Port of Seattle

Internal Audit Report

Louis Dreyfus, Corporation
Lease Agreement No. 228

September 1, 2006 through August 31, 2008

Issue Date: June 2, 2009
Report No. 2009-08

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Internal Auditor's Report

We have completed the Lease Agreement, as amended, between the Port of Seattle and Louis Dreyfus Corporation (aka Cargill) for the period of September 1, 2006 through August 31, 2008. The purpose of the audit was to determine whether: 1) Louis Dreyfus properly reported all tonnage fees in accordance with terms and conditions of the lease agreement, as amended, and 2) Port management adequately monitored the agreement.

We conducted the audit using due professional care, and we planned and performed the audit to obtain reasonable assurance as to whether the Port and the Lessee had complied with provisions of the agreement.

We have determined that the lessee materially complied with the terms and conditions related to the tonnage fees, and management adequately monitored the agreement. We however identified the absence of certain key provisions in the agreement, which are considered necessary to adequately protect Port interest.

We extend our appreciation to Seaport Industrial Properties Business Development management and Accounting Financial Reporting (AFR) for their assistance and cooperation during the audit.

Kirangi

Joyce Kirangi, CPA
Internal Audit Manger

Internal Audit Report
Louis Dreyfus Corporation (No. 228)
Audit Period: September 1, 2006 – August 31, 2008

Executive Summary

Audit Scope and Objective The purpose of the audit was to determine whether: 1) Louis Dreyfus properly reported all tonnage fees in accordance with terms and conditions of the lease agreement, as amended, and 2) Port management adequately monitored the agreement.

The audit scoped covered the period September 1, 2006 through August 31, 2008.

Agreement Terms The lease agreement No. 228, as amended, authorizes Louise Dreyfus Corporation to export grain through Pier 86 Grain Terminal. The Lessee pays the Port Tonnage Fee ranging from $0.40 to $1 per Annual Metric Ton of grain exported through Pier 86 Grain Terminal. Additionally agreement requires a premise payment of $41,666 on a monthly basis.

Audit Result Summary We have determined that Louis Dreyfus Corporation (LDC) materially complied with the terms and conditions related to the tonnage fees, and management adequately monitored the agreement. We however identified the absence of certain key provisions in the agreement, which are considered necessary to adequately protect Port interest.

Background

Louis Dreyfus has merchandised and traded bulk agricultural commodities in international markets since 1851 and has been consistently ranked as one of the world's largest merchandisers of grains and oilseeds.

On March 26, 1968, the Port entered into a lease and construction agreement with Cargill, Inc. for designing, building and operating grain terminal facilities. On March 14, 2000 under amendment #9, the Port agreed to the assignment of the agreement from Cargill to Louis Dreyfus.

On September 1, 2004, the Port management re-negotiated lease agreement terms with Louis Dreyfus. Louis Dreyfus is required to pay the Port the Premises Lease in amount of $500,000 annually and the concession fees based on the total tonnage of grains exported.

Below is a table of agreement related revenue streams for a 4-year period ending 2008.

Description	2005	2006	2007	2008
Tonnage Concession Fees	$3,972,457	$5,827,951	$5,340,514	$6,391,198
Space Rental	500,000	500,0000	500,000	500,000
Utilities	15,711	19,610	22,382	29,593
Others	101,281	177		
Grand Total	**$4,589,449**	**$6,347,738**	**$5,862,896**	**$6,920,791**

Source: PeopleSoft

Audit Objectives

The purpose of the audit was to determine whether:

- Louis Dreyfus properly reported all tonnage fees in accordance with terms and conditions of the lease agreement, as amended.
- Port management adequately monitored the agreement.

Audit Scope

The scope of the audit covered the period of September 1, 2006 through August 31, 2008.

Audit Approach

To achieve our audit objectives, we performed the following procedures:

- We obtained an understanding of Louis Dreyfus, Inc. operations.
- We reviewed applicable state and local laws, rules and regulations, and Port policies.

- We analyzed the data (internal) to achieve the audit objective.

Conclusion

We have determined that Louis Dreyfus Corporation (LDC) materially complied with the terms and conditions related to the tonnage fees, and management adequately monitored the agreement. We however identified the absence of certain key provisions in the agreement, which are considered necessary to adequately protect Port interest.

Summary of Findings and Recommendations

I. Absence of Key Provisions to Adequately Protect Port Interest

The agreement does not have two key provisions considered necessary to adequately mitigate the risk of noncompliance related to the tonnage fees.

Specifically the agreement does not have:

1) An audit clause to allow access to the lessee records to examine underlying document in order to substantiate the reported payments
2) A payment term for expected monthly payments to maximize cash flow

The above-mentioned provisions are generally accepted part of basic and necessary elements in a contract to promote and verify compliance with agreed-upon terms and conditions. In the absence, the Port can only assume compliance based on shared information. It would be difficult to verify the reported payments as to the reasonableness and accuracy.

The agreement requires concession on the total tonnage of grains exported, not revenue generated from operations. Because 1) an audit clause is often narrowly associated with a financial examination, and 2) the concession in the agreement is based on a non-monetary consideration, the audit clause was overlooked and not included as part of the agreement.

Recommendation

We recommend that management correct the above weaknesses. Specifically, we recommend that management include in the lease:

a) An audit clause to adequately protect Port interest.
b) A payment term to establish and maximize cash flow.

Management Response

Management agrees with the audit findings that it is advisable to include an audit clause and payment term language in all leases. Management will make reasonable effort to negotiate the addition of such language in future lease amendments with this tenant.