



Office of the Washington State Auditor  
Pat McCarthy

# Accountability Audit Report

## Port of Seattle

For the period January 1, 2022 through December 31, 2022

*Published April 4, 2024*

Report No. 1034153



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

April 4, 2024

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

***Americans with Disabilities***

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## AUDIT RESULTS

### Results in brief

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

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, 2022 through December 31, 2022.

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, 2022, 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, electronic wire transfers
- Tracking and monitoring of theft sensitive assets, such as computers, tools, and equipment
- Procurement – competitive exceptions
- Self-insurance with health and welfare, unemployment, workers compensation and paid family and medical leave
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Port of Seattle January 1, 2022 through December 31, 2022

This schedule presents the status of findings reported in prior audit periods.

|   |                                    |                                      |
|---|------------------------------------|--------------------------------------|
| <b>Audit Period:</b><br>January 1, 2021 through December 31, 2021   | <b>Report Ref. No.:</b><br>1032352 | <b>Finding Ref. No.:</b><br>2021-001 |
| <b>Finding Caption:</b><br>The Port lacked adequate internal controls over electronic payments, which resulted in losses of public funds  |                                    |                                      |
| <b>Background:</b><br>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.<br>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.   |                                    |                                      |
| <b>Status of Corrective Action: (check one)</b><br><input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid   |                                    |                                      |
| <b>Corrective Action Taken:</b><br><i>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</i> |                                    |                                      |

*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 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 became an annual mandatory refresher for all Port employees in 2023.*

## RELATED REPORTS

### **Financial**

A financial statement audit was performed by a firm of certified public accountants. That firm's 2022 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 2022 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 2022, the Port had total operating revenues of \$797.9 million, which represents a 30.8 percent increase from 2021. Total operating expenses increased from \$362.6 million in 2021 to \$474.8 million in 2022. The Port's net operating income before depreciation increased \$75.9 million from 2021 to 2022.

### Contact information related to this report

|            |  |
|------------|--|
| Address:   | Port of Seattle<br>P.O. Box 1209<br>Seattle, WA 98111        |
| Contact:   | Lisa Lam, Director of Accounting and Financial Reporting     |
| Telephone: | (206) 787-4334   |
| Website:   | <a href="http://www.portseattle.org">www.portseattle.org</a> |

*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](http://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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