52] This slide just kind of talks about an important way our office makes sure to stay in communication with our audit staff and yours throughout our audit engagement. This has a couple of areas that we try to stay connected throughout the audit. I won't go through all of them, but I'll just go through a couple of key ones. One is weekly status meetings. As the name really says it, these are reoccurring status meetings that we have with management on a weekly basis to update them on the audit progress.

[00:06:24] And then another key piece is we want you to hear directly from us on the results of your audit. So once we are done concluding our audit, we will schedule a exit conference for a later time for an audit committee meeting and present our results to you. And then on the next slide, as audit issues arise, our office has three levels of reporting for our recommendations and those recommendations are based on the significance of the issues identified. For the first highest level of recommendation is a finding this is the only recommendation that is included in the audit report and also will provide a opportunity for management to respond to the finding, which is also included in the audit report. Management letters.

[00:07:21] These are less significant but still important enough to bring to, you know, the governing body's attention through formal letter. So management letters are not included, but they are only referenced in the audit report. And then last exit items, these are just really minor housekeeping items, some minor non compliance that we might identify. And these are areas that we have potential recommendations for management. At the end of our audit we provide a list of exit items to management for their consideration.

[00:07:59] And with that I will toss it over to Sophia who will talk about some other important information. Thank you. I don't know, does this. This mic just works. Okay, thank you, Sonia.

[00:08:12] And this slide talks about some important information. We just always like to communicate about the audit itself. For confidential information. We do remain committed to protecting and safe handling of confidential data. So we use a secure file transfer system.

[00:08:30] We just ask to be notified when data or information is sensitive. Also in the packet is an estimate of audit costs and that's on track with our previous estimates and was also included in the engagement letter. There is an audit dispute process if needed. There's a progression of levels to go through for management. You can start with Joe, our audit manager.

[00:08:56] And there's additional contact information in the packet of who else to talk to as the levels go up. And then for loss reporting, we just always like to remind local governments about loss reporting. If you become aware of any known or suspected expected losses of public funds, state law requires that you immediately notify our office. So there is the process to notify us through the website and that information is through the client portal on the next slide.

[00:09:32] These next few slides are kind of informational things that we like to take this opportunity during the entrance to remind local governments about. So we have this tool on our website called FIT Financial Intelligence Tool and it helps entities to develop a clear picture of overall financial health. You can compare to other ports and other types of local governments. So here we have a snapshot of just a very high level summary of all the ports that we have financial information on. So you can see majority have pretty good standing in this example.

[00:10:12] There are some that have cautionary indicators, some that have concerning indicators. Port of Seattle is in the good grouping. So no concerning or cautionary indicators that we've noted. And these are using metrics so we can compare local governments to each other. It may help you with your own planning materials.

[00:10:36] And we do use this information during the audit, during planning to get a clear picture of financial condition, and then we may ask further questions during the audit if we have any concerns on the next slide. Excuse me. Oh, yeah, go ahead. So these are ports statewide. Yep.

[00:10:55] And so it seems to add up to more ports than I'm familiar with. But so, but that's. You're. So some of them may be just like airports or. Yeah, some smaller ports that I normally.

[00:11:08] I don't know. They're all in the Public Ports association because that's what, 66, 78. And it's over 80. And only 78 is the. Yeah.

[00:11:19] Number I normally hear. But you found some ports like, congratulations, part of the audit. You've discovered we're even more portful. Yeah, it's just an interesting disparity than I've been familiar with. Definitely.

[00:11:34] Joe, if you have a comment on that. I suppose just to clarify, there is multiple measures that we use. So it's more than one measure that's listed there. So I'm trying to recall exactly how many we have per local government, but it's. I believe it's three or four that we're measuring.

[00:11:56] So there's. That's a measure of the different types of indicators, if that helps. Okay. So any one port might have more than one. Yes.

[00:12:04] Hence the 84. Yes. Thank you. All right. Yeah.

[00:12:08] And those indicators are. The ones that are on the website are things like cash balance, efficiency, enterprise fund, cost recovery, and current ratio. So those are the indicators that are combined up there.

[00:12:23] And those that say indeterminate, they don't have any filing activity. So that's why. That's another category.

