

Internal Audit Briefing

**Presented to the Port of Seattle
Audit Committee and Tay Yoshitani, CEO**

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June 11, 2013

Agenda

- **Audit Report**
 1. Lease and Concession Audits
 - Hertz Rent-A-Car
 2. Operational Audits
 - Central Processing System
 - None
 - Comprehensive Operational Audit /Departmental Audit
 - Airport Transit Operations / Rental Car Facility
 - Fishermen's Terminal
 - Limited Operational Audit
 - Code of Conduct
 - Debt Service
 - Ports Jobs Contract
 - Small Contractor and Supplier Program (SCS)
 - 3rd Party Audit
 - None
- **Briefing/Updates**
 - None

Background

Hertz is one of two brands offering rental cars, trucks, and equipment within the Hertz Corporation, a subsidiary of Hertz Global Holdings, Inc.

Hertz operates five locations under the agreement at and in the vicinity of the airport.

Under the terms of the agreement, Hertz agreed to pay either a Minimum Annual Guarantee (MAG) or percentage fees of 10% on their gross receipts, whichever is higher.

Fiscal Year	Reported Gross Revenue	Paid Concession
2009 - 2010	55,919,197	5,591,920
2010 - 2011	54,769,892	5,476,889
Grand Total	\$ 110,689,089	\$ 11,068,809

Data Source: Hertz Rent-A-Car Annual Report and PeopleSoft General Ledger

Audit Objectives

The purpose of the audit was to determine whether:

1. The reported concession fees were complete, properly calculated, and remitted timely to the Port.
2. The Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended.
3. Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

The scope of our audit covered a two-year period from November 1, 2009 through October 31, 2011.

Audit Result

- Hertz materially complied with the terms of the Rental Car Lease and Concession agreement. However, the audit determined that certain gross receipts were underreported.
 - ❖ One Finding
 - One concession location was not reported, resulting in \$7,720 in additional concession to the Port.
 - Certain concession items were not included, resulting in \$13,298 in additional concession to the Port.
 - For a total of **\$21,018** (\$7,720+\$13,298)

Background

The newly-constructed Rental Car Facility (RCF) opened in May 2012; however, Airport Transit Operations (ATO) initiated activation in January 2012. The RCF houses 13 rental car companies.

The ATO operates a 24/7 shuttle service for arriving and departing passengers who plan to rent and drop off a vehicle, which is estimated to be 4.5 million passengers annually. The program owns 29 Gillig buses and employs 72 staff.

Description	2012	2013*
Salaries, Wages, & Benefits	3,284,400	1,022,567
Equipment Expenses	29,997	10,966
Supplies/Stock	71,216	5,904
Outside Services	280,196	21,890
Travel & Other Expenses	15,922	-
Telecommunication	4,710	617
General Expenses	6,213	(230)
Grand Total	3,692,654	1,061,713*

Note: *Expenses as of March 31, 2013

Audit Objectives

The purpose of the audit was to determine whether Port management is effectively and efficiently monitoring :

1. Payroll
2. Operating Expenses
3. Safety Training

The scope of our audit covered the period from inception in January 2012 through March 31, 2013.

Audit Result

- Port management is effectively monitoring Airport Transit Operations related to payroll, expenses, and safety training.
 - ❖ No Findings

Background

Located on Seattle's Ship Canal, which links Lake Washington to the Puget Sound, Fishermen's Terminal has been the traditional home port for the North Pacific Fishing Fleet for almost 100 years. Fishermen's Terminal provides freshwater moorage and other services (e.g., power and water) for a variety of boats and ships.

	2010	2011	2012
Revenue	\$2,740	\$2,544	\$2,538
Berthage & Moorage	\$1,752	\$1,554	\$1,542
Lockers	\$587	\$587	\$593
Other Revenue	\$401	\$403	\$403
Expenses	\$1,731	\$1,573	\$1,621
Salaries & Benefits	\$999	\$897	\$958
Utilities	\$488	\$488	\$497
Other Expenses	\$244	\$188	\$166
Less: Depreciation	1,858	1,936	1,601
Net Income/(Loss)	(\$849)	(\$965)	(\$683)

Audit Objectives

The purpose of the audit was to determine whether:

- Department controls are adequate to provide reasonable assurance that moorage revenue is accurate and complete in compliance with Department policies and procedures, including the Port-wide moorage tariff.
- The Department has implemented sufficient corrective action to address issues identified in prior audits.

The scope of our audit covered the period from January 1, 2011, through April 30, 2013.

Audit Result

- The Department's controls are adequate to provide reasonable assurance that moorage revenue is accurate and complete in compliance with Department policies and procedures. Management has implemented sufficient corrective action to address issues identified in prior audits.
- ❖ No Findings

Background

In 2010, Senior Port leaders led the development of the Port's Code of Conduct Handbook , which is composed of Policies CC-1, through CC-14.

