



Port of Seattle

Internal Audit Report

Office of Social Responsibility

Department Audit

Audit Period January 1, 2008 through December 31, 2008

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- 1) Noncompliance with Port policies and procedures.

Internal Auditor's Report

We have completed an audit of the disbursement activities for the Office of Social Responsibility. The purpose of the audit was to identify and assess the controls related to disbursements to determine whether:

1. Disbursement practices are in compliance with Port policies and procedures and applicable State Regulations.
2. Management employs effective monitoring to prevent inappropriate disbursements.
3. Port's policies and procedures are effective in preventing unauthorized disbursements.

We reviewed information relating to fiscal year 2008.

We conducted the audit using due professional care. We planned and performed the audit to obtain reasonable assurance that department controls relating to disbursements are adequate and operating as intended.

Although no significant instances of unauthorized disbursements were noted, management was not effective in ensuring the department's compliance with established Port policies and procedures.

We extend our appreciation to the Office of Social Responsibility for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Internal Audit Manager

Executive Summary

Audit Scope and Objective The purpose of the audit was to identify and assess the controls related to disbursements to determine whether 1) disbursement practices are in compliance with Port policies and procedures and applicable State Regulations, 2) management employs effective monitoring to prevent inappropriate disbursements, and 3) Port's policies and procedures are effective in preventing unauthorized disbursements.

We reviewed information relating to fiscal year 2008.

Background The Office of Social Responsibility was established in January 2008 to manage the Port's small business initiative and other existing programs, expand outreach efforts, and develop new projects such as transitioning military veterans into the workplace and getting surplus cruise ship supplies and equipment to needy residents. During 2008 the department slowly grew to a total of six full time employees.

Audit Result Summary Although no significant instances of unauthorized disbursements were noted, management was not effective in ensuring the department's compliance with established Port policies and procedures.

Background

The Port's Office of Social Responsibility engages with community and internal stakeholders to inspire commitment and assure that all Port business actions are conducted within a framework of socially responsible values such as fairness, inclusion, openness and economic development for all. The department was created in January of 2008 and has grown to include six full time employees. The Office of Social Responsibility oversees the following Port programs:

- Small Business Program
- National Urban Fellows
- Port Jobs
- Ship to Shelter
- Veterans Fellowship

The department does not generate revenue and their operating expenses for 2008 are as follows:

GL Category	2008	
	Exp	Common Size
Salaries & Benefits	754,217	73%
Equipment	26,353	3%
Worker's Comp	2,024	0%
Telecommunications	3,752	0%
Travel & Other Employee	41,256	4%
Supplies & Stock	7,372	1%
Outside Services	87,870	9%
Promotional Expense	17,710	2%
General Expenses	85,173	8%
Grand Total	\$1,025,727	100.00%

Source: Responsibility Report

Audit Objective

The audit objective was to identify and assess the controls related to disbursements to determine whether 1) disbursement practices are in compliance with Port policies and procedures and applicable State Regulations, 2) management employs effective monitoring to prevent inappropriate disbursements, and 3) Port's policies and procedures are effective in preventing unauthorized disbursements.

Scope of the Audit

The scope of this audit included disbursement information related to fiscal year 2008.

Audit Approach

We performed the following audit procedures:

- We obtained an understanding of the department's operations and its environment.
- We reviewed applicable state and local laws, rules, and regulations, as well as Port policies, procedures, and guidelines.
- We obtained and analyzed financial data and other relevant information to assess risk.
- We tested data and supporting documentation to determine completeness and accountability including compliance.

Conclusion

The Port's policies and procedures are adequately designed to prevent unauthorized disbursements; however, their effectiveness is dependent upon compliance by Port management. The Office of Social Responsibility's controls over disbursements are inadequate to ensure proper compliance with Port policies and procedures. During the period under audit, management's monitoring practices was not effective in preventing potential inappropriate disbursements.

Schedule of Findings and Recommendations

1) Noncompliance with Port policies and procedures.

