



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Port of Seattle

For the period January 1, 2021 through December 31, 2021

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**Office of the Washington State Auditor
Pat McCarthy**

April 6, 2023

Board of Commissioners
Port of Seattle
Seattle, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Port operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Port's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Port operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the Port could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Port of Seattle from January 1, 2021 through December 31, 2021.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Port's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – electronic funds transfers
- Procurement – public works and change orders
- Selected IT security policies, procedures, practices and controls protecting financial systems – patch management
- Promotional hosting
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Port of Seattle January 1, 2021 through December 31, 2021

2021-001 The Port lacked adequate internal controls over electronic payments, which resulted in losses of public funds.

Background

Since 2016, Washington's governments have reported more than \$28 million of lost public funds as a result of cyberfraud, sometimes referred to as phishing, spearfishing, or business email compromise schemes. In these schemes, an external threat actor contacts the government, appearing to be a known source—an employee, upper-level manager, vendor or other business associate. Government staff are convinced to redirect valid payments to the external threat actor, or to purchase gift cards and provide them with the card numbers.

It is imperative that governments implement robust internal controls over all disbursements. This includes establishing a verification process for all requests to change an employee's or vendor's contact and payment information, as well as any requests to purchase gift cards, especially when they come through email, phone, fax or another electronic method.

The Port processed about \$850 million and \$803 million in vendor payments in 2021 and 2022, made up of 13,912 and 15,290 transactions, respectively. The Port is responsible for establishing effective controls over electronic payments, including the payment information on file for vendors and employees, to protect electronic payments from internal and external threats.

Description of Condition

The Port reported two phishing incidents to our Office. These incidents resulted in eight payments of public funds, totaling \$572,683, to fraudulent bank accounts. Specifically:

- In October 2021, the Port's Office of Equity, Diversity, and Inclusion received a phishing email and forwarded it to the Accounts Payable Department for processing. As a result, the Port made two payments totaling \$135,679 to a fraudulent bank account. A third payment totaling \$48,997 was returned by the bank because the fraudulent bank account was closed.

- In December 2021, the Port’s Office of Equity, Diversity, and Inclusion received a second phishing email and forwarded it to other Port employees. Ultimately, the Port made five payments totaling \$388,007 to a fraudulent bank account.

We reviewed the Port’s policy and operating processes over electronic funds transfer (EFT). We found that although the Port had procedures in place to protect EFT payments from loss, staff did not consistently or adequately follow them. Further, the training the Port provided to employees was ineffective, as staff missed key red flags common to phishing schemes, such as misspellings in the email body and email address, as well as the bank declining EFTs due to closed accounts.

After the Port became aware of these losses, the Internal Audit Department audited the events and related weaknesses, and provided recommendations to management. That report can be found on the Port’s website.

Cause of Condition

Although the Port has established protocols, there was not adequate management oversight to ensure staff followed the required procedures.

Effect of Condition

Staff not following established Port protocols over changes to EFTs contributed to the loss of public funds. By not ensuring departments are following these requirements, the Port is at an increased risk of not detecting timely, if at all, a loss or misappropriation of public funds.

The Port was able to recover \$522,683. The table below shows the details on how much the Port recovered from associated banks and its insurance provider.

Recovered by banks	\$356,520
Recovered by insurance	\$166,163
Insurance deductible	\$50,000

Recommendation

We recommend the Port:

- Strengthen its controls to ensure staff follow verification procedures to protect EFT transactions from internal and external threats

- Provide adequate communication and training to staff on cybersecurity risks and EFT verification requirements

Port's Response

We thank the State Auditor's Office for the observations provided on the ACH cyber-crime fraud that the Port experienced in late 2021.

The Port of Seattle Commission Audit Committee was fully briefed in public session in early 2022 by the Port's Internal Audit department on the cyber-crime experience, after conclusion of their audit. Also, in late 2022, the full Port Commission was briefed on the cyber-crime experience in public session as part of Internal Audit's report on audits completed in 2022.

This cyber-crime experience in 2021 resulted in a total loss of \$50k related to the crime insurance deductible, after recovering over 91% through direct recovery of \$357k and \$166k in crime insurance coverage. As recognized by the professional audit industry, internal controls can only provide reasonable, not absolute, assurance against fraud exposure and loss. Therefore, along with having internal controls in place, the Port has a crime insurance policy which limits the risk of public funds loss exposure.

Policy, procedural and systems controls have existed and were in place at the time of the cyber-crime experience. They were shared in detail with the State Auditor's Office. These controls have proven to be effective over the many years prior with no occurrence of a cyber-crime loss. There have also not been any control failures or loss over the recent 15 months to-date since the cyber-crime experience in 2021.

Despite the robustness of controls in place, the human element can become a factor in any well-designed internal control environment. This is what occurred in the 2021 cyber-crime experience, where ACH vetting protocols clearly established in Port policy and procedures were not specifically followed and became a point of failure. This risk exposure was immediately mitigated by instituting redundancy in controls and improving oversight.

Also, staff of the Port departments involved in the 2021 cyber-crime imposter fraud experience attended mandatory cyber-fraud fictitious email training provided by the Port's Information Security department shortly afterward in 2022. This training is now an annual mandatory refresher, and for this year is scheduled for April 2023.

The State Auditor's Office public accountability audits offer valued insight to governments in the State of Washington toward continual improvements. We

express appreciation for the observations and recommendations. As shared in detail with the State Auditor's Office, the Port took immediate responsible action last year in early 2022 which addresses the recommendations contained in this audit report.

Auditor's Remarks

We appreciate the Port's commitment to resolve this finding and thank the Port for its cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting – Uniform system of accounting.

Budgeting, Accounting and Reporting System (BARS) Manual – Expenditures, Electronic Funds Transfer (EFT) – Disbursements, Section 3.8.11.10, 3.8.11.20 and 3.8.11.30

BARS Manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30

BARS Manual – Accounting, Expenditures, Purchase Cards, Sections 3.8.4

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's 2021 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

A firm of certified public accountants evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Port's major federal program. That firm's 2021 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE PORT

The Port is a municipal corporation of the State of Washington (the State), organized on September 5, 1911, under the State statute RCW 53.04.010 et seq. In 1942, the local governments in King County, Washington (the County) selected the Port to build and operate Seattle-Tacoma International Airport.

Port policies are established by a five-member Commission elected at-large by the voters of the County for four-year terms. The Commission appoints the Executive Director (ED), who oversees daily operations of the organization. Through resolutions and directives, the Commission sets policy for the Port. These policies are then implemented by the ED and his executive staff.

The Port is composed of three operating divisions, namely, Aviation, Maritime, and Economic Development. The Aviation Division manages the Airport. The Maritime Division manages industrial property connected with maritime businesses, recreational marinas, Fisherman's Terminal, cruise, grain, and maritime operations. The Economic Development Division focuses on managing the Port's industrial and commercial properties including conference and event centers, encouraging tourism, developing minority and/or women-owned business opportunities, and providing for workforce development in the aviation, maritime, and construction industries.

For 2021, the Port had total operating revenues of \$622 million, which represents a 21.8 percent increase from 2020. Total operating expenses from \$408.7 million in 2020 to \$364.7 million in 2021. The Port's net operating income before depreciation increased \$155.2 million from 2020 to 2021.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Port of Seattle at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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