



Port of Seattle

Internal Audit Report

Port's Central Billing and Accounts Receivable System Audit

Current Practices in 2010

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Internal Auditor's Report

We have completed an audit of the Port's billing and accounts receivable process. The billing and accounts receivable process involves numerous departments at the Port; however, our audit focused on the functions performed by the Revenue Services team within Accounting and Financial Reporting.

The purpose of the audit was:

- To determine if the Port has implemented effective controls to ensure that the billing and accounts receivable system is efficient, complete, and accurate with respect to:
 - System access and segregation of duties
 - Accounts receivable aging
 - Credits and write-offs to customer account balances
 - Pier 69 receipting and cash handling procedures

Management has the primary responsibility to establish and implement effective controls. Our audit objective was to assess and test those controls in order to establish whether the controls were adequate and operating effectively.

We conducted the audit using due professional care. We planned and performed the audit to obtain reasonable assurance that the risks impacting billing and accounts receivable were sufficiently mitigated through effective internal controls.

The Accounting and Financial Reporting department has established adequate and effective controls related to billing and accounts receivable, and there were no significant issues noted during the audit.

We extend our appreciation to the Accounting and Financial Reporting department for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

Audit Scope and Objective The purpose of the audit was:

- To determine if the Port has implemented effective controls to ensure that the Billing and Accounts Receivable system is efficient, complete, and accurate with respect to:
 - System access and segregation of duties
 - Accounts receivable aging
 - Credits and write-offs to customer account balances
 - Pier 69 receipting and cash handling procedures

The scope of the audit included current billing and accounts receivable practices in 2010.

Background The billing and accounts receivable functions for the Port are handled centrally by the Revenue Services team within Accounting and Financial Reporting. Any items billed by the Port must be processed by Revenue Services. The individual business units are responsible for determining how much to bill each customer, and Revenue Services provides resources to assist the business units in ensuring that their bills are accurate. Revenue Services is also responsible for managing their accounts receivables and collection efforts, and for assessing finance charges and one-time late fees. Revenue Services has 15 FTEs and bills approximately \$1/2 billion per year.

Audit Result Summary The Accounting and Financial Reporting department has established adequate and effective controls relating to billing and accounts receivable, and there were no significant issues noted during the audit.

Background

The billing and accounts receivable functions for the Port are handled centrally by the Revenue Services team within Accounting and Financial Reporting. Revenue Services processes bills for the Port's individual business units and manages their accounts receivable and collection efforts. The individual business units are responsible for determining how much to bill each customer, and Revenue Services provides resources to assist the business units in ensuring that their bills are accurate. Any items billed by the Port must be processed by Revenue Services. The Revenue Services team has 15 FTEs, including 1 senior manager and 2 supervisors.

The following table highlights the amount of bills processed by Revenue Services each year

<i>Business Unit</i>	<i>2008</i>	<i>2009</i>	<i>2010 (as of 7/31)</i>	<i>Total</i>	<i>%</i>
Lease STIA	289,514,650	301,448,768	170,931,270	761,894,688	59%
Lease Marine	84,334,802	83,843,897	44,941,341	213,120,041	17%
Corporate STIA	65,747,487	63,765,425	33,918,102	163,431,014	13%
Containers	21,907,981	17,450,720	11,477,730	50,836,431	4%
Ground Access	9,914,653	9,564,153	5,783,072	25,261,878	2%
Shilshole Bay Marina	8,010,704	8,681,757	5,126,575	21,819,037	2%
Airfield	14,592,234	4,381,729	219,029	19,192,991	1%
Corporate Marine	4,320,106	6,928,789	2,398,627	13,647,522	1%
Cargo	3,265,438	3,467,587	2,105,623	8,838,648	1%
Fishermen's Terminal	2,490,656	2,572,405	1,679,637	6,742,698	1%
Group Insurance	1,453,602	1,419,827	749,893	3,623,322	0%
ID Access	570,174	489,982	435,911	1,496,067	0%
Harbor Island Marina	431,144	432,144	244,022	1,107,311	0%
Maritime Industrial Center	192,624	153,305	119,262	465,192	0%
Bell Harbor Marina		44,867	38,925	83,793	0%
Foreign Trade Zone	10,000	0	0	10,000	0%
Rental Houses	3,600	6,400	(3,500)	6,500	0%
Total	506,759,855	504,651,755	280,165,519	1,291,577,133	100%

Source: PeopleSoft

In addition to processing the bills requested by the individual business units, the Revenue Services team is also responsible for assessing any finance charges or one-time late fees that may be necessary. Depending on the applicable customer agreement or Tariff, the customer may be subject to a finance charge (interest) and/or a one-time late fee. Finance charges are normally assessed at 18% per annum. Revenue Services initiates a finance charge calculation once a month (usually around the 16th), and any affected customers will be assessed a finance charge on their past due balance as of that date.