[00:12:32] So a question that we do get sometimes is, do we get audited? And yes, we do. So we receive this peer review every three years from the National State Auditors association, and we recently had one in 2025 received a rating of pass, which is the highest level of assurance you can receive. So there's a nice comment there by the peer review leader to acknowledge that we try to do a good job on the next slide.

Actually, on the next few slides, we talk a little bit about the other teams at SAO who help local governments.

[00:13:12] One is the Local Government Support Services, or we call them lgs. They are the team that help with updates to the bars manual, any filing system questions, online filing, annual filing. There's a help desk where you can submit questions if you do have questions about accounting, bars, or filing during that time. And then on the next slide, we also have the center for Government Innovation we call Them, the center, they provide services such as a cyber checkup which we already know the port is in line for. There is a bit of a wait list, but that is an additional service provided by our office at no additional cost.

[00:14:00] And it's been a great resource for a lot of smaller local governments who may not have the capacity to do their own audits or checkups with regard to cybersecurity. They also produce and develop a resource library that's on our website with checklists and information about internal controls. There's a specialist on the team who can help with lean workshops and also team building workshops. And then I believe on the next slide is sort of the last team to mention they are a special investigations team who have put together this resource. Basically in the past five, six years we've seen a lot of investigations at our office and the loss of public funds, phishing schemes, things like that.

[00:15:01] So schemes themselves usually manifest on stage statements like bank statements and that's the first place to look at. So that's what this document and that team focuses on when they're communicating and educating local governments. So this resource is on our website to help you to if you want to get involved or want to learn more about how to identify fraud. There's a checklist in this document and information about how to pay attention to bank statements. So I believe that's all the informational points about our office.

[00:15:40] So just in general, any questions, any additional questions?

[00:15:50] Sarah?

[00:15:55] No questions for me. All right, so the fit and that's public facing. So people can see that we got good, which is as good as it gets. Right. And you got pass.

[00:16:09] I mean that's pretty low bar but so the audit of the auditor always impresses me. This folk is from Georgia. That's interesting. So that's like a national audit entity that has whatever standard that applies across the country. Yes, there's a national association of Auditors.

[00:16:33] So there is all 50 states are part of that association. And basically they create a group of I think it's 10 to 12 that participate in that group from around the country and also includes I believe member from the federal government because they also review our single audits. And basically that's way that we have that outside review and then we participate in reviews of other governments. But basically it's a team that comes in and that was one of the participants. Excellent.

[00:17:06] And could you just give me a couple of examples of exit items that a port or entity might receive? Certainly exit item might be where there is a requirement to approve a transaction, say or approve a purchase card transaction. And we would select from a sample of transactions and review whether or not the PORTS procedures are properly functioning, that there's proper levels of approval. And say we tested 30 transactions and we noted like one item where there wasn't one of the approvals there. That might be the type of thing where we would have an exit item.

[00:17:49] We'd look to see if it's more widespread. But if it was really in an isolated type area like that, that would be a lower level type item that we would report to management and have as an exit item. That's one example I could provide. Right. So it's more of a heads up rather than something to do pursue next year or something like that.

[00:18:09] Yes, I mean we still follow up on the exit items just to see that any recommendation we do have are followed up. And that's part of what we do for planning. But yeah, it definitely is a case it's at the management level. It wouldn't rise to the level of the board if it's a lower level item. All right, thank you.

[00:18:34] Right, well, thank you again. We're. We're good here. Ado. All right.

[00:18:40] All right. So next on the agenda. Did the spirit help you? Good. I will now everything.

[00:18:50] And so we got folks from the sorry team and the entrance report, the interest report today. Are there any questions and with the space or we didn't see anything other than onion I might have spun spawned some new ones. That's correct. And thank you for the presentation. Appreciate you all's time.

[00:19:07] Thank you so much for your time. Thank you. Thanks, Jim. Thank you. Good to see you.

[00:19:13] Much appreciated knowing that we are good.

[00:19:18] All right, so item four on the agenda is an update from Director FERNANDEZ Regarding the 2026 audit plan. Glenn, please proceed. Thanks, Commissioner. So next slide please, Michelle. So one of the things I want to do is quickly go over our audit plan.

