Financial Stewardship

Accountability

Transparency

Port of Seattle Audit Committee

Internal Audit Update

Glenn Fernandes - Director, Internal Audit

September 3, 2026

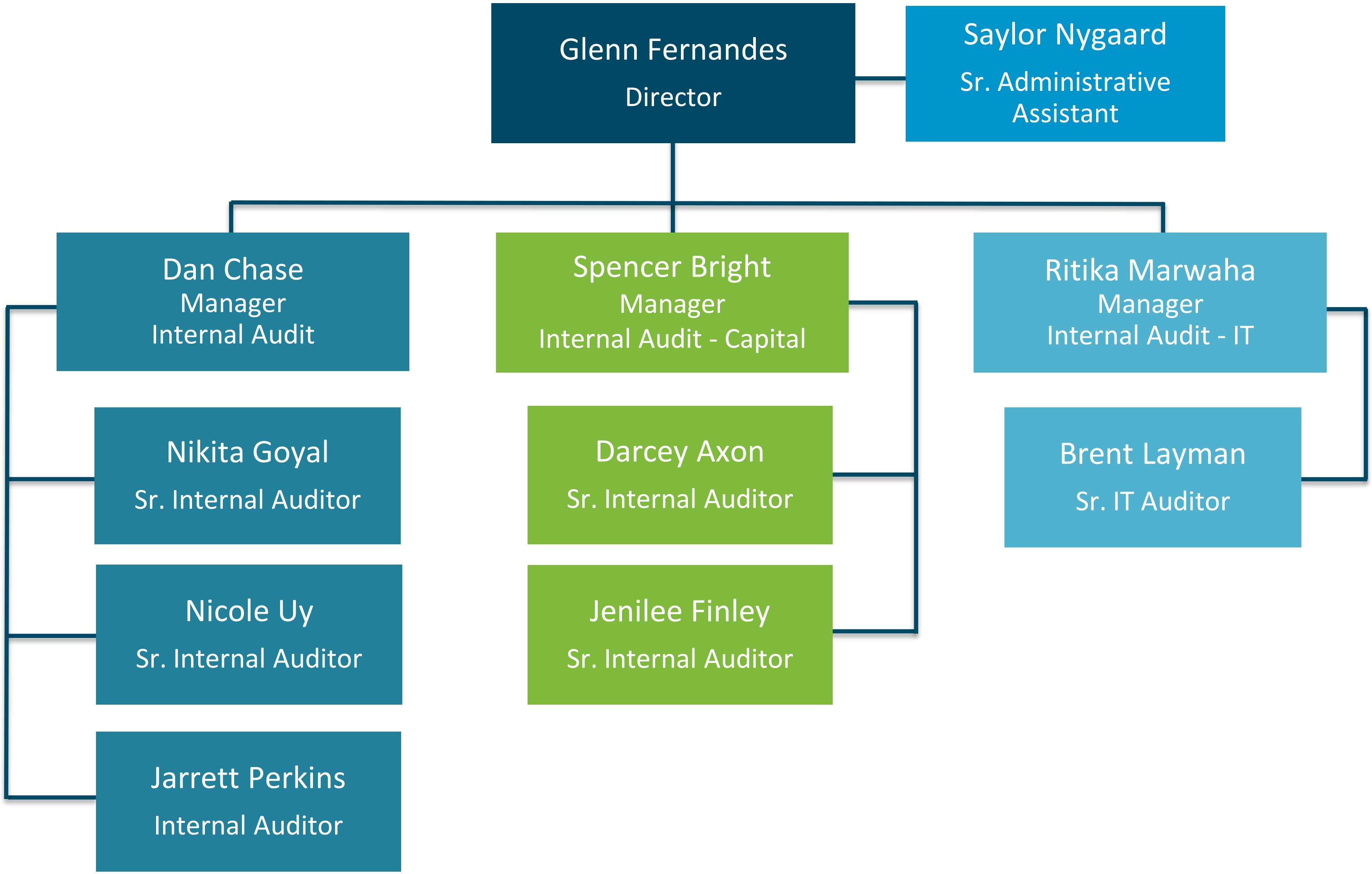
P69 Commission Chambers

11:00 AM – 12:30 PM

Operational Excellence

Governance

Internal Audit Organization Structure



Item #4

2026 AUDIT PLAN STATUS

Report Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Public Art Program	Performance												
Timekeeping – Maritime	Performance												
Accounts Receivable Management – Fisherman's Terminal	Performance												
Airport Dining & Retail - Street Pricing[1]	Performance												
Procurement - Personal Service Agreements	Performance												
~~FMLA 3rd Party Administration~~[2]	Performance												
South King County and Port Communities Fund	Performance												
C Concourse Expansion	Performance - Capital												
Main Terminal Low Voltage	Performance - Capital												
Post IAF Airline Realignment	Performance - Capital												
Planewear Tenant Reimbursement Agreement (CT-09)	Performance - Capital												
Capital Project Prioritization Process	Performance - Capital												
Data Centers & Supporting Technology Facilities	IT												
Baggage Conveyor Systems	IT												
Payment Card Industry (PCI) Assessment	IT												
Sixt Rent A Car, LLC	Limited Contract Compliance												
HIS HCL SEA FB, LLC	Limited Contract Compliance												
Marmot Mountain, LLC DBA Exofficio	Limited Contract Compliance												

1. Airport Dining & Retail ACDBE program was renamed to focus on Street Pricing
2. This audit will be removed from the 2026 Audit Plan as the identified risk was deemed mitigated

KEY	
	Complete
	In Process
	On Hold
	Not Started

Item #4

Internal Audit Capital GC/CM Continuous Audits

- RCW 39.10.385 requires an independent audit
- Auditor provides the Audit Committee with annual updates and final reports upon completion of each project

Capital GC/CM Continuous Audits	Auditor
Main Terminal Low Voltage System Upgrade	*R.L. Townsend*
Post IAF Airline Realignment	*R.L. Townsend*
