



# INTERNAL AUDIT REPORT

TERMINAL 91 MARITIME OPERATIONS  
COMPREHENSIVE OPERATIONAL AUDIT

JANUARY 1, 2013 – MAY 31, 2014

ISSUE DATE: JULY 29, 2014  
REPORT NO. 2014-11

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## TRANSMITTAL LETTER

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of Terminal 91 Maritime Operations. We reviewed information for the period January 1, 2013 - May 31, 2014.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the management and staff of Cruise & Maritime Operations for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA  
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Brian Nancekivell, Senior Auditor	Michael McLaughlin, Director
Jack Hutchinson, Audit Manager	Gregory Englin, Manager

## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND SCOPE

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

1. All applicable revenue is properly recorded on a timely basis
2. Rates charged comply with the tariff or preferential agreement.

We reviewed information for the period January 1, 2013 - May 31, 2014. The audit did not include Seaport leases administered by Real Estate and Cruise operations administered by a lease and concession agreement. We audit these individual leases separately. Details of our audit's scope and methodology are on page 6.

### BACKGROUND

Cruise & Maritime Operations, a group within the Seaport Division, operates Terminal 91, which includes two large piers, the Smith Cove Cruise Ship Terminal with room to berth two cruise ships, and an extensive landside area with leased premises for seafood processors and related businesses and storage areas for containers, trailers, and vehicles.

The piers are used primarily by the commercial fishing industry to berth large fishing and processing vessels that off-load fish and restock supplies. Leased buildings are also on the piers. Customers include charter and excursion vessels, tug and barge companies, large fishing and commercial vessels, etc.

Fees are set by a Commission-approved tariff. There are also preferential use agreements with about eight companies that contract for a minimum number of berthing days at a reduced rate.

### AUDIT RESULT

Management has implemented adequate controls to ensure all applicable revenue is recorded on a timely basis and the rates charged are in accordance with the tariff or preferential agreement.

## BACKGROUND

Cruise & Maritime Operations, a group within Seaport, operates Terminal 91, which includes two large piers, the Smith Cove Cruise Ship Terminal with room to berth two cruise ships, and an extensive landside area with leased premises for seafood processors and related businesses and storage areas for containers, trailers, and vehicles.

The piers are used primarily by the commercial fishing industry to berth large fishing and processing vessels that off-load fish and restock supplies. Leased buildings are also on the piers. Customers include charter and excursion vessels, tug and barge companies, large fishing and commercial vessels, etc.

Fees are set by a Commission-approved Tariff. There are also preferential use agreements with about eight companies that contract for a minimum number of berthing days at a reduced rate.

The main billing categories are:

- Dockage - daily rate based on length of vessel at the pier, using either a tariff rate or the preferential use rate.
- Wharfage - tonnage fee for moving cargo over the pier.
- Electrical - for vessel hook-up and disconnect (customized for each vessel), for utilization, and maintenance and administration fees.
- Water - for utilization and administration fees.
- Equipment rental - hourly rates primarily for fork lifts.
- Security - for secured berthing areas and security guards (required for fishing vessels operating in international waters).
- Space rental - a variety of rates and terms for storing containers, trailers, trucks, vehicles, nets and equipment - by unit or square footage.

Maritime operations staff records vessel and billing activity in a variety of custom-developed Access databases and Excel spreadsheets. That information is manually entered by dock operations staff on a monthly basis into the PeopleSoft financial system for billing.

## FINANCIAL HIGHLIGHTS

### MAJOR SOURCES OF REVENUE FOR TERMINAL 91

REVENUE SOURCE	FISCAL YEAR 2012	FISCAL YEAR 2013
Dockage – Tariff	21%	17%
Dockage – Preerential	28	30
Wharfage	13	14
Equipment Rental	3	3
Electrical	12	12
Space Rental	12	17
Other	3	3
<b>TOTAL</b>	<b>100%</b> <b>\$ 3.9 MILLION</b>	<b>100%</b> <b>\$ 4.2 MILLION</b>

Data Source: PeopleSoft Financials

## HIGHLIGHTS AND ACCOMPLISHMENTS

- Maritime Operations has developed new processes to provide comprehensive, accurate, and documented systems to address accruals, billings, and track business transactions.
- It has increased revenue and achieved profitability in 2014, increasing net operating income by almost \$2.5 million since 2009.
- Maritime Operations partners with other divisions, including Real Estate, Capital Planning, and Corporate, to provide an interface to the cruise and maritime customers and industrial tenants. It helps manage the complete portfolio of assets and projects, and drives revenue, performance, and customer satisfaction on behalf of the Port.

## AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2013 - May 31, 2014. We utilized a risk-based audit approach from planning to testing. We gathered information through research, interviews, observations, and data analysis, in order to obtain a complete understanding of the operations of the Cruise & Maritime Operations. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. To determine whether all applicable revenue is properly recorded on a timely basis:

We selected and tested a sample of 10 customer invoices for three months (total sample of 30) to determine:

- Proper completion of a preferential use agreement, where applicable, for vessel information and dockage rates.
  - Proper completion of berthing registration form, where applicable, for vessel length and dates.
  - Proper supporting documentation for applicable charges - such a meter readings, electrical work orders, signed equipment rental forms, wharfage declarations, vessel logs, etc.
  - Billing was completed within established processing times.
2. To determine whether the rates charged comply with the tariff or preferential agreement:
    - For the above sample, we traced and agreed the rates charged to the current tariff or preferential use agreement for each applicable charge.

## CONCLUSION

Management has implemented adequate controls to ensure all applicable revenue is recorded on a timely basis, and the rates charged are in accordance with the tariff or preferential agreement.