[00:19:34] We make. It's a flexible plan, meaning we make adjustments from quarter to quarter as deemed necessary. But I'll give you a little update on our structure as well. We do have a new auditor on board, Jarrett Perkins, who's here with us today. He's got his hand raised.

[00:19:49] He's got, I think it's his first week at the port and he's already got some real audit findings on his sixth audit that we'll talk about later. Next slide please, Michelle.

[00:20:04] So as far as our plan goes, you know we're on track to completing our plan, the majority of our plan by December. Everything in green is done, everything in yellow is in progress. As you can see here, December is going to be a very busy month and busy audit committee meeting with a lot of ground to cover. There are a couple adjustments that we're making to the plan. The first one is the airport dining retail audit.

[00:20:33] We were looking at both the DBE program and street pricing. We're narrowing it down to street pricing primarily because the current administration and Department of Transportation have put a hold on the DBE program for now. So there isn't anything we can do on on that during the hold. So the, the other thing is that we had an FMLA third party administrator audit and the risk was primarily mitigated there. When we kicked the tires and peel back the onion a little bit, we found that the controls were in place.

[00:21:09] So even if we due to the audit, it would be a clean audit. So there was really nothing there. So we we're taking that off the plan and redeploying our resources. Next slide please. Michelle.

[00:21:21] I do want to point out these are continuous audits. Gc, the general contractor, construction manager type audits and construction. And RCW 3910 requires us to do these. It says it has to be done by an independent auditor. You know, we outsource most of these and from time to time we'll pick up something.

[00:21:44] As you can see, we've got quite a few on here that are actively being worked. We did pick up internally the primary fire station and concourse Low voltage, primarily internally because the consultant, Fact Financial basically didn't do anything on the audit and had to be removed. So Spencer and his team stepped in and picked up the work and they'll talk about primary fire station today. They've got some pretty good findings and done some really good work there. So next slide please.

[00:22:18] Michelle.

[00:22:23] So in a nutshell, this is our updated plan with the two adjustments that I talked about. You know, it's on schedule. And this for the record, doesn't include the GCCM audits that were shown on the previous slide. Those are in addition to the slide. So with that pass it back to you for questions and approval.

[00:22:45] Commissioners.

[00:22:50] Sarah, do you have anything?

[00:22:57] Nope, no questions on my end. Thank you. Okay. And Commissioner Muhammad does not either. So thanks Glenn.

[00:23:04] And there are no further questions. So is there a motion and a second to approve the updated 2026 audit plan? As a general reminder, the public is not a non voting member for the purposes of conducting business. So moved. Second.

[00:23:22] So all in favor? The motion has been moved and seconded. If there are no objections, the motion is approved. Thank you. Thank you.

[00:23:32] Now, so item five on the agenda is approval of the proposed 2027 budget. And Director Fernandez, please. Thank you, Commissioners, Commissioner, our budget, part of the charter for the audit committee and internal audit requires our budget to come forth before the audit committee. Now I do want to point out that our budget is also approved primary first by our CFO Chris Wimsatt, by our Executive Director Steve Metruck and our Deputy Executive Director Karen Goon. We've already been through these discussions and now it's a presentation to the audit committee and for transparency to the public as well.

[00:24:16] But you can see year over year we're generally pretty flat. Our non payroll costs are basically 0.1% or they're flat salaries and benefits. The increase that you see there is Primarily because our 2026 budget was a little bit low when it was created. But in a nutshell, that's reasonably flat as well other than inflationary costs. So you'll see some movement around between outside services and travel and training.

[00:24:47] But those net out, it's just moving items within categories which keeps the number overall number reasonably flat. Next slide please, Michelle.

[00:25:00] So when you look at it compared to actuals when these are created, we've got just the first half of 2026 and we're quite favorable there. We do plan on training all our staff. There's lots of things we still need to do such as our PCI certifications and other certifications that staff have to get and other minimum training requirements. So we'll eat up most of that positive variance there. But when it's all said and done, we will be right in line with our budget.

Port of Seattle

[00:25:32] Right now we're a little bit favorable, maybe a tad bit favorable at the end of the day, but the training we will attain. So that's our actuals and next slide please. The last slide.

