

# Internal Audit Work Plan

*2016 Proposed Flexible Work Plan*

**INTERNAL AUDIT**  
**February 22, 2016**



INTERNAL AUDIT

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*Working cross functionally to achieve the Port's Goals*

# Port of Seattle Activities & Key Financials

## Port of Seattle Business Plan Forecast

(\$ in 000's)	Notes	Budget 2015	Budget 2016
<b>OPERATING BUDGET</b>			
Airline Revenue	1	\$ 242,352	\$ 261,019
Non-Airline Revenue		312,989	275,305
NWSA Distributable Revenue		0	51,829
SLOA III Incentive Straight Line Adj		(3,576)	(3,576)
<b>Total Operating Revenues</b>		<b>551,766</b>	<b>584,578</b>
Operating & Maintenance Expense		242,087	230,688
Corporate Division Costs	1	67,006	78,955
Law Enforcement Costs		20,674	22,919
Airline Realignment		5	0
Environmental Remediation Liability Expense		3,142	3,448
<b>Total Operating &amp; Maintenance Expenses</b>	1	<b>332,914</b>	<b>336,010</b>
Net Operating Income Before Depreciation		218,852	248,568
Total Depreciation Expense		162,082	162,451
<b>Net Operating Income after Depreciation</b>		<b>\$ 56,770</b>	<b>\$ 86,116</b>
Committed Capital Budget		\$ 327,554	\$ 348,033
Business Plan Prospective		42,031	60,412
<b>Total Capital Budget</b>		<b>\$ 369,585</b>	<b>\$ 408,445</b>
<b>Notes:</b>			
1) Includes revenue from Corporate, Stormwater Utility & Elimination and corresponding offset to allocated charges from Corporate departments.			

*Advancing trade and commerce, promoting industrial growth, and stimulating economic development*

# Internal Audit

## Vision

Promote operational excellence at the Port

## Mission

The Internal Audit Department conducts risk-based operational/performance audits. Our frequent reviews of Port operations and activities provide value-added audit services that result in:

- Stronger accountability for meeting or exceeding strategic and operational performance expectations
- Fiscal integrity including detection and deterrence of fraud, waste, and abuse
- Greater transparency in governance and decision making
- Improved investment of public resources to advance trade and commerce, promote industrial growth, stimulate economic development, and create jobs

Through independent and objective audits, we provide the Port Commission with assurance and opportunities for enhanced efficiency and effectiveness of management practices in Governance, Risk Assessment, Controls, and Compliance.

## Audit Standards

Audit Work Guided by Professional Standards – Government Auditing Standards (issued by the US Comptroller General) and by International Professional Practices Framework (issued by The Institute of Internal Auditors)

*Striving for excellence*

# Risk Assessment & Methodology

## Best Practice Framework

### Internal Audit Strategy

We perform a risk assessment over Port operations annually to drive our Flexible Work Plan. The plan is established based on:

- IA department's institutional knowledge
- Discussions with key Port leadership
- Data analytics
- Prior audit history

It is developed and designed to align our audit strategy with Port goals.

## For simplification we group risks into 6 auditable units:

### Strategic / Governance Risk

Risk of inconsistent guidance and/or oversight, and poor strategic direction that do not achieve Port objectives and/or Century Agenda Goals.

### Reporting Risk

Risk of misreporting financial and other non-financial information from Port operation results.

### Operational Risk

Risk of ineffective and inefficient Port operations, including lack of accountability due to inappropriate process and management.

### Information Technology (IT) Risk

Risk of significant negative impact to Port operations due to unmitigated IT vulnerabilities.

### Accountability / Transparency Risk

Risk of not meeting Public expectations. Diminishing Port's reputation and loss of public trust.

### Compliance Risk

Risk of noncompliance or lack of adherence to applicable laws and regulations (federal, state, local laws and Port policies, procedures and agreements).

*Internal Audit identifies key risks using the best practice framework to optimize*

# Risk Scoring Methodology

Each auditable unit is assessed and rated on a scale of 1 to 5 for impact and likelihood

We start by compiling an Audit Universe. The Port's Audit Universe includes:

- Business units
- Departments
- Lease Agreements
- Information Technology
- Port Governance and Policies
- Port Specific Programs/ Initiatives

Note: This is an example for illustration purposes only.

Risk drivers / attributes are defined for the impact and likelihood of each auditable unit.

- a- mission critical function
- b- operation size (FTE)
- c- revenue
- d- expenses
- e- other rev/expenses
- a- tone at the top
- b- complexity
- c- new operations/management
- d- recently (3 years) audited w/issues
- e- management concerns/requests

We evaluate each auditable unit for impact and likelihood for all items within the Port's Audit Universe.