Noncompliance with established policies and procedures can lead to an undesirable tone-at-the-top. This tone can be construed by staff members as a general lack of value for Port policies, which in-turn could lead to unauthorized or fraudulent disbursements. Noncompliance with Port policies could also be a violation of State law, as most Port policies/procedures are based on applicable State rules and regulations. The potential negative image associated with noncompliance could be detrimental to a department whose mission is centered on responsible values.

Proper disbursement activities are documented in the following policies, procedures, and guidance memos:

- AC-1 Procedure - Travel Planning, Fund Advances, and Port Credit Cards for Official Business or Travel
- AC-2 Procedure - Acceptable Business or Travel Expenses and How to Obtain Reimbursement
- AC-4 Policy - Promotional Hosting; Trade/Business and Community Development Expenses
- PUR-1a Procedure - Acquisition of Goods & Services
- PUR-1b Procedure - Acquisition of Goods & Services – Quotations
- PUR-1c Procedure - Acquisition of Goods & Services - Bids and Proposals
- PUR-1d Procedure - Acquisition of Goods & Services - S-Type Vendor Contracts
- PUR-1e Procedure - Acquisition of Goods & Services - Request for Check
- PUR-2 Procedure - Consultant Procedures (Which has since been replaced by CPO-1 Policy - Procedures for Personal and Professional Services.)
- Promotional Hosting - Guidance on What It Is and Its Requirements

We noted that the Office of Social Responsibility's disbursement practices are not in compliance with Port policies and procedures. This is evidenced by the volume of exceptions discovered. Specifically, we examined 115 account entries and noted 36 exceptions.

Some of the exceptions noted included:

- Nine disbursements related to Trade and Community Development that were not properly pre-approved by General Counsel. (Five of which were also coded to the wrong account.)
- Four disbursements in which an improper payment method was used. (All four were also coded to the wrong account.)
- Six receipts that were missing, not properly itemized, or excluded from the applicable expense report.
- One p-card disbursement that was made with an unauthorized vendor.

We also noted that the available documentation did not always identify the direct benefit of each promotional hosting disbursement, as required by the State Auditor's office. Management was able to justify each incident; however, the documentation did not clearly identify how the disbursement was going to influence business at the Port.

The department seems to lack the knowledge and attention to detail necessary to follow all Port policies and procedures. As the final approver of all transactions, management should also be well versed with the requirements established by the Port. The department does not have a complete understanding of all disbursement requirements, and additionally their current knowledge base has been applied inconsistently and sporadically.

Recommendation

We recommend that management strengthen their controls, related to disbursements, to ensure that the entire department has the knowledge base necessary to comply with Port policies, procedures, and guidelines. Each disbursement should contain adequate documentation to clearly identify its benefit to the Port.

Department Response

The Office of Social Responsibility (OSR) completely concurs with the findings and recommendations. For background, this is a new department established in January, 2008, with a Director hired who was new to the Port. The new Director did not have the proper training and orientation to the numerous policies and procedures cited above, and the OSR Manager also lacked proper knowledge of some of the procedures. The first administrative staff for OSR was hired in September, 2008. A year of change also included a new Central Procurement Office (CPO) with new procedures. All in all, this contributed to some of the inconsistency in adhering to and knowledge of these Port policies and procedures.

OSR intends to strengthen controls to ensure that the entire department has the knowledge necessary to comply with Port policies, procedures, and guidelines including but not limited to those cited above. The plans include:

- Management review of each of the major policies and procedures relating to disbursements and procurements.*
- Administrative staff review of the major policies and procedures and drafting a summary of the major highlights in an easy reference format.*
- Meet with entire OSR team to review the major policies and procedures and a sign-off form for each team member to sign.*
- Additional checks and balances on disbursements and procurements between OSR Manager and Administrative Specialist staff to double-check for accuracy.*
- Additional form to attach to disbursements to accommodate the additional required explanations.*
- More direct involvement by the Director through regular meetings with the Manager and Administrative Specialist to ensure that procedures are being properly followed.*

It would be the OSR Director's expectation that if another audit were conducted a year from now, that there would be no exceptions found.