[00:25:52] And just for transparency, we also have all the construction contracts where we have external auditors continuously reviewing select invoices that come through. And these are some of the projects that are out there. They go on for multiple years. The construction estimate is listed in the third column and in the next column the total life cycle audit estimate is listed out. These are actively bid out and the bidders come back and say for this body of work, this is the amount it's going to cost.

[00:26:31] And these all get capitalized so they do get charged to the project. And you can see for instance the south concourse will go on until 2032 and at least that's a plan will probably go on beyond that. But that's A starting plan. And that in a nutshell is our budget. So commissioners, I'll take any questions or ask for approval.

[00:26:58] No issues. Once again, Sarah looks good to me. Very good. So if there are no questions, I'm sorry, I can ask a quick question. Commissioner, Director, if there's an item that comes before you or is brought to your attention during mid year, how do you incorporate that into your plan or does that automatically move into like a 2027 plan?

[00:27:32] You mean for our budget or for our plan? For your plan versus budget. Like you don't. You might not have the budget in there, but it's something that has been brought to your attention which impacts your plan and budget. Okay.

[00:27:42] So from a plan perspective, you know, at the committee's request, I can add anything, add anything to the plan. As far as the financial request, I would have to go to Chris over there and say, you know, the commission would like us and Karen to do this particular task and we need this funding or we have this shortfall and then see if we can work it out and put it in. Otherwise we'd reshuffle within our existing budget and see if we could take something else off. So that's the way we generally work it. That's really helpful.

[00:28:15] Thank you. Right. I recall we would potentially postpone an audit to the following year to allow for the accommodation of something potentially more pressing. Okay. I don't know.

[00:28:28] Have we actually gone back and asked for more money in the past? Oh, it's been a few years. But usually in outside services when we need consultants to come in with very specialized help and that was like cyber and things like that, cyber related or, you know, even on an operational side, if there's something where we just don't have the resources or the headcount and we need to go to an outside like Robert Half and pull, an expert will then say we're going to take it out of salaries and wages because we've got a very positive budget there because of staffing and we're going to take it out of, you know, add it to outside services. And then we go back to the finance arm and to Steve Metruck and say, you know, we'd like to make these adjustments. Do you agree?

[00:29:11] And go from there. And we have another FTE here to help us carry the load. At this point, we're fully staffed. Yes. Great.

[00:29:19] Okay. So is there a motion as second to approve the proposed 2027 internal audit budget? Approved. Seconded. So moved.

[00:29:30] And so the motion has been made and seconded. If there's no objection to the motion. None. None. So the item has been approved.

[00:29:40] Moving right along here, item six on the agenda is the Internal Audit Charter. Updates and approval Director Fernandez, Commissioners in the June Audit Committee meeting, the Internal Audit Department got approval from the Audit Committee to move exclusively to and primarily to the Global Internal Audit Standards issued by the Institute of Internal Auditors, or the Red Book, as it's commonly known as. So I'll one of the things, just more of a procedural thing. We have our Internal Audit Charter and for transparency to the committee and to the public, we have updated that to reflect this. I have sent that to Audit committee members and to senior leadership at the port and discussed it with with them as well.

[00:30:35] The last update to the Internal Audit charter was in 2020. Standards do require that on an annual basis we look at it and make sure that they're relevant. So in this case, it did need that update. And the primary update that I made to it, that we made to it was to say the Global Internal Audit standards of the GIAs, the Professional Standards that we'll be following going forward. There were some other minor changes that were really updates in terminology and verbiage from the Global Internal Audit Standards 2024 refresh and some updates to topical requirements.

[00:31:12] And topical requirements are basically saying in your audits you have to consider cybersecurity today you have to consider third party risks and things like that. So, you know, it's things that we used to do, but now it's more formalized and more required to document that. You've had those just notes in there that requires staff to do that. So the. For the public, the updated charter is attached.

[00:31:39] And just as another note, I'd like to point out that there is not a committee charter. And I will be working with Michelle in the future. It's one line in that charter that just needs to be struck and updated to say, yeah, that we'll be following the Global Internal Audit Standards and that's it. So I need again, I'll take questions. Thank you, Glenn.

[00:32:04] And so are there any questions? Once again, Sarah. No questions from me, thank you. Okay, I have a bad analogy here. So Tiger woods is recently in the news and so does the change in the standards.