C Concourse Expansion Project	*R.L. Townsend*
Primary Fire Station Continuing Operations Preservation Project – MC/CM Cost-of-Record	*Port Internal Audit*
Baggage Optimization Phase 3	*Fort Hill*
Concourse Low Voltage Upgrade	*Port Internal Audit*
South Concourse Evolution	*Talson*
Main Terminal Improvement Program	*Contract Anticipated in 2026*
Concourse HVAC Improvement/Renewal Program	*Contract Anticipated in 2026*

Updated 2026 Audit Plan

Item #4

Limited Contract Compliance	Performance	Performance - Capital	Information Technology
• Sixt Rent A Car, LLC • HIS HCL SEA FB, LLC • Marmot Mountain, LLC DBA ExOfficio	• Public Art Program • Timekeeping - Maritime • Accounts Receivable Management – Fishermen's Terminal • Procurement – Personal Service Agreements • South King County and Port Communities Fund • Airport Dining & Retail - Street Pricing[1] • ~~FMLA 3rd Party Administration~~[2]	• C Concourse Expansion • Main Terminal Low Voltage • Post IAF Airline Realignment • Planewear Tenant Reimbursement Agreement (CT-09) • Capital Project Prioritization Process	• Data Centers & Supporting Technology Facilities • Baggage Conveyor Systems • Payment Card Industry (PCI) Assessment

1. Airport Dining & Retail ACDBE program was renamed to focus on Street Pricing
2. This audit will be removed from the 2026 Audit Plan as the identified risk was deemed mitigated

Item #5

2027 Baseline Budget Overview

	Org/Node Name	2025	2026	2027	26 Bud to 27	26 Bud to 27
Line	**Account Description**	**Budget**	**Budget**	**Budget**	**Bud Change**	**Bud Var**
1	Salaries and Benefits	$2,193,568	$2,374,793	$2,525,032	$150,239	6.33%
2	Equipment Expense	563	0	0	0	0.00%
3	Supplies & Stock	1,000	1,035	1,035	0	0.04%
4	Outside Services	2,095	2,265	14,585	12,320	543.93%
5	Travel & Other Employee Exp	60,812	60,511	47,860	(12,651)	(20.91%)
6	Promotional Expenses	0	0	0	0	0.00%
7	General Expenses	505	825	755	(70)	(8.48%)
8	Other Expenses	**8,004**	**8,343**	**8,813**	**470**	**5.63%**
9	Total Charges To Capital	0	0	0	0	0.00%
	Non Payroll Subtotal	**$72,979**	**$72,979**	**$73,048**	**$69**	**0.1%**
	Total	**$2,266,547**	**$2,447,772**	**$2,598,080**	**$150,308**	**6.1%**

