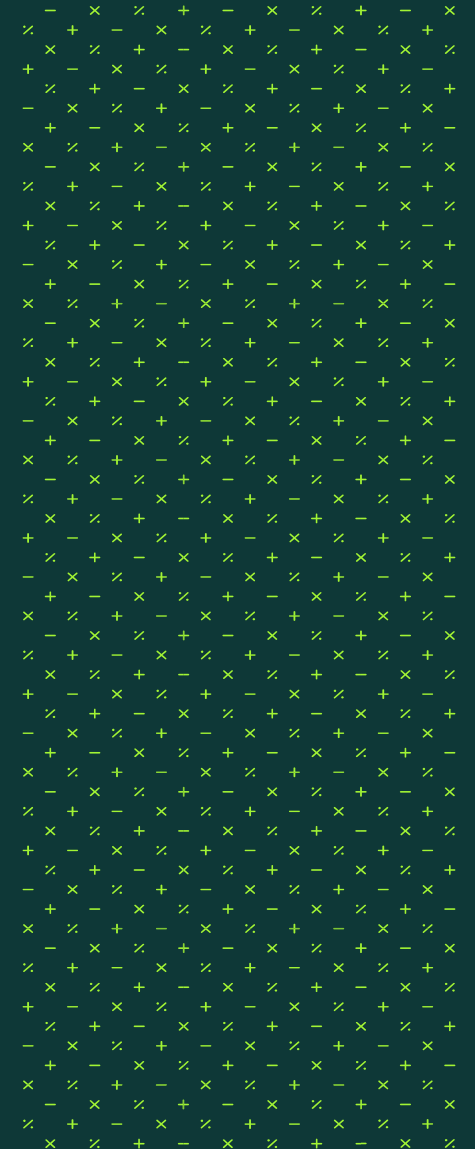




Northwest Seaport Alliance

Capital Program Assessment for the Terminal 4 Redevelopment

October 21, 2019



Overview

This presentation covers the results of our capital assessment for the Northwest Seaport Alliance (NWSA) Terminal 4 Redevelopment project to validate compliance with policies and procedures. We worked with NWSA and Project Management team to develop improvement recommendations to help support NWSA's success with future construction endeavors and ensure alignment with best practices as highlighted below. As part of our assessment, we recommend subsequent procedures be performed by NWSA based on best practices. The audit did not uncover any significant exceptions based on our procedures performed. The Project complied with the home Port's policies and procedures.



Overview

Moss Adams performed a capital assessment for NWSA's Terminal 4 redevelopment project, which included the following objectives based on our Personal Services Agreement No. 071131:

Managing Members Oversight Compliance

- Reviewed and assessed community outreach and communication before and during construction
- Assessed Project authorizations for compliance, internal policies, procedures validating transparency, reporting, and project updates to the Managing Members

Expenditure and Procurement Management and Controls

- Assessed Project authorizations for compliance, internal policies, and procedures validating controls were in place to prevent over spending
- Evaluated contract management, including:
 - Authorizations and compliance with policies and procedures
 - Procurement compliance for goods and services, state law, and internal policies



Overview

Moss Adams performed a capital assessment for NWSA's Terminal 4 redevelopment project, which included the following objectives based on our Personal Services Agreement No. 071131:

Budgetary Reporting and Management Controls

- Reviewed Project cost tracking, including:
 - Project budgeting and financial analysis
 - Capital budget and asset depreciation
- Evaluated Project Management Reporting, including:
 - Project budget and actual tracking
 - Project reporting
 - Change orders for authorizations and tracking
- Reviewed of project actuals performance vs. the forecast model



Overview

- We performed on-site fieldwork and interviews in August 2019. Fact validation and final report delivery occurred in September 2019 and the presentation to the Audit Subcommittee is scheduled for October 2019.



Best Practices Observed

The following is a list of some key best practices observed:

- NWSA has the necessary personnel and operational structure to support a successful development program for current and future projects.
- The NWSA Accounting and Project Management teams consist of highly experienced development and accounting professionals with a strong track record of successful completed projects.
- NWSA consistently reports on project status to Managing Members.
- NWSA's Terminal 4 redevelopment project complied with the home Port's policies and procedures.



Assessment Results and Key Improvement Opportunities

Risk levels assigned to our improvement recommendations are provided in the following table. The risk levels were determined based on our assessment of potential risk through interviews, documentation review, and past construction audit experience if the recommendations are not considered and or implemented. The following six process improvements are grouped by risk area.