All new employees are asked to certify that they have read and are familiar with the Handbook within a short time after their hire date.

The Port created Workplace Responsibility, to provide overall leadership and coordination of the Port's ethics and compliance program, and hired its first Workplace Responsibility Officer (WRO) in February 2010. The WRO guides, supports, and reinforces the Port of Seattle's efforts to advance the Port's mission, while upholding the highest standards of business ethics and workplace behavior.

Audit Objectives

The purpose of the audit was to :

1. Determine whether management controls are adequate to ensure:
 - Awareness/visibility of Helpline/Hotline.
 - Training in Code of Conduct is provided timely to all new employees.
 - Training is reinforced with employees and management.
 - Code of Conduct policies are enforced Port wide.
 - Investigations are conducted timely and properly.
 - Access to the SharePoint site that houses reports (WRITS) is controlled.

- Information in WRITS is maintained confidential.
- Management reporting is timely and accurate.
- State Auditor's reports, in accordance with RCW 43.09.185, under the purview of the Workplace Responsibility Officer, are complete, timely, and accurate.

2. Develop maturity models for:

- Training.
- Investigation.

3. Benchmark organizational structure against similar entities.

The scope of our audit covered the period from April 1, 2010, through March 18, 2013.

Audit Result

- Given the relative youth of this program, it is operating at a reasonable level of maturity, and management controls are adequate. Organizational placement of Workplace Responsibility is comparable to the majority of similar entities.
- ❖ No Findings

Background

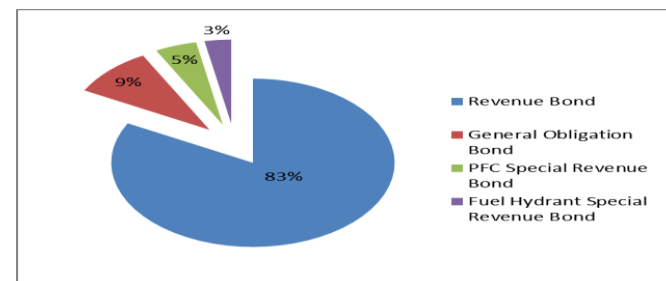
The Port, under the authority of RCW 53.40 and RCW 53.44, issues municipal bonds (short- and long-term obligations) to invest in necessary Port's operations including long-term infrastructure projects. These obligations contribute towards Port's initiatives to promote economic vitality, to maintain optimum operations' at the Port facilities, and to meet future demand.

The Port of Seattle, as of December 31, 2012, had a total debt balance of \$3.3 billion dollars, which consisted of the following:

(in thousands)

Bond Types	Tax Exempt	Taxable
General Obligation	281,790	30,215
Revenue	2,329,085	404,600
PFC Special	157,150	0
Fuel Hydrant Special	100,175	0
Total	\$ 2,868,200	\$ 434,815

Source: SymPro, as of 5/01/2013



Audit Objectives

The purpose of the audit was to determine whether management has implemented adequate controls to ensure:

- Timely utilization of refinancing (i.e., refunding) opportunities to reduce overall borrowing costs.
- Compliance with applicable IRS, State, and Port requirements.
- Proper debt service cost allocation among divisions, funds, and accounts.

The scope of our audit covered the period January 1, 2011, through December 31, 2012.