Item #5

2026 YTD Actuals

	Org/Node Name	2025	2025	1H 2026	1H 2026	1H 26 Bud to 1H 26 Act	1H 26 Bud to 1H 26 Act
Line	**Account Description**	**Budget**	**Actuals**	**Budget**	**Actuals**	**Bud Change**	**Bud Change**
1	Salaries and Benefits	$2,193,568	$2,089,639	$1,173,291	$1,140,790	$32,501	2.8%
2	Equipment Expense	563	5,273	0	767	(767)	
3	Supplies & Stock	1,000	1,007	527	532	(5)	(0.9%)
4	Outside Services	2,095	1,435	2,265	580	1,685	74.4%
5	Travel & Other Employee Exp	60,812	58,802	52,959	26,335	26,624	50.3%
6	Promotional Expenses	0	0	0	0	0	
7	General Expenses	505	(98,235)	825	0	825	100.0%
8	Other Expenses	8,004	8,526	4,172	3,667	504	12.1%
9	Total Charges To Capital	0	0	0	0	0	
	Non Payroll Subtotal	**$72,979**	**$(23,192)**	**$60,748**	**$31,881**	**$28,866**	**47.5%**
	Total	**$2,266,547**	**$2,066,447**	**$1,234,038**	**$1,172,671**	**$61,367**	**5.0%**

Item #5

(Capitalized) 2027 Outside Services

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

Project	Firm	Construction Cost Estimate	Project Lifecycle Audit Estimate	Audit Work
Post IAF Airline Realignment	RL Townsend	$45MM	$82K	In Process expected completion 2027
South Concourse Evolution	Talson Solutions	1B	634K	In Process expected completion 2032
Industrial Wastewater Treatment Plant (Heavy Civil GC/CM)	Not Selected	150MM	118K	Expected timeline 2027 – 2030
Baggage Optimization 3	Fort Hill & Associates	300MM	217K	In Process expected completion 2027
Concourse HVAC Improvement Renewal/Replacement Program (CHIRRP)	Not Selected	200MM	140K	Expected timeline 2027 – 2033
Terminal 25 South Restoration (Heavy Civil GC/CM)	Not Selected	-	-	Pending Acquisition Plan; budgets not established
Main Terminal Improvement Program	Not Selected	520MM	499K	Expected timeline 2027 - 2034
Total		**$2.2B**	**$1.69MM**	

Item #6

Internal Audit Charter Updates

- The Internal Audit Charter was last updated in September 2020
- Global Internal Audit Standards (GIAS) require that we review the charter annually
- As approved by the Audit Committee, the Internal Audit Charter has been updated to reflect:
  - Use of the GIAS as the professional standards followed
  - Changes / updates to the GIAS from the 2024 refresh
  - Updates due to the 2026 Topical Requirements
- The Audit Committee Charter will be updated to reflect adoption of GIAS

Items #7-9

Audits Completed in Third Quarter – 2026

1) Primary Fire Station Continuing Operations Preservation Project – MC/CM Cost-of-Record (Primary Fire Station Project – MC/CM Cost-of-Record)
2) Sixt Rent A Car, LLC
3) Marmot Mountain, LLC DBA ExOfficio

Item #7

Primary Fire Station Project – MC/CM Cost-of-Record

- Project Objective: Deliver improvements at Fire Station 1 using GC/CM delivery
- Scope: November 2024 through March 2026
- Hoffman General Contractor/Construction Manager (GC/CM) final contract: $15.8MM
- State law permits alternative subcontractor selection for subcontracts more than $3MM under the GC/CM project delivery method
- Independent audit is required to confirm proper cost accrual

Item #7

Primary Fire Station Project – MC/CM Cost-of-Record

- Hermanson Company, LLC selected as the Mechanical Contractor/Construction Manager (MC/CM): Guaranteed Maximum Price (GMP) of $4.6MM; $4.1MM billed to date
- External consultant originally contracted to perform monthly review of MC/CM's documentation; Internal Audit (IA) took over cost review for compliance and accuracy
- Port Construction Management's team reviewed GC/CM's costs monthly