[00:32:24] Is it like if you went back using the new standard, would an evaluation change? I mean, has. No, you know, the new standards get more prescriptive as they change. Some things where they said you should have done this or they give you the option if it's become really important, they start changing verbiage a must, meaning you must go do this particular task. So, yeah, I guess from, from a certain perspective, you know, you might not have looked at cybersecurity in the past in a certain situation because it was more optional, but now they're forcing you to document and say, you know, you've looked at it and you've deemed that it's not a risk or it's picked up somewhere else.

[00:33:09] So as. As risks in the world change the standards and the global think tanks try to steer you in that direction and make sure auditors are better prepared for the new environment. So to answer your question, yes, sure. So it would be, you know, greater inclusivity, but in terms of the rigor of standard, it's not like you're changing the. You're going up alcohol.

[00:33:33] They're never taking it down. They're always making you go up. All right, all right, Very good. So sorry about that analogy. But.

[00:33:40] So if there's no questions or comments from the committee.

[00:33:47] Let's see. So that was the.

[00:33:52] That was the charter update. So, okay, so I have performance performances. So we don't have to officially approve it. You do have to approve it. Yeah, I. I did not see that.

[00:34:07] So if there is a motion to approve that. So moved. I will second that. Is there any further questions or objections? Not at this time.

[00:34:18] All right, then. This item has been approved. Great. Very good. Then moving on to the performance order section of the agenda, item number seven is the performance order report for the primary fire station Continuing Operations preservation project.

[00:34:36] Mccm, cost of record. And Director Fernandez, once again, you have the floor. Thank you, Commissioner. So today we're going to be talking about the primary fire station continuing Operation preservation project. It's one of the GCCM audits that we talked about earlier that our internal team picked up Spencer Bright and his team completed the work and Spencer will talk about it.

[00:35:01] We also have Brian Sweet from Construction Management, who's welcome to come up at any time and provide comments. But essentially we have a partnership with Construction Management. We do this work as required by the RCW before the contract closes and as real time as possible. In this case, the outside consultant didn't complete the work. So Spencer's team did roll their sleeves up and get involved.

[00:35:30] They partnered with Brian's team and Spencer's going to talk a little bit about what he found and the adjustments to the contracts, the money he's potentially going to save and pass back to Brian to make the adjustments on. So with that, Spencer, the floor is yours.

[00:35:47] Thanks, Glenn. Welcome. Good Morning, commissioners and Ms. Holmstrom. So the objective of the primary fire station project was to add improvements to Fire Station 1 utilizing the general contractor construction manager or GCCM project delivery method. Hoffman Construction was the GCCM and had a final contract of 15.8 million.

[00:36:19] As Glenn has mentioned, state law allows the use of an alternative subcontractor selection for specialty subcontractors and when that occurs, an independent cost of record audit is required for all of those alternatively selected subcontractors to confirm costs are allowable and align with contractual requirements. Next slide.

[00:36:49] There was one alternatively selected subcontractor, Hermansen Co. Who was the mechanical contractor. Hermanson's guaranteed maximum price contract totaled 4.6 million. Of that, 4.1 million had been billed and as Glenn had mentioned earlier, we initially contracted with an outside consultant to review Hermanson's monthly pay submittals and then for particular reasons, the Port's construction team had had concerns and requested that internal audit perform a complete review of Hermanson's billings.

[00:37:35] Next slide so Hermanson's costs were organized into seven separate categories. Our review identified 171,000 in question costs out of the 4.1 million billed. It is important to note that Hermanson's job cost Ledger does reflect approximately 20,000 in costs that remain unbilled and should those unbilled costs be deemed allowable, the total question costs will decrease to 151,000.

[00:38:19] Among the seven cost categories, we have pinpointed three that consist of question costs, which I will go into detail on following slides. Next slide please.

[00:38:34] At 1.1 million, labor consists of the single largest category of billed costs. Labor is reimbursed at an established rate through wage plus the employer's labor burden. Rates were set at the beginning of the project and updated semiannually.

[00:39:00] We know the Port did not obtain updated unemployment or workers comp tax rate notices during the project, so we obtained them directly from Hermanson for testing purposes. Next slide.