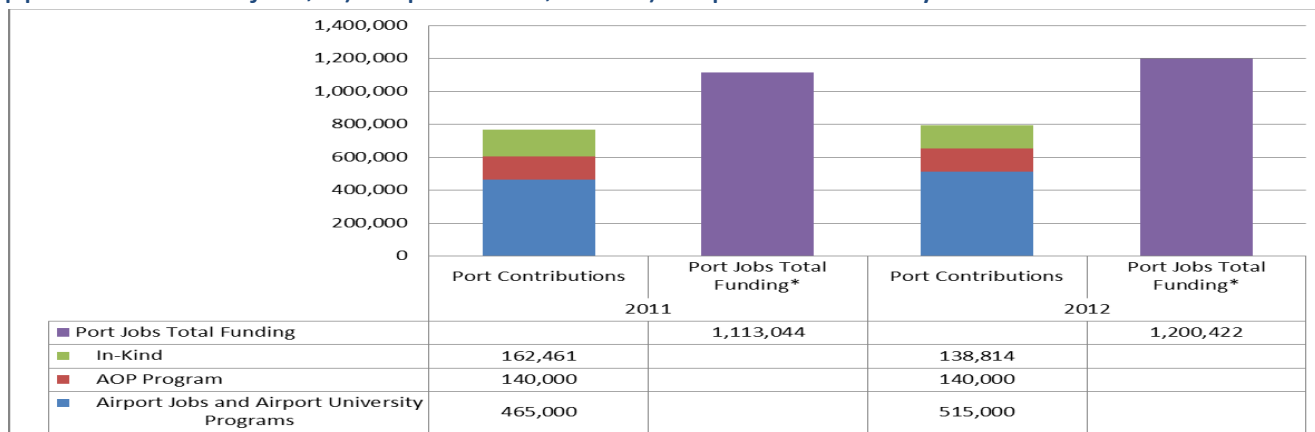
Audit Result

- Management has implemented adequate controls to ensure timely utilization of refunding opportunities, compliance with applicable requirements, and proper debt service cost allocation among divisions, funds, and accounts.
- ❖ No Findings

Background

Port Jobs is a 501 c (3) non-profit agency that was created in 1993, following the Commission's acceptance of *The Working in King County Task Force Report*. The Port committed to serve as a catalyst to create new job opportunities and provide a highly skilled workforce for the port-related economy and to identify potential sources of additional public or private funding to assist in providing training and support services to project participants.

The Commission authorized the CEO in 2009 to enter into the current three-year contract (with optional two 1-year extensions) to contribute funding towards the following three programs: 1) AOP - Apprenticeship Opportunities Project, 2) Airport Jobs, and 3) Airport University.



Audit Objectives

The purpose of the audit was to determine whether management has implemented adequate controls to ensure:

- Port Jobs met the deliverables of the contract.
- Port funding met the terms of the agreement and supports the Port's goals and objectives.

The scope of our audit covered the period from December 1, 2011 through December 31, 2012, including current activities.

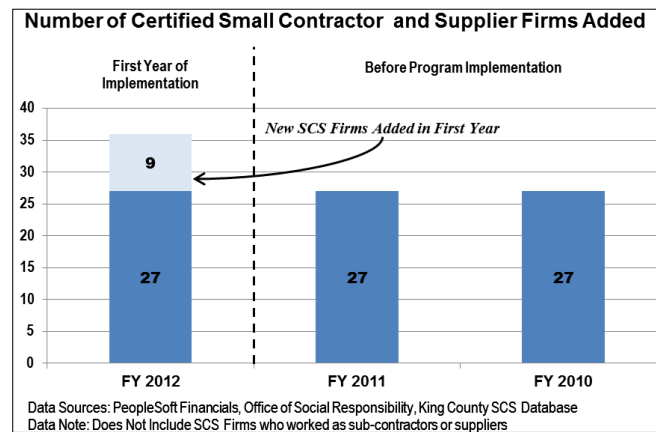
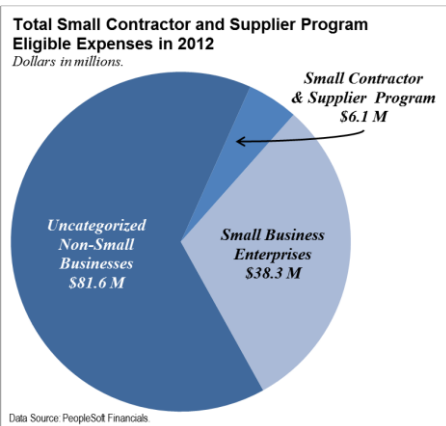
Audit Result

- Management has implemented adequate controls to ensure that Port Jobs met the deliverables of the contract and Port funding met the terms of the agreement and supports the Port's goals and objectives as specified in the contract.
- ❖ No Findings

Background

In January 2010, the Port Commission approved Resolution 3618 establishing the Small Contractor and Supplier Program (SCS Program). The SCS Program's primary purpose is to develop beneficial opportunities for the Port and for the regional community of small and disadvantaged businesses.

The Office of Social Responsibility (OSR) is charged with implementing the program.



Audit Objectives

The purpose of the audit was to determine whether Port management has completely implemented the Small Contractor and Supplier Program (SCS Program) to meet the following five specific goals under Commission Resolution 3618:

- Provide SCS firms additional opportunities for utilization in Port procurements.
- Identify and reduce barriers to SCS firms' equal opportunity and participation.
- Develop comprehensive outreach and communication strategies.
- Engage with public and private partners for additional resources and best practices.
- Develop and utilize data monitoring and evaluation resources.

The scope of our audit covered the period from January 1, 2012, through December 31, 2012.

Audit Result

- Port management has materially implemented the Small Contractor and Supplier Program goals required under Resolution 3618, except as discussed below:
 - ❖ One Finding
 - Port management did not implement the 5% pricing incentive for the Small Contractor and Supplier Program (SCS). This pricing incentive is required by Port Commission Resolution 3618.