

**Washington State Auditor's Office**  
**Accountability Audit Report**

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**Port of Seattle**  
**King County**

Report Date  
**September 20, 2006**

**Report No. 71885**

Issue Date  
**December 15, 2006**



Washington \_\_\_\_\_  
***State Auditor***  
\_\_\_\_\_  
Brian Sonntag



**Washington State Auditor  
Brian Sonntag**

December 15, 2006

Board of Commissioners  
Port of Seattle  
Seattle, Washington

***Report on Accountability for Public Resources***

Please find attached our report on the Port of Seattle's accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

# Table of Contents

**Port of Seattle  
King County  
September 20, 2006**

Audit Summary.....	1
Description of the Port.....	2
Audit Areas Examined.....	4
Schedule of Audit Findings .....	5
Status of Prior Audit Findings.....	9

# Audit Summary

**Port of Seattle  
King County  
September 20, 2006**

## ***ABOUT THE AUDIT***

This report contains the results of our independent accountability audit of the Port of Seattle.

We performed audit procedures to determine whether the Port complied with state laws and regulations and its own policies and procedures. We also examined Port management's accountability for public resources. Our work focused on specific areas that have potential for abuse and misuse of public resources.

Areas examined during the audit were selected using financial transactions from January 1, 2005, through December 31, 2005. Matters that were identified during our review of these transactions and reported as findings in this report have been examined through the report date.

## ***RESULTS***

In most areas, the Port complied with state laws and regulations and its own policies and procedures. However, we identified two conditions significant enough to report as findings:

- The Port overpaid a tenant \$547,105 for its share of the costs of relocating a pipeline at Terminal 18. The Port did not adequately monitor the construction charges and the amounts the tenant asked it to pay.

The Port is seeking reimbursement from the tenant for \$547,105.

- The Port did not ensure all subcontract work on the Shilshole Bay Marina project was competitively bid.

## ***RELATED REPORTS***

An audit of the Port's financial statements and compliance with federal program requirements was performed by a firm of certified public accountants. That firm's reports are available from the Port.

## ***CLOSING REMARKS***

We thank Port officials and personnel for their assistance and cooperation during the audit.

# Description of the Port

## Port of Seattle King County September 20, 2006

### **ABOUT THE PORT**

The Port of Seattle was established in 1911 when King County voters approved its formation to manage properties along the Seattle waterfront. In 1941, the Legislature broadened the authority of port districts to operate airports. Approximately one year later, local governments in King County selected the Port to operate Seattle-Tacoma International Airport.

King County voters elect five Port Commissioners who serve four-year terms. Commissioners establish policy for the Port and appoint a Chief Executive Officer who oversees Port employees and programs. In 2005, the Port employed 1,572 employees.

The Port's two major business activities are managing seaport terminals and airport facilities. The Port also manages an International Conference Center and a World Trade Center, which are located near the Port's administrative offices on the Seattle waterfront.

Most of the Port's funding comes from bond proceeds, a local tax levy, passenger facility charges, grants, interest from investments, income from leases and revenues collected from customers and the public for parking and other services the Port provides.

The Board of Commissioners approves an operating budget annually. Actual operating revenues totaled \$417 million in 2005, which is a \$40 million increase over the prior year. Operating expenses totaled \$226 million, a 1 percent or \$3 million increase over 2004.

The Port uses revenue bonds and other sources to finance construction at the Airport. General obligation bonds, lease revenues and local property taxes help fund the seaport construction program. In 2005, the Port collected \$62.4 million in property taxes.

The capital budget for 2006 is \$620 million and the capital improvement program for 2006-10 is \$2.5 billion. Capital expenditures by division over the last three years were:

<u>Division</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Aviation	\$456.9 million	\$461.0 million	\$411.8 million
Seaport	\$100.0 million	\$74.4 million	\$115.0 million
Totals	\$556.9 million	\$535.4 million	\$526.8 million

Seattle-Tacoma International Airport is in the midst of a multi-billion dollar capital improvement program that will continue into 2010. In 2005, the Airport opened a new central terminal facility, brought the Airport Baggage System on-line and continued construction on a third runway. Several construction projects are under way at Seaport Division facilities that are designed to attract trade, tourism, commercial fishing and recreational boaters to Seattle's waterfront.

## **AUDIT HISTORY**

We audit the Port annually. We reported a finding in the last audit of the Port. We are reporting two findings in this report.