- a- receiving location
- b- small and attractive assets
- c- high risk expense types (count)
- d- high risk expense types (amount)
- a- tone at the top
- b- staffing
- c- recently audited w/issues
- d- management concerns/requests

	Final Score	Overall Risk		Operational Risk										Accountability/Transparency Risk													
		Impact	Likelihood	Impact					Likelihood					Impact				Likelihood									
				a	b	c	d	e	a	b	c	d	e	a	b	c	d	a	b	c	d						
Audit Universe																											
Project # 1	9.09	3.56	2.56	5	5	5	5	2	5	2	3	1	1	2	4	3	1	1	5	4	1						
Project # 2	9.57	2.78	3.44	5	1	4	3	3	4	5	3	2	5	1	5	1	2	4	3	4	1						
Project # 3	16.84	3.44	4.89	5	1	5	3	4	5	5	5	5	5	5	2	1	5	5	4	5	5						
Project # 4	6.93	1.89	3.67	5	1	2	2	2	5	1	1	4	5	1	2	1	1	5	3	4	5						
Project # 5	21.23	4.44	4.78	5	4	4	4	3	5	4	5	5	5	5	5	5	5	5	4	5	5						

Overall Impact and Likelihood ratings are multiplied to derive a final quantitative determinant.

Average Overall Risk rating used in Final Risk Score

**Risk based assurance to help management meet its objectives**

# Risk Scoring Methodology (continued)

*The final risk determinant translates to the following qualitative risk ratings of low, medium, and high.*

- Low Risk=1-5
- Medium Risk=6-12
- High Risk=13-25

5.0	5.0	7.5	10.0	12.5	15.0	17.5	20.0	22.5	25.0
4.5	4.5	6.8	9.0	11.3	13.5	15.8	18.0	20.3	22.5
4.0	4.0	6.0	8.0	10.0	12.0	14.0	16.0	18.0	20.0
3.5	3.5	5.3	7.0	8.8	10.5	12.3	14.0	15.8	17.5
3.0	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0
2.5	2.5	3.8	5.0	6.3	7.5	8.8	10.0	11.3	12.5
2.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
1.5	1.5	2.3	3.0	3.8	4.5	5.3	6.0	6.8	7.5
1.0	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0

*High risk focus creates value*

# Risk Rating Summary

## *Proposed 2016 Work Plan*

Internal Audit risk assessment and scoring resulted in the following proposed audits by category

Audit Type	Count	Est. Hours	
		Hours	%
Lease and Concession	8	2,725	27%
Central Accounting Processing systems	0	0	0%
Comprehensive Operational Audit	4	1,600	16%
3rd Party Management	4	1,000	10%
Limited Operational	3	2,460	24%
Information Technology	3	600	6%
Consulting Services and Contingency	6	1,740	17%

**Non-Lease Audit Coverage  
73%**

*Fiscal integrity including detection and deterrence of fraud, waste, and abuse*

# Recommended Projects In 2016

## Audits Suggested for 2016

<b>Concession Agreements</b>	<ol style="list-style-type: none"> <li>1 Clear Channel Worldwide</li> <li>2 Louis Dreyfus - Pier 86 Grain Terminal</li> <li>3 Airport Management Services LLC - Hudson</li> <li>4 Anthony's Inc. - Pier 66 and Fishermen's Terminal</li> <li>5 Cruise Terminal of America</li> <li>6 Clipper Navigation Inc. - MAG only</li> <li>7 Marel Seattle Inc. - MAG only</li> <li>8 Terri D's Catering dba ACT - 3</li> </ol>
<b>Comprehensive Operational</b>	<ol style="list-style-type: none"> <li>1 Airport Operations - Ground Transportation (STILA)</li> <li>2 Airport Security - Credential Center</li> <li>3 Police Department</li> <li>4 Landside Employee Parking</li> </ol>
<b>3rd Party Management</b>	<ol style="list-style-type: none"> <li>1 Airport Club International</li> <li>1.1 Airport Club Cascade</li> <li>2 Bell Harbor International Conference Center</li> <li>2.1 World Trade Center Club</li> </ol>
<b>Limited Operational</b>	<ol style="list-style-type: none"> <li>1 Centralized International Support Services Program</li> <li>2 Airport Janitorial Services Program</li> <li>3 Aviation Capital Program</li> </ol>
<b>Information Technology (IT)</b>	<ol style="list-style-type: none"> <li>1 HIPAA Compliance - Health Insurance Portability and Accountability Act</li> <li>2 General Control - End-Point Security</li> <li>3 IT Asset Management / Radio Communication Equipment</li> </ol>
<b>Consulting Services and Contingency</b>	<ol style="list-style-type: none"> <li>1 Selection of External Financial Auditor</li> <li>2 Implementation of Port wide moorage system to ensure effective controls</li> <li>3 Seaport Alliance</li> <li>4 Follow-up of 2015 Yellow Cab Audit</li> <li>5 Transportation Network Companies (TNCs) -- potential agreements to pick up at the airport</li> <li>6 2016 Work Plan - Risk Assessment</li> <li>7 Others</li> </ol>

