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APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING
June 4, 2026

The Port of Seattle Commission Audit Committee met in a special meeting June 4, 2026. The meeting was held in the Commission Chambers located at the Port of Seattle Headquarters Building, 2711 Alaskan Way, Seattle, WA, and virtually via Microsoft Teams. Committee members present included Commissioner Fred Felleman; Commissioner Hamdi Mohamed, and Public Member Sarah Holmstrom (non-voting).

1. Call to Order:

The Audit Committee special meeting was called to order at 10:00 a.m. by Commissioner Felleman. The agenda was approved without objection.

**Internal Audit Department presentation contains information for Agenda Items 5 through 10.*

2. Approval of Audit Committee Meeting Minutes of March 19, 2026.

The minutes of the Audit Committee special meeting of March 19, 2026, were approved without objection.

EXTERNAL AUDITS

3. Baker Tilly – 2025 Financial Statement Audit Results

Presenters:
Anna Waldren, Senior Manager

The presentation addressed 2025 audit reports results:

- an unmodified opinion on financial statements for the Enterprise Fund and the Warehousemen's Pension Trust Fund, which are presented fairly and in accordance with US GAAP;
- Auditors' reports on Internal Control Over Financial Reporting and on Compliance, and other matters – no control findings, no compliance findings;
- reporting on compliance for the major federal program chosen and on internal control over compliance;
- reporting on schedule of expenditures of federal awards required by the uniform guidance (single audit) – no control findings, no findings of noncompliance;
- reporting on the schedules of Passenger Facility Charge (PFC) receipts and expenditures and

related internal controls - no internal control or compliance findings;

- reporting on the Schedule of Net Revenues available for revenue bond debt service – no compliance findings noted;
- areas of audit emphasis;
    - internal control environment
    - management estimates
    - Northwest Seaport Alliance Joint Venture
    - capital assets
    - debt transactions
    - fiduciary activities
    - single audit (federal grant awards); and
- auditor responsibilities.

Anna Waldren, Auditor, spoke regarding no fraud findings, no disagreements with management, and no findings issued. She noted there was one uncorrected misstatement, which was corrected. Ms. Waldren further spoke regarding upcoming new accounting standards.

Members of the Committee thanked Baker Tilly for their time and report.

Discussion ensued regarding:

- ecology procedure review;
- the Environmental Protection Agency habitat credit program; and
- auditing of the Northwest Seaport Alliance (NWSA) Joint Venture with respect to specific audit of the NWSA and Port of Tacoma portions of the venture.

4. <u>Fort Hill – Baggage Optimization Phase III</u>

Presenters:
Doug Plyler, Principal

The presentation addressed inconsistencies in billing and lack of supporting documentation identified resulting from a monthly audit of the payment application for the Baggage Optimization Project Phase 3 project. Project dashboard trends and data were overviewed.

Discussion ensued regarding labor rates for General Contractor/Construction Manager contracts.

Members of the Committee thanked Mr. Plyler and Fort Hill for their time and report.

UPDATES AND APPROVALS

5. <u>Open Issue Status</u>

Presenters:
Glenn Fernandes, Internal Audit Director

Internal Audit Director, Glenn Fernandes, reported there were four issues outstanding from the target date; and one contract compliance audit will be deferred to 2027 due to staff turnover. Discussion ensued regarding a water leak at the SEA facility resulting from a burst pipe, which has since been fixed.

6. 2026 Audit Plan

Presenters:
Glenn Fernandes, Internal Audit Director

Internal Audit Director Glenn Fernandes provided a status update regarding the 2026 Audit Plan and overviewed capital General Contractor/Construction Manager (GC/CM) continuous audits with an independent auditor providing the Audit Committee with annual updates and final reports upon completion of each project. He noted that large GC/CM projects in process receive pay application reviews. Director Fernandes spoke further regarding the one limited contract compliance audit being deferred to 2027 due to staff turnover.

The motion, made by Commissioner Mohamed to approve the update to the 2026 Internal Audit Plan, carried by the following vote:
In favor: Mohamed and Felleman (2)
Opposed: (0)

7. Adoption of Global Internal Audit Standards

Director Fernandes overviewed the differences between the yellow and red governmental auditing standards books, advising that the Port's Internal Audit Department uses both books. Director Fernandes further advised that the Yellow Book recommends that internal audit departments that follow the Yellow Book and are structured similar to the Port's Internal Audit Department, should use the Red Book, as using both causes complications and creates extra work. Noting that majority of airport operators in the United States use only the Red Book, Director Fernandes requested approval for making the Institute of Internal Auditors' Global Internal Audit Standards the primary guidelines that will be followed effective for audits beginning in the third quarter 2026.