[00:39:22] We identified the following errors in Hermanson's fully burned rate. First, Hermanson requested and was approved a 20% occupied space wage which is allowed in the project labor agreement when working conditions meet certain requirements. However, these premium rates should not have been approved because the work did not meet those requirements.

[00:39:56] Further testing we also determined that the tradespersons were not paid at that premium wage, but instead they were paid at the standard wage for the for their particular trades.

[00:40:11] Additional errors we noted was for federal unemployment tax, that rate was billed on average at about 46 cents per hour, which doesn't account for the yearly cap. Correct calculation based on an average yearly billable hour and consideration of the annual cap equals 3 cents per hour. Similarly, the state's unemployment calculation also did not account for annual maximum thresholds.

[00:40:46] After recalculating to the correct labor rates, we identified approximately 131,000 in question costs. Next slide please.

[00:41:03] Also within labor for shop based workers, our testing did determine that they were paid same hourly rate as the approved base wage rate. However, we identified two individuals in which Hermanson billed the poured higher rates than approved which resulted in additional $1,500 in question costs. And then for the shop workers, on just a particular side note, we saw that Hermanson included a shop burden of 24.6% which is for overhead costs, not necessarily an issue in the sense of the percent because that does fall within industry standard. We just noted that the port did not obtain an itemized list of the components of that shop burden, which just increases the potential of some of those components being duplicated in other cost categories.

[00:42:14] Next slide.

[00:42:19] Cost category class defined classified as other totaled approximately $30,000. Items within this category that were deemed unallowable included small tools, equipment and truck rentals. Additionally, warehouse storage costs lacked adequate supporting documentation, resulting in question costs of 22,000.

[00:42:49] Next slide.

[00:42:54] The cost category of materials had 179,000 billed. A few of the items billed to this category should have been part of the lump sum, specified general conditions or included as part of the fee. Also identified some of the build items that lacked supporting documentation resulting in question costs of 16,000.

[00:43:26] Next slide.

[00:43:31] Overall, we found that most documentation was sufficient. However, we have several recommendations for future projects to strengthen controls and improve accuracy. First court should approve and maintain justification documentation for labor rates that exceed those listed on Project Labor Agreement and add steps in the process to confirm contractors are paying their employees the increased wages. Next slide.

[00:44:08] We also recommend updating the state unemployment and federal unemployment formulas on the labor rate template. This will just help prevent calculation errors and ensure compliance with statutory requirements. Additional recommendations include obtaining and verifying annual tax rate notices comparing those against the proposed labor rates, obtain a detailed list of contractor shop burden components before approval, and obtain proper documentation before approving rental and storage rates. Next slide And I am available to answer any questions and Brian Sweet is on his way to probably get better answers.

[00:45:03] Thank you much.

[00:45:07] Brian, the floor is yours if you want to say anything. Good afternoon or good morning. Good afternoon. That's. Sorry.

[00:45:14] Just got down here from Sped down here from the airport as best I could. No, we've in discussing the audit findings with internal audit it's been really enlightening, I think from the standpoint of the findings in here, the management responses. We're currently working on that between budgets and employee actions, things like that, we've been a little bit sidetracked. We are currently in conversations with the contractor, Hoffman Construction, who's going to be talking with Hermanson about those various items on there, getting the supporting documentation. But I think more importantly, the things that Internal Aude has identified to us have really kind of given us an opportunity to make our processes and our contracts more strong and how we go about the.

[00:46:05] For example, we were already in discussions with the central procurement office CPO about eliminating food from our markups because it's just a small dollar amount. It's $42 a year. It's. It's something that's just not worth the contractors or our time to really manage over, over a long period. So a lot of the.

[00:46:22] In the same thing with the state unemployment tax, we're looking at processes to manage to how we're going to track and make sure that we're paying the correct amounts to the contractor for what their costs incurred. The other, the big item there, the overpayment or the difference in the wage rate between what we negotiated at the time versus the occupied rate, which is 20% higher than the normal prevailing wage, versus the prevailing wage which the employees replay. We're currently in discussions with Hoffman looking to. Primarily we expect that money to be recouped or recovered back from then. But I do want to point out too, one of the things that I think was despite all of these findings, that this project actually from an overall perspective was actually a success.