*Greater transparency through assurance and accountability*

# 2015 Carryover Audits

## *Proposed 2016 Work Plan*

### Audits in Progress as of December 31, 2015

Lease and Concession Agreements

Limited Operational

EAN Inc.  
(Enterprise,  
Alamo, and  
National)  
Rent-A-Car

Hertz dba  
Firefly Rent-A-  
Car

Payless Car  
Rental dba  
SeaTac Rent-  
A-Car

Commission  
Office

Aviation and  
Maritime  
Maintenance  
Shops -  
Inventory

*A flexible risk based approach maximizes benefits to the Port*

# Central Accounting Processing System Audits

## Port of Seattle Central Accounting Systems:

➔ **Asset Management**  
Last Audit – No Significant Issues

➔ **Accounts Payable**  
Last Audit – No Significant Issues

➔ **Disbursements**  
Last Audit – No Significant Issues

➔ **General Ledger**  
Last Audit – No Significant Issues

➔ **Accounts Receivable**  
Last Audit – No Significant Issues

➔ **Human Capital Resource - Payroll**  
Last Audit – No Significant Issues

No central accounting processing system audits are proposed in 2016.

*Note: Central Accounting Systems are a focus of external Financial auditor.*

*Focused and logical actions driving Century Agenda Strategies and Objectives*

# Department Audits

Our focus is on efficiency and effectiveness of department programs, including compliance, accountability, and reporting.

Commission directives and Port objectives are carried out by Port departments.

## Key Risks

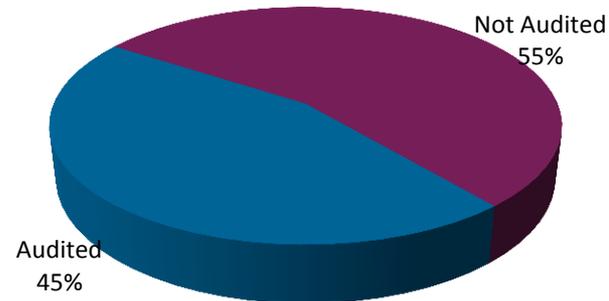
- Strategic / Governance
- Operational
- Accountability / Transparency
- Reporting
- Information Technology
- Compliance

## Proposed 2016 Work Plan

- Airport Security – Credential Center
- Police Department
- Ground Transportation
- Landside Employee Parking

As of December 2015, there were approximately 95 Business Units with 183 departments.

## Departmental Audits 5-Year Coverage



**Note:** Departments Not Audited have been subject to Cross Functional Program Audits such as: P-card, Travel-card, Payroll, etc.

*Greater transparency through assurance and accountability*

# 3<sup>rd</sup> Party Management Agreement Audits

Port 3<sup>rd</sup> party operations are Port activities that are run and operated by a third-party on behalf of the Port. The third-party operator is paid a management fee.

These operations are risky because the Port is accountable for all operation costs, but does not run the day-to-day operation. Note – the Port owns the facilities that house these operations.

## Key Risks

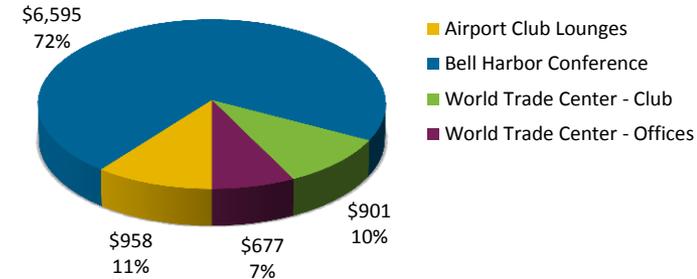
- Operational
- Accountability / Transparency
- Reporting
- Compliance