The motion, made by Commissioner Mohamed, to adopt these standards as recommended, carried by the following vote:
In favor: Mohamed and Felleman (2)
Opposed: (0)

PERFORMANCE AUDITS

8. Time Approval Controls – Marine Maintenance

Presenters:
Glenn Fernandes, Director, Internal Audit
Dan Chase, Manager, Internal Audit

The presentation addressed:
- scope of the audit – January 2025 – February 2026;
- the audit objective – to evaluate the time approval process, segregation of duties, and compliance with policies and procedures;
- payroll costs, representing the largest operating costs at 62 percent;
- 919 adjustments made after being reviewed and approved;

- employee time entered in Maximo and then uploaded into PeopleSoft HCM;
- the most common checks performed - each employee has at least 40 regular straight time hours for each week and each employee has at least 8 or 10 regular straight time hours a day;
- a ‘high’ audit rating as a result of the approval process to validate the accuracy of time submitted not being adequately designed or operating effectively with the absence of automated tools, such as a formal timekeeping or time clock system, limits management’s ability to independently verify hours worked and assess the accuracy of reported time;
- recommendations made for the rating and Management’s response that:
    - Marine Maintenance (MM) will develop and implement a standardized time review and approval process.
    - Management partially concurs with the recommendation and MM agrees that automation opportunities should continue to be evaluated to improve payroll accuracy and efficiency.
    - MM recognizes that outdated preventative maintenance work estimates and inconsistent overtime documentation contribute to operational inefficiencies and reduce management visibility into labor utilization.
    - Post-approval payroll changes should include documented justification and appropriate crew chief and management visibility.
    - MM will reinforce compliance with collective bargaining agreement requirements and applicable port policies.
- a ‘medium’ rating as a result of managers being largely absent from payroll review and approval and the recommendation that redesign of the payroll process take place so that responsibility for payroll oversight and execution resides not only with crew chiefs, but also with non-represented managers; and
- management’s response with agreement that additional oversight opportunities should be evaluated to strengthen payroll governance and reduce potential perception concerns; however, implementation of structural changes involving represented workforce may require broader coordination with labor relations, Human Resources, legal, and union leadership, as well as evaluation of operational impacts, staffing levels, and bargaining obligations.

Discussion ensued regarding:

- the number of Family Medical Leave Act requests resulting in changes to the system;
- the time approval process;
- standard operating procedures and staff training;
- input into two separate systems, with detail existing in Maximo work order system and pay approvals taking place in the HCM system;
- integrating the senior manager review process into the HCM system;
- potential available timekeeping and approvals enterprisewide systems; and
- the need to implement time change controls when changes to payroll are requested.

Members of the Committee thanked the Internal Audit Department for their audit report and management for their responses. Commissioner Felleman requested an update in 2027 with respect to implemented changes. Commissioner Mohamed requested the Port consider an enterprisewide system change for Human Resources.

9. Capital Project Prioritization Process

Presenters:
Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- the capital project prioritization process;
- objective of the audit - to evaluate how the Port prioritizes capital projects by assessing the adequacy and effectiveness of capital project evaluation and planning processes;
- the Capital Improvement Programs (CIP) for Aviation and Maritime;
- no findings in the Aviation area;
- the intake process for inclusion of CIP projects;
- the 'low' rating that Maritime does not have a formal documented process for project intake, prioritization, or approval within the CIP, making it more susceptible to inconsistent decision-making, undocumented or poorly supported capital planning decisions, and misalignment with strategic priorities;
- the audit's recommendation to enhance transparency and accountability through Maritime's development of a formalized CIP governance framework, including: a documented project intake process; a standardized scoring methodology; formal approval requirements, and end-to-end policies and standard operating procedures (SOPs) outlining roles, responsibilities, scoring criteria, and documentation standards; and
- management's response acknowledging the low audit finding and the strengthening of Maritime's CIP governance structure and documentation, including SOPs for planning and CIP development; a formal intake process used for small projects since 2018 and large projects since 2022, but the need to create documentation of the process; the need to improve prioritization processes; and acknowledgement that a scoring system may not fit the diverse seaport needs due to multiple business lines.

Discussion ensued regarding every CIP Maritime project going through an intake process, and the need to formalize that process and standard operating procedures.

Members of the committee thanked the Audit Department for the report and Management for their response and actions to address recommendations made.

10. Procurement

Presenters:
Glenn Fernandes, Director, Internal Audit

Director Fernandes advised that information regarding the audit is provided in the meeting materials and that there is nothing to specifically report at this time.

INFORMATION TECHNOLOGY AUDITS

11. Data Centers Audit

Commissioner Felleman advised that Item No. 11 is a security-sensitive audit and the Committee would recess into non-public session to be briefed on the matter.

12. Committee Comments

Director Fernandes thanked everyone for the meeting.

Public Member Sarah Holmstrom requested ‘due by’ dates for the payroll audits.

13. Adjournment

There being no further public business, the meeting recessed to non-public session at 11:48 a.m. The non-public session lasted approximately 30 minutes, and the meeting adjourned at approximately 12:30 p.m. with no further action taken.

Prepared:	Attest:
Michelle M. Hart, MMC, Commission Clerk	Fred Felleman, Audit Committee Chair

Minutes approved: September 3, 2026.