Report Reference	Key Improvement Opportunities	Risk Level	Category
1a	Develop a communications strategy and plan	Medium	Managing Members Oversight Compliance
2b	Establish independent NWSA construction policies and procedures	Medium	Expenditure and Procurement Management and Controls
3b	Define allowable contracting types and construction delivery methodologies within policies and procedures	Medium	Expenditure and Procurement Management and Controls
2a and 5b	Evaluate key performance indicators (KPIs) policies and procedures for reporting to Managing Members	Medium – High	Budgetary Reporting and Management Controls
5c	Define project change materiality for reporting to Managing Members	Medium – High	Budgetary Reporting and Management Controls
6	Implement ROI financial analysis policies and procedures	Medium	Budgetary Reporting and Management Controls



Observations

Community and Stakeholder Outreach and Communications

Observation

NWSA conducted periodic public outreach for the Terminal 4 redevelopment project, but did not have an approved formal community outreach and communication

Recommendation

As a best practice, NWSA should develop a communications strategy and plans for Projects for key and public stakeholders. NWSA should ensure that there is a clear and consistent message that delivers accurate information on the cost of the project, duration, impact, and benefit. Messaging should be developed with input from various groups within the organization (management, finance, engineering, operations, etc.) to ensure that information is complete and accurate. NWSA should review current methods of communication and verify that communications are organized, consistent, timely, and reach the appropriate audience. NWSA should periodically review its communication and outreach plans to determine their effectiveness and make adjustments accordingly for ongoing and future projects.



Observations

Community and Stakeholder Outreach and Communications

Management Response

A formal communications plan and strategy was developed for the T5 modernization project. The Project Delivery, Public Affairs, Commercial and Operations teams and the Port of Seattle worked collaboratively during the project planning phase to identify traffic, air, noise, etc. impacts to tenants, surrounding businesses and citizens during construction. The Public Affairs team developed formal communications strategy and plan to inform these stakeholders of the project's economic benefits as well as impacts during construction through press releases, community meetings, flyers, website notices and social media (Facebook, Twitter, Instagram). This plan will serve as a template for future NWSA projects.



Observations

Managing Project Authorizations – Compliance Internal Policies and Procedures

Observation

NWSA provided all of the required reporting components outlined within the NWSA Master Policy Delegation of Authority, in addition to a variety of other non-required project reporting metrics. However, certain best practices for KPIs were omitted from this reporting.

Recommendation

As a best practice, KPIs reported to Managing Members should be evaluated for appropriateness on an annual basis to ensure transparency amongst key stakeholders. NWSA should consider updating their policies and procedures to include the reporting components identified by the GFOA as best practices for capital project monitoring and reporting and other performance and social reporting metrics, such as operational performance benchmarking, diversity inclusion reporting, environmental impact, etc. Additionally, NWSA should continue to comply with the Master Policy Delegation Authority to meet Managing Member's reporting requirements.



Observations

Managing Project Authorizations – Compliance Internal Policies and Procedures

Management Response

The NWSA identified the components included in the semi-annual project reports in collaboration with the project delivery teams from both homeports. Each homeport had their own separate and distinct reports to communicate project status to their commission and management. These reports were the foundation for the NWSA report. The components in the report are reviewed and updated during each semi-annual period as additional information is requested by the Managing Members (usually during project authorization or project update presentations). The NWSA's project delivery team will continue to review project reporting components on an annual basis and also review the reporting components identified in the GFOA best practices guide for inclusion in future reports.



Observations

Managing Project Authorizations – Compliance Internal Policies and Procedures

Observation

NWSA complied with the expenditure management policies and procedures specified within the Port of Tacoma Internal Control Understanding policy document based on our sample procedures. However, NWSA specific procedures were not developed and implemented.

Recommendation

As a best practice, NWSA should consider implementing independent construction policies and procedures for NWSA, to the extent possible and/or where appropriate. These specific NWSA policies and procedures should be reviewed, evaluated, and approved by NWSA and appropriate NWSA and Managing Members personnel to promote transparency and accountability. Additionally, NWSA should continue to comply with the Port of Tacoma Internal Control Understanding policies and procedures, absent Alliance policies, to evidence appropriateness of the project charges.



Observations

Managing Project Authorizations – Compliance Internal Policies and Procedures

Management Response

During the start-up period following the formation of the NWSA, the back-office functions that include project delivery, contracting and procurement, finance and accounting remained the responsibility of the homeports, while the strategic direction and marketing was immediately transitioned to NWSA staff. The back-office functions that the homeports provide to the NWSA are supported by an interlocal agreement that outlines the scope of services and costs. Since the formation in 2015, progress has been made in transitioning back-office support services from the homeports to NWSA, but project delivery is still the responsibility of the homeports. Hence, the homeports continue to operate under their existing homeport policies and procedures.

The initial reliance on homeports for back-office support services limited the need for NWSA specific policies and procedures. However, the NWSA did develop a NWSA specific Master policy and other policies and procedures as needed. NWSA also relies on Port of Tacoma policies and procedures if specific NWSA policies and procedures have yet to be established. NWSA specific policies and procedures will be established as needed if back-office functions are transitioned from the homeports to the NWSA.



Observations

Contract Management

Observation

NWSA complied with the procurement management policies and procedures specified within the Port of Tacoma Internal Control Understanding policy document based on our sample selection. However, policies and procedures did not specifically address allowable or recommended contract type and construction delivery methodologies.