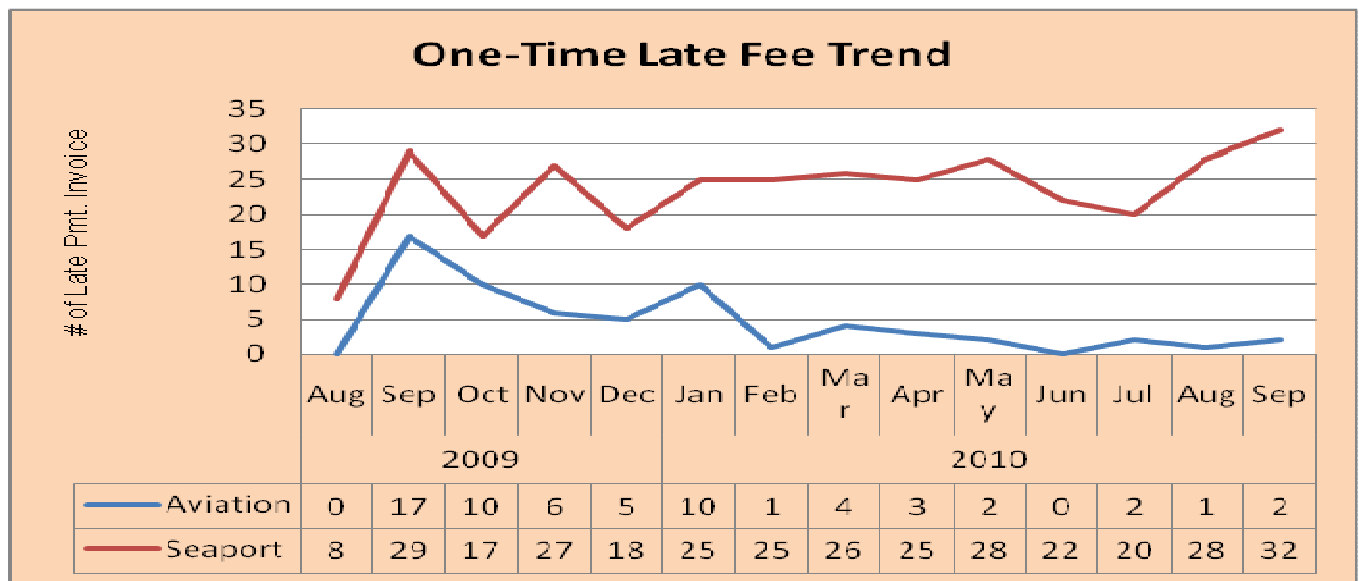
One-time late fees, on the other hand, are different from finance charges in three main ways:

1. One-time late fees are assessed only once, whereas finance charges may be assessed until the balance is paid in full. Most lease agreements containing a late-fee clause call for 5% fee on any overdue amount not received within 10 days of the due date.

2. One-time late fees can be quite significant in comparison to finance charges. Since finance charges are only assessed at less than 0.05% per day, they are usually rather immaterial in comparison to a 5% charge on the total amount due.
3. One-time late fees cannot be calculated automatically by the current system in the same way that finance charges are calculated. Since every lease agreement is different, the system cannot automatically generate one-time late fees across the board. Instead, Revenue Services has to manually track payments and manually prepare late fee invoices when necessary.

Revenue Service began monitoring and assessing one-time late fees in September 2009, and improved on those procedures in March 2010. As of April 2010, they have implemented effective controls to ensure that any late payments are assessed a one-time late fee if required by the agreement.

The following graph shows the number of one-time late fees charged between August 2009 and September 2010. Considering that the Port has over 700 various agreements, the overall number of the late fee assessments does not seem significant.



Source: PeopleSoft

The one-time late fee appears effective in encouraging timely payments with airport customers. The number of one-time late fee assessments for airport customers has been steadily decreasing since the implementation of the control. For Seaport customers, however, the control does not appear to be equally effective. Further analysis disclosed, that while there are repeat late-payment customers, a half of those customers were late only once or twice. The remaining Seaport late-payment customers are generally small businesses with cash flow difficulties.

Audit Objective

The purpose of the audit was:

- To determine if the Port has implemented effective controls to ensure that the Billing and Accounts Receivable system is efficient, complete, and accurate with respect to:
 - System access and segregation of duties
 - Accounts receivable aging
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 - Pier 69 receipting and cash handling procedures

Scope of the Audit

The scope of the audit included current billing and accounts receivable practices in 2010.

Audit Approach

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

- Identified the potential risks facing the billing and accounts receivable function.
- Obtained a detailed understanding of the billing and accounts receivable process, and identified the internal controls designed to mitigate each risk.
- Reviewed and tested the internal controls relating to system access, accounts receivable aging, credits and write-offs, and Pier 69 cash handling.
- Obtained and analyzed relevant financial and non-financial data.
- Prepared a detailed risk assessment.
- Performed detailed tests of transactions to achieve the audit objectives.

Conclusion

The Accounting and Financial Reporting department has established adequate and effective controls relating to billing and accounts receivable. There were no significant issues noted during the audit.

With respect to our audit objectives, the Port has implemented effective controls to ensure that:

- System access is adequately restricted to ensure proper segregation of duties.
- The accounts receivable aging schedule includes all amounts owed to the Port, including finance charges and one-time late fees.
- Credits and write-offs require proper approval, including Commission disclosure when necessary.
- Cash and Checks deposited through Pier 69 are properly accounted for and safeguarded.