## **Proposed 2016 Work Plan**

- Bell Harbor International Conference and World Trade Center Club – Significant Findings in the Last Audit
- Airport Club International and Airport Club Cascade Lounges – New Operator

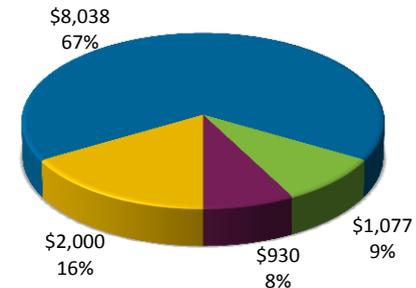
## Expenses

(in 000s)



## Revenues

(in 000s)



***Greater transparency through assurance and accountability***

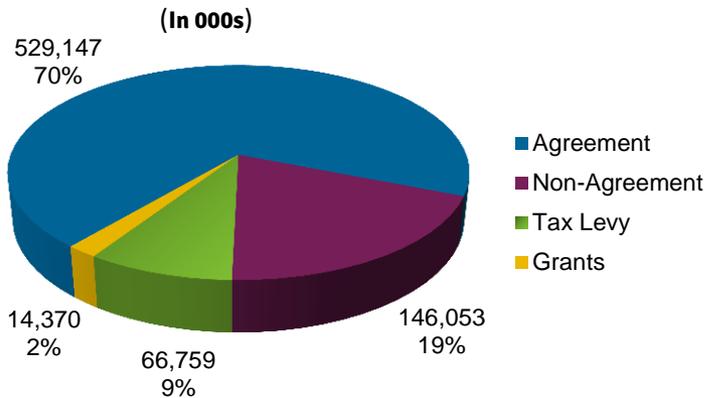
\*financial data used in this presentation is for planning purposes only and may not tie/agree with the Port year-end financial statements.

Source: PeopleSoft & PropWorks as of December 07, 2015.

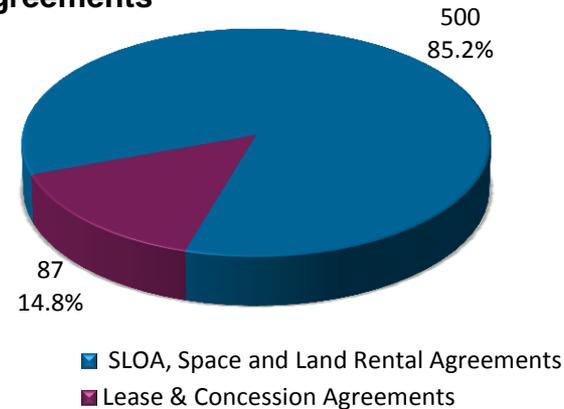
# Lease & Concession And Other Agreements

The Port earns most of its revenues from lease & concession and other agreements.

**Port Total Gross Receipts/Revenues**



**Agreements**



**Common agreement types include:**

- SLOA Agreements
- Land Rental
- Space Rental
- Lease and Concession

**Non-agreement types include:**

- Parking
- Berthage and Moorage
- ID Badge Fees
- Others

Space and Land rental agreements generate fixed fee revenue based on square footage. These agreements are deemed low risk.

Lease and concession agreements generate revenue based on customer self reported gross revenues. These agreements are deemed high risk.

*Economic Vitality through Developing, Negotiating, and Managing Agreements*

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Source: PeopleSoft & PropWorks as of December 07, 2015.

# Lease & Concession Agreements

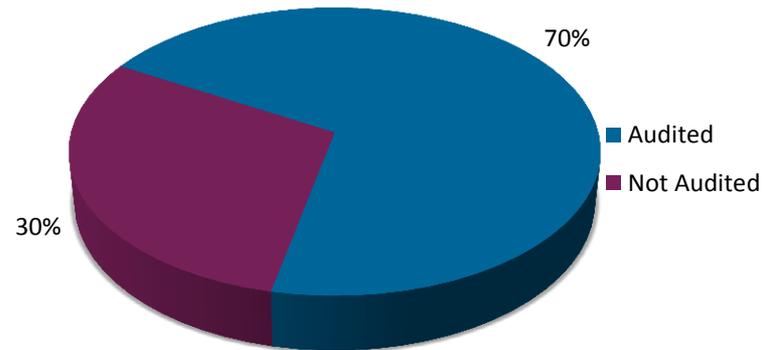
## Key Risks

- Operational
- Accountability / Transparency
- Reporting
- Compliance

## **Proposed 2016 Work Plan**

- ACT-3 Catering
- Airport Management Services - Hudson
- Clear Channel
- Anthony's at P66 and Fishermen's
- Marel Seattle Inc. – Never exceeded MAG
- Clipper Navigation Inc.– Never exceeded MAG
- Cruise Terminal of America (CTA)
- Pier 86 – Grain Terminal

Lease & Concession Agreements



Agreements not audited are deemed low risk.