Recommendation

As a best practice, NWSA should consider including guidance within policies and procedures regarding when to utilize certain contract types (e.g., GMP, lump sum, cost plus, T&M, etc.) and construction delivery methodologies (e.g., design-build, design-bid-build, construction manager at risk, etc.) to help control project cost and mitigate program risks. Additionally, NWSA should continue to comply with the Public Works Procurement Procedures. See Recommendation No. 2b for further information regarding independent NWSA policies and procedures.



Observations

Contract Management

Management Response

Current policy provides for several contracting alternatives to handle the wide variety of projects undertaken. The homeport of Tacoma manages procurement through a centralized Contracts and Procurement office. This office reviews procurement requests and manages the issuance of purchase orders and contracts for goods, services and construction projects and works with Project Managers to determine the most effective contract type for the specific circumstances.



Observations

Project Management

Observation

Per the GFOA's Capital Project Monitoring and Reporting best practices, we identified capital program reporting metrics that were not included within the Master Policy Delegation of Authority requirements or semi-annual/quarterly reporting to the Managing Members.

Recommendation

As a best practice, KPIs reported to Managing Members should be evaluated for appropriateness on an annual basis to ensure transparency amongst key stakeholders. NWSA should consider updating their policies and procedures to include the reporting components identified by the GFOA as best practices for Capital Project Monitoring and Reporting and or other performance and social reporting metrics such as operational performance benchmarking, diversity inclusion reporting, environmental impact, etc. Additionally, NWSA should continue to comply with the Master Policy Delegation Authority to meet Managing Member's reporting requirements.



Observations

Project Management

Management Responses

The NWSA identified the components included in the semi-annual project reports in collaboration with the project delivery teams from both homeports. Each homeport had their own separate and distinct reports to communicate project status to their commission and management. These reports were the foundation for the NWSA report. The components in the report are reviewed and updated during each semi-annual period as additional information is requested by the Managing Members (usually during project authorization and project update presentations). The NWSA's project delivery team will continue to review project reporting components on an annual basis and also review the reporting components identified in the GFOA best practices guide for inclusion in future reports.



Observations

Project Management

Observation

NWSA complied with change order and amendment policies and procedures, but did not have change materiality defined for reporting to Managing Members.

Recommendation

As a best practice, NWSA should consider clarifying their policies and procedures on change order and amendment reporting. Specifically, policies and procedures should detail what a material scope change is. Material change order reporting should include information such as itemized change amount, percentages, descriptions, change responsibility, approver, date of approval, subtotals, and totals for easy end-user reference. Change order documentation should be available at the project and program level with both detailed and summary level information available. Summary and detailed change reporting is necessary to understand change order cause, responsibility, pricing, and compliance as well as identify potential duplicated work scopes and/or redundancies caused by unclear scope objectives and/or expectations within the project.



Observations

Project Management

Management Responses

The Master Policy defines Material Scope Change as “work that was not previously included in the project authorization or substantially changes the intent of the project”. Clarification, in a future master policy change, might include adding language to the definition that speaks to significant work removed in addition to work not previously included. Further, the Master Policy requires that “Managing Member authorization will be required if a material scope change occurs in a project”. During the construction phase of major projects, the Managing Members have requested project status presentations that cover project scope, schedule and budget. As it relates to scope and budget, on large projects, within the budget table, we report on authorization, changes, updated budget, spent to date, and remaining authorization. As it relates to changes against reserves we identify the item and the amount of budget moved from reserves. The presentations are in addition to the semi-annual project reporting prepared for the Managing Members that includes the following information: project status of the schedule and budget, scheduled completion date, authorized amount, cost to date, current cost estimate to complete, summary of any changes to scope, significant project developments/scope change details. The semi-annual project reports contain components identified by the GFOA as best practices for capital project monitoring and reporting to ensure transparency. The combination of the semi-annual project reporting and the project status presentations provide full transparency on the status of the projects and scope changes.

The Managing Members have formed a committee to review and draft revisions to the Master Policy. Relevant changes will be incorporated into new and/or revised reporting.



Observations

Project Management

Observation

Port of Tacoma personnel provided a post-project ROI financial analysis for our review and confirmation. However, no documentation was available to evidence submittal to Managing Members.

Recommendation

NWSA should submit post project performance vs. forecast models to Managing Member. As a best practice, reporting components included within the ROI financial analysis reported to Managing Members should be evaluated for appropriateness on an annual basis to ensure transparency amongst key stakeholders. Policies and procedures should be updated accordingly.

Management Response

The financial analysis team prepares this analysis annually for the major Port of Tacoma projects. The analysis was not prepared for the NWSA as no large projects were completed until this year (2019). While the Pier 4 project was completed last year, the eight new cranes were not fully operational until 2019 so the analysis would have been incomplete and misleading. The analysis will be prepared annually for completed NWSA major projects.





Questions?