Item #7

Primary Fire Station Project – MC/CM Cost-of-Record

Cost Category	Billed	Tested JCL[1]	Difference	Questioned
Labor	$1,139,978	$1,144,752	$4,774	$132,495
Specified General Conditions	970,687	970,687	-	-
MC/CM Fee	258,146	258,146	-	-
Other	29,672	29,672	-	22,255
Equipment	662,000	662,000	-	-
Subcontractors	840,608	855,608	15,000	-
Material	179,108	179,254	146	16,475
Total	**$4,080,199**	**$4,100,119**	**$19,920**	**$171,225**

[1] The MC/CM Fee is not included in the Job Cost Ledger (JCL), instead our testing recalculated it to the Continuation Sheet without exception.

Primary Fire Station Project – MC/CM Cost-of-Record

Labor

- MC/CM reimbursed for direct labor and burden; labor rates set at project start and updated semiannually
- Port required labor rate updates for state unemployment and worker's comp, but did not obtain them; IA obtained tax rate notices directly from MC/CM
- Agreement requires wage rates paid to laborers/mechanics to meet or exceed applicable wage determinations

Item #7

Primary Fire Station Project – MC/CM Cost-of-Record

Labor (cont.)

- Tradespersons were paid standard base rates; Port billed at "occupied space" premium rates
- Federal Unemployment Tax Act (FUTA) Rate billed on average $0.46/hr. vs. correct $0.03/hr.
- State Unemployment Tax Act (SUTA) calculation did not apply annual maximum thresholds
- Total questioned costs: $131K (including fee)

Name	Trade (Fieldwork)	Classification	Reported Hours	Total Billed	Expected Amount Using Labor Rates Paid	Questioned Costs
A.B.	Sheet Metal	Foreman	24.50	$3,614.73	$3,154.20	$460.53
J.B.G.	Plumbers & Pipe Fitters	Apprentice 3	378.00	34,535.12	30,933.16	3,601.96
I.B.	Sheet Metal	Journeyman	16.00	2,113.44	1,841.60	271.84
W.A.D.	Sheet Metal	Apprentice 2	12.00	1,064.88	849.48	215.40
A.M.D.	Sheet Metal	Lead Foreman	3.00	469.77	379.65	90.12
A.M.D.	Sheet Metal	Lead Foreman	3.00	469.77	379.65	90.12
G.I.E.	Plumbers & Pipe Fitters	Apprentice 3	346.00	1,554.20	28,306.44	3,247.76
T.L.E.	Sheet Metal	Journeyman	510.00	68,926.50	60,072.90	8,853.60
A.G.	Sheet Metal	Foreman	674.00	99,228.12	84,783.78	14,444.34
B.E.H.	Plumbers & Pipe Fitters	Apprentice 2	10.00	1,083.92	814.50	269.42
S.P.K.	Plumbers & Pipe Fitters	Foreman	8.00	1,190.96	1,028.08	162.88
E.P.K.	Plumbers & Pipe Fitters	Journeyman	350.00	48,923.00	42,980.00	5,943.00
M.A.K.	Plumbers & Pipe Fitters	Foreman	785.00	119,575.15	102,606.99	16,968.16
A.L.	Plumbers & Pipe Fitters	Lead Foreman	86.00	13,394.50	11,589.36	1,805.14
Z.L.	Plumbers & Pipe Fitters	Foreman	102.00	15,546.84	13,338.54	2,208.30
T.L.L.	Sheet Metal	Foreman	44.00	6,491.76	5,688.32	803.44
E.A.L.	Plumbers & Pipe Fitters	Journeyman	714.00	99,775.56	87,662.00	12,113.56
M.M.	Sheet Metal	Foreman	1,243.00	180,947.46	154,620.94	26,326.52
J.M.M	Plumbers & Pipe Fitters	Gen Foreman	507.00	81,648.15	70,341.18	11,306.97
M.R.N.	Sheet Metal	Apprentice 6	810.00	79,446.46	69,144.04	10,302.42
Q.A.S.	Plumbers & Pipe Fitters	Lead Foreman	36.00	5,607.00	4,851.36	755.64
		Totals	**6,658.50**	**$895,137.52**	**$774,986.52**	**$120,151.00**
					Fee (9%)	10,813.59
					Total Questioned Costs	**$130,964.59**

Item #7

Primary Fire Station Project – MC/CM Cost-of-Record

Labor (cont.)