[00:47:07] When you look at what we negotiated and what was budgeted at 4.6 million, costs have come in around 4 million. Just using rough numbers there, that's, you know, that's well over 10% below budget on that particular one. I just unfortunately don't have the top of my head what the overall contract value was versus the original 15.6. But in general, the GCCM process we're finding is actually very helpful in cost certainty. Just another example of overall the main terminal low voltage project which I started working on when I returned to the port in 2019, just finished up here in April and that was roughly another 10%.

[00:47:44] Overall we were $75 million, mag and I think around $71 million in total cost. But we value the partnership we have with internal audit and it always looks to strengthen and improve our process.

[00:48:00]

Well, thank you for that. And the management response is Very thoughtful. And accepting the net result, as you point out, is a good thing. But having better systems in place, you might catch something larger in the future. But how long were you working on main terminal voltage?

[00:48:21] Yeah, well, when I first returned to the port in 2019, we were just in the procurement of the contractor and then we had a couple years of design and then with the work over the 350 panels that got replaced there, that did take a little while and manage to say we only had one minor hiccup in all those. I think it was well over nearly 1,000 outages that we had to conduct to do all those panel switches and so forth. So. And a new power center. So that project went really, really well from an operational standpoint too.

[00:48:54] And the technology hasn't changed over that period of time. So we don't have to go back again. No, as far as I know, it's. The electrical gear will be there for another 25 years of service. Very good, thank you.

[00:49:06] Do we have other questions? No. I also just want to say I do appreciate the additional controls that are being put in place and those additional steps to prevent something like this happening. And it's good that this project was below budget. Thank you.

[00:49:24] Sarah.

[00:49:27] I just had one question. On the other items that were on the other slide, Spencer, Were those deemed unallowable like the small tools and stuff because of that overhead rate?

[00:49:41] That is correct, Sarah. Small tools, equipment, those. Those items were included as a component of the specified general conditions, which is a lump sum amount agreed to during contract negotiations. So is that something different than that list you were talking about earlier that like that 24%. We didn't have like itemized what it would be in there.

[00:50:07] Is that separate from this? Yes.

[00:50:12] With it, the purpose of it? Yes, that would be just shop overhead. But without that documentation there could definitely be a risk of those components being included, say in both. Well, we have the list for these kind of things for specified general conditions. Yes.

[00:50:38] Perfect. Okay, thank you.

[00:50:42] Well, thanks again. Really appreciate your time and your good work. Thanks.

[00:50:50] Okay, moving on. Item number eight on the agenda is the performance audit for the six car rental. I always find that one a hard one to pronounce, but llc. Glenn, please take it away. So yeah, it's six because I believe it's German.

[00:51:07] Right? Yeah. So I do have Dan Chase, our manager of Operational performance audit. He and his team completed the work and there's a lot more stuff that they are doing. So Dan's going to talk a little bit about EF6 and what he found and he's going to save the port some money.

[00:51:27] So, Dan, the floor is yours. Good afternoon. So this was a limited contract compliance audit with the three year scope period beginning in January of 23 and ending in December of 25. We assess percentage fees in the customer facility charge, which we refer to as the cfc. The cfc, as you probably know, is a daily charge on all vehicle transactions with airport customers.

[00:51:53] Next slide.

[00:51:57] We did test three months of CSC data. That's about over 10,000 transactions. From this testing, we identified about 4,000 in underpaid CFCs. If we extrapolated that out over the 36 month period, that would be about 48,000.

[00:52:16] Since we published the report, we did test 100% of the transactions over 125,000 individual transactions. The amount is actually 178,000.

[00:52:32] I've had several communications with Sixt dating back to early July. I've requested that they get back to us by next Friday, September 11, so we can get some resolution on this. I will pause for questions. I know, Jeff, you've. You're here as well, Jeff.

[00:52:51] Would you like to come up? Not yet. You want to stay there? Okay. Anyway, if you have questions, I'd be happy to take them.

[00:53:02] Sarah. No questions, just. We go through all of the car rentals. Right. Eventually.

[00:53:11] Right. We actually turn through it. Yeah. And. And this is somewhat because of the self policing sort of on the.

[00:53:19] This is on our system. Yeah, it's self reporting. And so we cycle through the. The audits and rental cars are typically the highest revenue producer for the port. And so we try to get to those on a more frequent basis.