\*As of to date, Internal Audit has recovered approximately \$6.5 million in underreporting concession fees.

***Greater transparency through assurance and accountability***

\*financial data used in this presentation is for planning purposes only and may not tie/agree with the Port year-end financial statements.

Source: PeopleSoft & PropWorks as of December 07, 2015.

# Limited Operational Programs

The focus of this audit category is efficiency and effectiveness of Port-wide programs, including compliance, accountability, and reporting. Such Port-wide programs include: Port travel, purchasing P-card program, inventory program, cost allocation, janitorial services, small business initiative etc.

Commission directives and Port objectives are carried out in these Port programs or activities

## Key Risk

- Strategic/Governance
- Operational
- Accountability/Transparency
- Reporting
- Information Technology
- Compliance

## *Proposed 2016 Work Plan*

- Airport Centralized International Support Services Program
- Airport Janitorial Services Program
- Capital Program

*Greater transparency through assurance and accountability*

# Limited Operational Program – Capital Program

The 2016 Capital Budget reflects the Port's continuing commitment through investment of \$408.4 million in development, expansion, and renewal of Port facilities. Major projects include:

- NorthStar
- International Arrivals Facility
- Reconstruction of Center Runway
- Baggage System

## Key Risks

- Strategic/Governance
- Operational
- Accountability/Transparency
- Compliance

## **Proposed 2016 Work Plan**

- Reconstruction of Center Runway

Committed Capital Projects (\$ in 000's)	2016 Budget	2016-2020 CIP
Aviation Division	307,933	1,609,764
Maritime Division	23,469	47,084
Economic Development Division	11,513	17,403
Corporate & Capital Development	<u>5,118</u>	<u>21,048</u>
<b>Total Committed</b>	<b>348,033</b>	<b>1,695,299</b>
Business Plan Prospective Projects	<u>60,412</u>	<u>533,009</u>
<b>Total CIP</b>	<b><u>408,445</u></b>	<b><u>2,228,308</u></b>

*Greater transparency through assurance and accountability*

# Information Technology

The Port uses technology for innovation and to drive success of its strategies and programs. Therefore, information technology is critical to Port success, and is an integral part of the Internal Audit annual work plans.

Like in the past years, Internal Audit information technology projects are outsourced to external IT firms. These audits are managed by internal audit staff.

## Key Risk

- Information technology

## *Proposed 2016 Work Plan Per Information Technology Risk Assessment*

- End-Point Security
- IT Asset Management/Radio Communication Equipment
- Health Insurance Portability and Accountability Act (HIPAA)

***Working cross functionally to achieve the Port's Goals***

# Consulting Services & Contingency

## *Proposed 2016 Work Plan*

We partner and provide consulting services to Port management in order to improve Port programs and/or services. In consulting services, Port management owns and takes accountability of the projects.

The following is a list of consulting services we propose to provide in 2016.

Consulting Projects	
Finance / AFR	<ul style="list-style-type: none"><li>▪ Selection of External Financial Auditor</li></ul>
Maritime	<ul style="list-style-type: none"><li>• Implemented of a Port-wide moorage system to ensure effective controls</li></ul>
Seaport Alliance	<ul style="list-style-type: none"><li>• Seaport Alliance</li></ul>
Aviation	<ul style="list-style-type: none"><li>• Transportation Network Companies (TNCs) -- potential agreements to pick up at the airport.</li><li>• Follow-up of 2015 Yellow Cab Audit</li><li>• Others as needed</li></ul>

*A partnership approach maximizes benefits to the Port*

# Internal Audit Team



**Joyce Kirangi, Director Internal Audit**  
Certifications: CPA, CGMA



**Pam Bailey, Sr. Administrative Assistant**

Internal Audit  
Manager  
OPEN



**Brian Nancekivell, Senior Auditor**  
Certifications: CPA-CGA, CIA, CISA



**Margaret Songtantaruk, Senior Auditor**  
Certifications: CFE, CB



**Dan Chase, Senior Auditor**  
Certifications: CPA, CIDA



**Ruth Riddle, Senior Auditor**  
Certifications: CPA, CIA, CFE



**Joseph Anderson, Internal Auditor**  
Certifications: CPA, CGMA



**Roneel Prasad, Internal Auditor**

# Questions?