## **ELECTED OFFICIALS**

These officials served during the audit period:

Board of Commissioners:

Patricia Davis  
Bob Edwards  
Alec Fisken  
Paige Miller  
Lawrence T. Molloy

Note: Lloyd Hara and John Creighton replaced Paige Miller and Lawrence Molloy in January 2006.

## **APPOINTED OFFICIALS**

Chief Executive Officer  
Deputy Chief Executive Officer  
General Counsel  
Managing Director, Seaport Division  
Managing Director, Aviation Division  
Chief Financial Officer  
Chief Administrative Officer

Mic Dinsmore  
Linda Strout  
Craig Watson  
Charles Sheldon  
Mark Reis  
Dan Thomas  
John Okamoto

## **ADDRESS**

Port

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2711 Alaskan Way  
Seattle, WA 98121  
(206) 728-3000  
[www.portseattle.org](http://www.portseattle.org)

# Audit Areas Examined

## Port of Seattle King County September 20, 2006

In keeping with general auditing practices, we do not examine every portion of the Port of Seattle's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the Port were examined during this audit period:

### **ACCOUNTABILITY FOR PUBLIC RESOURCES**

We evaluated the Port's accountability in the following areas:

- Billings and account receivables
- Cash receipting and revenues
- Safeguarding of assets
- Purchase of goods and services
- Credit card use
- Payroll

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Ethics/conflict of interest laws
- Open Public Meetings Act
- Allowable expenditures
- Purchase cards
- Travel expenses
- Competitive bid law compliance
- Public works contracts
- State prevailing wage requirements
- Advanced travel payments and reimbursements

# Schedule of Audit Findings

## Port of Seattle King County September 20, 2006

1. **The Port of Seattle overpaid a tenant \$547,105 for its share of the costs to relocate a pipeline at Terminal 18.**

### **Background**

The Port's tenant at Terminal 18 replaced fuel transmission lines that cross port property. The transmission lines belong to the tenant. The Port was legally obligated to allow the tenant to locate the new transmission lines in the same place as the originals. At the Port's request, the tenant agreed to relocate the new lines so the Port could better use its property. In exchange for the tenant's agreement to relocate the transmission lines, the Port agreed to pay the tenant for the additional costs associated with the relocation. According to a cost sharing agreement between the Port and the tenant, the Port agreed to pay the tenant 62 percent of direct costs incurred and an additional 19 percent for the tenant's overhead costs. The tenant selected the contractor who performed the work.

### **Condition**

The original contract amount totaled \$7,451,849. An error in one of the contractor's billings to the tenant resulted in an overstatement of \$741,545. The tenant passed this error on to the Port. The Port employees responsible for approving payments to the tenant did not detect nor correct the error before paying the tenant. The Port's portion of the overpayment was \$547,105.

### **Cause of Condition**

The Port did not adequately monitor the construction charges on this project. Port employees may not have had the contractor's billings to the tenant and may not have known the contractor overbilled the tenant. It was not until our audit that the Port examined payment details for the construction charges the contractor submitted to the tenant in sufficient detail to realize the error occurred.

### **Recommendation**

We recommend the Port seek reimbursement from the tenant of \$547,105.

### **Port's Response**

*The tenant was asked to relocate certain infrastructure to allow the Port to make best use of our property. The payment involved a unique situation where the Port reimbursed the tenant for the Port's share of construction costs, made on a "progress payment" basis by the tenant to its contractor. The tenant's contractor over-billed the tenant, which then carried over to the Port's reimbursement share. The Port has resolved this matter with the tenant and has been fully reimbursed.*

*We appreciate this matter being brought forward by the audit, which resulted in cost savings/recovery for the tenant, as well as the Port for its share.*



*This type of arrangement is unique, and may not occur again. Nevertheless, the Port will refine protocols that include obtaining and reviewing the tenant's contractor detailed billings, in the event that the Port may need to engage in such an arrangement again in the future.*

### **Auditor's Remarks**

We appreciate the steps the Port is taking to resolve this issue. We will review the condition during our next audit.

### **Applicable Laws and Regulations**

RCW 43.09.200, Local government accounting - Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments . . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons. The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

# Schedule of Audit Findings

## Port of Seattle King County September 20, 2006

### 2. The Port of Seattle did not follow public bidding requirements on a subcontract for renovations to the Shilshole Bay Marina.

#### Background

The Port followed alternative public works contracting requirements when it advertised and awarded a design-build contract for renovations at Shilshole Bay Marina. In 2005, the Port authorized a change to the contract totaling \$841,526 for the demolition and construction of a restroom at the north end of the marina.

