

# COMPREHENSIVE OPERATIONAL AUDIT COMMISSION OFFICE



INTERNAL AUDIT

## BACKGROUND

The Commission Office is a department within the Port of Seattle. This audit was focused on the departmental activities, not on the Commissioners themselves. The current structure of the Commission Office includes a Chief of Staff, who reports directly to the Commissioners, and six full-time staff members, who report to the Chief of Staff. The Commission Office provides broad support to the five elected Commissioners, including, but not limited to:

- Policy research and analysis.
- Scheduling Commissioners' meetings and activities within the Port and the community.
- Scheduling travel and processing expenses.
- Noticing public meetings of the Commission, preparing agendas and briefing materials, and posting video-taped meetings and approved minutes to the internet.
- Publishing Commissioner expenses on the Port's internet.
- Processing Commissioners' per diems and salaries.
- Liaising with other Port departments.
- Training new Commissioners.

# COMPREHENSIVE OPERATIONAL AUDIT COMMISSION OFFICE



INTERNAL AUDIT

## AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether management controls over the following areas are adequate to ensure:

- Commissioners and staff are provided adequate training/information flow.
- Commissioners' per diem and salaries are in compliance with legal requirements and properly supported.
- Transparency.
- Commissioners' expenses are valid and related to Port business and comply with Port guidelines.

We reviewed information for the period January 1, 2014 - September 30, 2015.

## FINANCIAL HIGHLIGHTS

| COMMISSION OFFICE EXPENSES |                       |
|----------------------------|-----------------------|
| YEAR                       | AMOUNT                |
| 2014                       | \$1,343,968           |
| 2015 (thru 9-30-15)        | \$960,962             |
| Data Source:               | PeopleSoft Financials |



# COMPREHENSIVE OPERATIONAL AUDIT COMMISSION OFFICE



INTERNAL AUDIT

## AUDIT RESULT

Management controls over the following are materially adequate:

- Commissioners and staff are provided materially adequate training/information flow.
- Commissioners' per diem and salaries are in compliance with legal requirements and properly supported.
- Transparency.
- Commissioners' expenses are valid and related to Port business and comply with Port guidelines.

No Reportable Findings.



# LIMITED OPERATIONAL AUDIT OF THE INVENTORY PROGRAM AT AVIATION AND MARINE MAINTENANCE



INTERNAL AUDIT

## BACKGROUND

Marine Maintenance (MM) and Aviation Maintenance (AVM) provide facilities and equipment maintenance.

MM supports the Real Estate Department and Maritime Line of Business within the Port of Seattle with 14 specialized craft functions to respond to customer requests. MM maintains an inventory valued at approximately \$290,000.

AVM is responsible for all airport facilities. As the largest Port of Seattle Line of Business, AVM supports 14 functional maintenance shops with over 300 craft personnel. The inventory is valued at approximately \$6.5 million.

Both MM and AVM use Maximo, an IBM software solution to record inventory purchases, usage, and disposition.

## AUDIT OBJECTIVES AND SCOPE

The purpose of this audit was to determine whether controls are operating adequately to ensure the effectiveness of the inventory process in the following areas:

- How stock items are created
- How much, what, and when to purchase
- Obsolete inventory

We reviewed information for the period January 1, 2015 - October 31, 2015.



# LIMITED OPERATIONAL AUDIT OF THE INVENTORY PROGRAM AT AVIATION AND MARINE MAINTENANCE



## FINANCIAL HIGHLIGHTS

The *days in inventory ratio* is an efficiency ratio that measures the average number of days the organization holds its inventory before using it. The ratio reflects the number of days funds are tied up in inventory and measures how long it takes a company to use inventory. Generally, a low ratio is preferred.