[00:53:34] And so this level of discrepancy is this high. Medium, low. I would say it's, it's between medium and high. Yeah, yeah, I know.

[00:53:50] There's a provision in the contract that says that the CFC reporting has to be correct. I think that's the word they actually use. I feel pretty strong. But that our numbers are accurate. We just take a simple formula and we calculate the number of days between when the person picked up the car and when they return the car and we multiply it by the daily CSC at the time.

[00:54:18] And that individual, those individual transactions, you know, over 125,000, those actually agree to the monthly reports that are provided to our accounting team throughout the, throughout the year. So that tells me that the data that they provided us can be relied on. Yeah, 178,000 out of, you know, it's a sizable number. The contract always also has A provision if there's, if the discrepancy is more than 1% of the CFC over a 12 month period that you would then recoup the audit cost for that. So when we get this resolved, we'll also be moving towards recouping our audit costs as well, which is, I mean it's extraordinary.

[00:55:06] 100 plus thousand transaction evaluations. Right. I assume that's not cheap. Is that going to be more than the 178,000? I don't get paid that much, Dan.

[00:55:17] I mean we, I would say, you know, we're going to have to come up with some, you know, an approach for that, assuming that it is collectible. But, you know, two or three months worth of, you know, intense work is probably what I would earmark it at. So it is another incentive to get it right. Correct. Yeah.

[00:55:36] Excellent. Yeah. Any other further comments now? Jeff looks like he wants to come up. Jeff partners with Dan on these things.

[00:55:46] And Jeff, thanks for your help, support and thanks for being here. Floor is yours. Thank you, Glenn.

Commissioners Public Member Holstrom so my name is Joe Foster. I'm assistant director in our aviation Commercial management department.

[00:56:01] My team, the business development team are the ones that oversee our rental car contracts. Just to provide a little bit more context. So this has been a long ongoing audit that we've had and we've had a lot of communications with six. We're going to continue to work with Internal Audit on that. There are some questions that Sixt has raised.

[00:56:20] So we'll be going through that to make sure that the amount is, is correct. For that there could be some additional exclusions that make the variance a lower amount. There's also, we just have to verify we have different rates each year that our cfc, as it increases, there are allowances for which rates they can charge at any given time. So we just have to validate that. So there's additional work on our end just to button that up.

[00:56:46] But we'll be partnering with Internal Audit. We have a great partnership with Internal Audit with Glenn, with Dan and his team.

[00:56:55] Excellent. I really appreciate your time and insight and it's actually pretty extraordinary that we can keep track at this level of detail. We feel confident that we're running a tight ship. So thank you very much. All right, moving on now.

[00:57:13] Number nine. It is the concession audit for Marmot Mountain doing business as ex officio at SeaTac. Since this concession audit is a clean audit, it will not be discussed but the report is made available on the port's website. We really like those we should have more of them. All right, so that brings us to the end of the public session.

[00:57:38] We do not have any non public sessions scheduled today. So Director Fernandez, do you have any closing comments? Commissioners? First, I'd like to thank all committee members for being here today and for the time and the effort. I know it's a lot of work and I spent time with you going through all the details of this.

[00:57:56] So I really do appreciate your time. For the public, this benefits them in so many ways. It increases transparency and you know, when we do recover money, it saves the public money and the traveling public as well because it makes their experiences better. We have a lot of these that we'll be talking about in December. So In December, on December 10, we have a very busy audit committee meeting.

[00:58:18] So we do have to prep for that. And I appreciate you, Commissioner Mohamed Sarah, and Commissioner Calkins for that effort because it's one more last bit we need to conquer for the rest of the year. And with that, thank you very much and thank you. Getting the briefings beforehand help us be better prepared for this. So thank you for taking the time with us as well.

[00:58:44] I echo those same sentiments. Thank you for your work and I also appreciate the briefings and it's always a good time to be able to step in when a commissioner is absent. Yes, thank you very much for doing that. Thanks for having me. Sarah, any closing comments?

[00:59:01] Thanks so much. This was great. Love ending on that high note of just skipping over that one. Thanks, Sue. Again, appreciate that.

[00:59:10] So at this time, I called the meeting to a close at 11:59, which is some 25 minutes ahead. So thank you.