Although the scope of the work as stated in the change order was within the scope of the original project and approved by the Port Commission, the restroom work was not competitively bid as required by state law. The awarded contract with change orders totaled \$59.5 million.

#### Cause of Condition

Project managers stated this was the first time they used alternative public works procedures and they did not ensure the general contractor/construction manager followed bid laws regarding subcontracted work.

#### Effect of Condition

The competitive bid process is intended to prevent fraud, collusion and favoritism in the awarding of public contracts and enables governments to obtain the best work or supplies at the most reasonable prices. When bid laws are not followed, the Port cannot be sure it received the best price for the work and all interested potential bidders are not given an opportunity to submit bids.

#### Recommendation

We recommend that the Port ensure its general contractors/construction managers follow state law when allowing general contractors/construction managers to subcontract for work done under an alternative public works contracting process.

#### Port's Response

*Under circumstances which require certain Port facilities to be returned to use by critical specified dates, the Port may modify the General Contractor/Construction Manager (GC/CM) change order process, consistent with standard change order processes, to meet these requirements.*

*The construction schedule was restricted due to the need to complete the restroom facility for the public to coincide with the 2006 boating season. Furthermore, constructing the facility concurrent with adjacent work on the project was deemed to be more cost-effective and less disruptive to the public and marina customers, and also result in the least exposure to construction coordination issues and possible resulting claims.*

*The cost provided by the contractor reflects negotiated prices with sub-contractors who bid the original project work. This is consistent with our practices for change orders on all major construction projects including GC/CM, design build, best bid and design/bid/build projects. The use of negotiated prices with the GC/CM and their subcontractors allowed the Port to meet the objectives stated above for delivering on schedule both the restroom facility and the adjacent construction for public use.*

*While the requirements of RCW 39.10.06(6) indicate the bidding of all work, it is intended for the initial bid package of the base project which the Port fully complied with. It should be left to the discretion of the agency as to which change orders should be negotiated or bid based upon a number of variables. The negotiated price process is consistent with standard change order practices and was also completed in a way to ensure that the public received reasonable value. The change order represents about 1.5% of the total construction value.*

*For future work completed under RCW 39.10.061, the Port will continue to ensure that the work is properly administered by the GC/CM contractor and that the public receives the best outcome and value. This will include a review of all supporting change order documents, including bid results for sub-contractor work. The use of GC/CM by Port districts terminates in July 2007 and may be renewed by the State Legislature. The Port is a participant and is working with the legislative committee in proposing changes that will modify a number of GC/CM processes.*

### **Auditor's Remarks**

We appreciate the steps the Port is taking to resolve this issue. We will review the condition during our next audit.

### **Applicable Laws and Regulations**

RCW 39.10.061 General contractor/construction manager procedure - Limitations (effective until July 1, 2007), states in part:

(1) Notwithstanding any other provision of law, and after complying with RCW 39.10.030, a public body may utilize the general contractor/construction manager procedure of public works contracting for public works projects authorized under subsection (2) of this section. For the purposes of this section, "general contractor/construction manager" means a firm with which a public body has selected and negotiated a maximum allowable construction cost to be guaranteed by the firm, after competitive selection through formal advertisement and competitive bids, to provide services during the design phase that may include life-cycle cost design considerations, value engineering, scheduling, cost estimating, constructability, alternative construction options for cost savings, and sequencing of work, and to act as the construction manager and general contractor during the construction phase.

(6) All subcontract work shall be competitively bid with public bid openings.

# Status of Prior Audit Findings

## Port of Seattle King County September 20, 2006

The status of findings contained in the prior years' audit reports of the Port is provided below:

1. **The Port of Seattle cannot demonstrate the appropriateness of certain expenditures, made inappropriate expenditures and paid vendors in advance of receiving services.**

Report No. 69759, dated December 2, 2005

### **Background**

Through donations, gifts and contributions, the Port had assisted community organizations or participated in community in ways that are outside of its authority. The Port also could not demonstrate the appropriateness of unsupported credit card charges and had made payments in advance of receiving services.

### **Status**

The Port has partially corrected the issues noted in this finding. After the 2004 audit report was issued, the Port's Chief Executive Officer put in place a temporary ban on contributions, gifts and promotional expenditures. This ban did not go into effect until January 2006 and did not affect the 2005 transactions. We will review the Port's progress in this area during our next audit. We noted another instance of advanced payments to vendors in the current audit. We further noted some small credit card expenditures that lacked sufficient supporting documentation.