| INVENTORY TURNOVER RATIO AND DAYS IN INVENTORY RATIO |                    |                         |                  |                       |  |
|--|--------------------|-------------------------|------------------|-----------------------|--|
| YEAR ENDED   | AVIATION INVENTORY | AVIATION DAYS INVENTORY | MARINE INVENTORY | MARINE DAYS INVENTORY |  |
| 2012   | \$ 6,503,823       | 770                     | \$ 327,992       | 347                   |  |
| 2013   | 6,341,000          | 782                     | 345,476          | 368                   |  |
| 2014   | 6,487,198          | 747                     | 358,218          | 433                   |  |
| 2015 (as of October 31                               | 6,513,752          | 770                     | 364,125          | 418                   |  |

Data Source: PeopleSoft Financials

## AUDIT RESULT

Processes are not always efficient or effective at identifying and removing inventory that has not been used in over 12 months as required by Accounting Policy 13 - *Disposition of Property*. Disposition of inventory within this time frame facilitates cost savings while maximizing return on investment.

Additionally, purchasing practices could be enhanced so that inventory that has already been purchased and available for use is used before additional purchases of inventory are made for the same item.

One Reportable Finding



# LIMITED OPERATIONAL AUDIT OF THE INVENTORY PROGRAM AT AVIATION AND MARINE MAINTENANCE



INTERNAL AUDIT

## AUDIT RESULT – REPORTABLE FINDING

### 1. INTERNAL CONTROLS TO IDENTIFY AND REMOVE INVENTORY THAT IS OBSOLETE, EXCESSIVE, OR HAS NO MARKET VALUE ARE NOT ALWAYS EFFICIENT OR EFFECTIVE.

- Policy AC-13 Disposition of Property states (in part):
  - .02(b) Inventory is expected to be consumed within a year...
  - .03 Property should be disposed when it no longer services its intended purpose, no alternative future use within 12 months exists, it is not considered a specialty item, and/or the Port no longer requires it to maximize the return on investment for the disposal of Port’s property...
  
- A review of AVM and MM inventory identified a significant amount of inventory aged over 12 months (see table below):

| INVENTORY ITEM LAST ISSUED | AVIATION            |             | MARINE            |             |
|----------------------------|---------------------|-------------|-------------------|-------------|
|                            | AMOUNT              | PERCENTAGE  | AMOUNT            | PERCENTAGE  |
| Within 1 year              | \$ 1,841,488        | 28%         | \$ 171,958        | 59%         |
| Within 2 years             | 332,982             | 5           | 24,828            | 9           |
| Within 3 years             | 348,445             | 5           | 18,646            | 6           |
| Within 4 years             | 204,090             | 3           | 8,903             | 3           |
| Over 4 years               | 3,851,203           | 59          | 66,636            | 23          |
| <b>TOTAL</b>               | <b>\$ 6,578,208</b> | <b>100%</b> | <b>\$ 290,970</b> | <b>100%</b> |

Data Source: Maximo



- Zero value inventory consists of items remaining after completion of capital projects and is not required to be reclassified to inventory from construction work-in-process. These items, however, are still required to be tracked for property stewardship and are expected to be consumed within 12 months. Similarly, 94% of zero value inventory (AVM only) has not been issued in over four years.

| AVIATION MAINTAINANCE ZERO VALUE INVENTORY USAGE |              |             |
|--|--------------|-------------|
| INVENTORY ITEM LAST ISSUED                       | SKU          | PERCENTAGE  |
| Within 1 year                                    | 101          | 2%          |
| Within 2 years                                   | 84           | 1           |
| Within 3 years                                   | 85           | 2           |
| Within 4 years                                   | 68           | 1           |
| Over 4 years                                     | 4,898        | 94          |
| <b>TOTAL</b>                                     | <b>5,236</b> | <b>100%</b> |

Data Source: Maximo

- Purchasing processes and controls are not always effective:
  - AVM: Zero value inventory is expected to be used prior to purchasing additional inventory of the same item. However, 50% or 20 of the 40 items tested had the same inventory in both zero value and current inventory indicating that purchases are sometimes made without consideration for what is already available in zero value inventory.
  - MM: Using a risk based sampling approach, we tested purchases from January 1, 2015 through October 31, 2015. Of the 18 purchases tested, 15 purchases were made for items that were already in inventory.