- Two SHOP workers billed at higher rates than approved; questioned costs: $1.5K (including fee)

Name	Trade (Fieldwork)	Classification	Reported Hours	Rate Billed	Total Billed	Approved Rate	Expected Amount	Questioned Costs
M.F.N.	SHOP Detailer Plumbers & PipeFitters	Foreman	51.00	$154.44	$7,876.44	$131.44	$6,703.44	$1,173.00
M.N.	SHOP Sheet Metal	Material Handler	2.50	143.03	357.58	67.13	167.83	189.75
M.N.	SHOP Sheet Metal	Material Handler	5.00	75.43	377.15	67.13	335.65	41.50
		Totals	**58.50**		**$8,611.17**		**$7,206.92**	**$1,404.25**

126.38 Fee (9%)

$1,530.63 **Total Questioned Costs**

Item #7

Primary Fire Station Project – MC/CM Cost-of-Record

"Other"

- Costs outside standard categories totaled $29K
- Several unallowable costs reimbursed; should have been classified as SGCs or fee
- Warehouse storage fees lacked required supporting documentation
- Questioned costs: $22K (includes applicable sales tax and fee)

Cost Category-OTHER			
	Billed	Tested	Questioned
	-	$29,672	-
Small Tools, equipment, Truck Rental, etc. (includes sales tax):			12,863
Vehicle Monthly Rental:			1 ,423
Office Supplies, PPE, Consumables, Incidentals etc. (includes sales tax):			933
Warehouse Storage:			4,538
Returned Tool Billed but not credited (Includes sales tax):			660
Total	-	$29,672	$20,417

1,838	Fee: 9%
$22,255	**Total Questioned Costs**

Item #7

Primary Fire Station Project – MC/CM Cost-of-Record

Material

- Total material billed: $179K
- Unallowable items identified; should have been part of SGCs or part of the fee
- Items lacked adequate supporting documentation
- Total questioned costs: $16K (including fee)

Cost Category- MATERIAL			
	Billed	Tested	Questioned
	$179,254	$179,254	-
Small Tools, equipment (includes sales tax):			7,937
Office Supplies, PPE, Consumables, Incidentals etc. (includes sales tax):			4,469
Lack of Supporting Documentation:			2,709
Total	$179,254	$179,254	$15,115
			1,360 Fee: 9%
			$16,475 **Total Questioned Costs**

Recommendations

This was a cost-of-record review (not a formal internal controls assessment under professional audit standards). Most documentation was sufficient; specific recommendations provided for future projects.

- The Port approves billable labor rates using its Master Labor Rate Template, and when higher rates are requested, it must document the justification and add review steps during Pay Application processing to verify contractors are paying the increased wage.

Item #7

Recommendations (cont.)

- Update SUTA and FUTA formulas on the Master Labor Rate Template.
- Obtain Tax Rate Notices and compare them to the rates listed on the Master Labor Rate Template to ensure accuracy.
- Obtain a detailed list of contractor Shop Burden items before approving billable rates.
- Pre-approve proposed rental and storage rates and review itemized documentation for components such as Shop Burden.

Item #7

Management Response

- Management to discuss in person.

Item #8

Sixt Rent A Car, LLC

- Limited Contract Compliance audit
- Review period - January 2023 to December 2025
- Assessed percentage fees and Customer Facility Charges (CFC)

Sixt Rent A Car, LLC

- Tested three months of CFC data, totaling over 10K transactions
- Identified over $4K not remitted to the Port
- Extrapolates to approximately $48K over a 36-month period

Item #9

Marmot Mountain, LLC dba ExOfficio

This is a Limited Contract Compliance audit. No issues were identified by Internal Audit and therefore, this audit is not being presented during this meeting. However, the final audit report (No. 2026-05) is made available on the Port’s website.

Committee Comments

Item #10