



Port of Seattle

Internal Audit Report

Port's Central Disbursements System Audit

Current Practices in 2009

Issue Date: March 9, 2010
Report No.: 2010-04

Table of Contents

Internal Auditor's Report	3
Executive Summary	2
Background	2
Audit Objective.....	2
Scope of the Audit	3
Audit Approach	3
Conclusion	3

Internal Auditor's Report

We have completed an audit of the Port's disbursements process. The disbursements process involves every department at the Port; however, our audit focused on the functions performed by accounts payable and payroll. The purpose of the audit was:

1. To determine if the risk assessment performed by Accounting and Financial Reporting adequately addresses the risks impacting disbursements, as well as the controls necessary to mitigate those risks to an acceptable level.
2. To identify internal controls related to disbursements, and to evaluate their effectiveness in ensuring accuracy, efficiency, and accountability in the areas of:
 - Requests for checks
 - Duplicate payments
 - Timeliness of payments
 - Concur (credit cards mainly for employee travel)
 - P-cards (credit cards for departmental expenses)
 - Payroll
3. To determine if the computerized controls have been properly configured to a) prevent payments against an invalid contract, b) prevent unauthorized access to incompatible disbursement functions, c) prevent inappropriate changes to positive pay files, and d) ensure proper authorization of wire transfers.

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 disbursements were sufficiently mitigated through effective internal controls.

The Accounting and Financial Reporting department has established adequate and effective controls related to disbursements, 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 risk assessment performed by Accounting and Financial Reporting adequately addresses the risks impacting disbursements, as well as the controls necessary to mitigate those risks to an acceptable level.
- To identify internal controls related to disbursements, and to evaluate their effectiveness in ensuring accuracy, efficiency, and accountability in the areas of:
 - Requests for checks
 - Duplicate payments
 - Timeliness of payments
 - Concur (credit cards mainly for employee travel)
 - P-cards (credit cards for departmental expenses)
 - Payroll
- To determine if the computerized controls have been properly configured to a) prevent payments against an invalid contract, b) prevent unauthorized access to incompatible disbursement functions, c) prevent inappropriate changes to positive pay files, and d) ensure proper authorization of wire transfers.

The scope of the audit included current disbursement practices in 2009.

Background The responsibility for ensuring that disbursements are appropriate rests at the department level, and not with accounts payable or payroll. Each individual department is accountable for any disbursement against their budget, and they must ensure that their disbursements are legitimate and properly approved. The main responsibility of the accounts payable and payroll functions is to efficiently and accurately process the disbursement requests submitted by the individual departments. However, there is also an expectation that the accounts payable and payroll functions monitor disbursement requests to provide additional assurance that the disbursements are appropriate. Our audit is focused on accounts payable's and payroll's function of processing disbursements accurately and efficiently, as well as the expectation that they exercise due diligence when monitoring Port disbursements for appropriateness. Essentially the audit will determine if accounts payable and payroll are doing enough to monitor for inappropriate disbursements, or if they should implement additional procedures.

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



Internal Audit Report
Port's Central Disbursements System Audit
Audit Period: Current Practices in 2009

Background

The disbursement process for the Port of Seattle encompasses all Port departments. Each individual department is responsible for approving the payments charged against their respective budgets, as well as the approval of all time entered for their employee's payroll. However, this engagement is centered on the accounts payable and payroll functions within the Accounting and Financial Reporting department. All funds leaving the Port, whether for operations, construction, or payroll, must be processed by accounts payable or payroll. The only exceptions to this are the daily investment wire transfers, which we also audited, and immaterial petty cash funds totaling \$1,350, which we did not audit during this engagement. The disbursements team has 13 FTEs including one Manager, six staff members dedicated to accounts payable, five staff members dedicated to payroll, and one person dedicated to Concur credit card administration (the credit cards issued to individual employees for travel and business related expenses). In addition to accounts payable and payroll, Human Resources and Development, the Central Procurement Office, the Treasurer, and other Accounting and Financial Reporting staff members are instrumental in the overall disbursement process.

As of October 2009, AP processed the following disbursements: (in thousands)

<i>Disbursement Type</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009 (partial)</i>	<i>Total</i>	<i>%</i>
A-Type PO *	25,453	23,641	25,053	18,713	92,860	5%
C-Type PO *	3,798	4,287	5,052	8,699	21,836	1%
S-Type Contract *	41,151	38,135	39,243	18,972	137,501	6%
Small Works	9,519	9,322	6,883	3,424	29,148	1%
Service Agreement	114,250	103,413	83,148	38,921	339,732	15%
Major Construction	314,509	267,387	215,091	121,656	918,643	41%
Worker's Comp	1,108	1,144	1,470	1,200	4,922	0%
Request for Check *	168,424	181,612	200,685	131,521	682,242	31%
Concur	317	325	1,361	796	2,799	0%
Adjustments	(806)	(1,193)	(644)	(138)	(2,781)	0%
Total	677,723	628,073	577,342	343,764	2,226,902	100%

Source: PeopleSoft

* - Descriptions of Ambiguous Disbursement Types

<i>Disbursement Type</i>	<i>Description</i>
A-Type Purchase Order	A written document, stating the pre-established terms and conditions pertaining to a <i>one-time</i> order to a supplier for purchase of specific goods and/or services.
C-Type Purchase Order	A written document, stating the pre-established terms and conditions pertaining to a <i>recurring</i> fixed price contract. (e.g., equipment rental, building or equipment maintenance services, janitorial services, etc.)
S-Type Contract	An agreement whose primary purpose is to manage the small-order problem and make the acquisition of typically small-dollar-value goods and/or services more convenient for customers. (Also called a Blanket Vendor Contract.)
Request for Check	Payment mechanism for items not subject to the procurement process. (e.g., membership dues, subscriptions, training registrations, advertising, etc.)

Audit Objective

The purpose of the audit was:

1. To determine if the risk assessment performed by Accounting and Financial Reporting adequately addresses the risks impacting disbursements, as well as the controls necessary to mitigate those risks to an acceptable level.
2. To identify internal controls related to disbursements, and to evaluate their effectiveness in ensuring accuracy, efficiency, and accountability in the areas of:
 - Requests for checks
 - Duplicate payments
 - Timeliness of payments
 - Concur (credit cards mainly for employee travel)
 - P-cards (credit cards for departmental expenses)
 - Payroll
3. To determine if the computerized controls have been properly configured to a) prevent payments against an invalid contract, b) prevent unauthorized access to incompatible disbursement functions, c) prevent inappropriate changes to positive pay files, and d) ensure proper authorization of wire transfers.

Scope of the Audit

The scope of the audit included current disbursement practices in 2009.

Audit Approach

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

- Obtained a detailed understanding of the disbursement process.
- Reviewed and tested internal controls related to accounts payable, payroll, and wire transfers.
- Obtained and analyzed relevant financial and non-financial data.
- 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 disbursements, and there were no significant issues noted during the audit. With respect to our audit objectives:

1. The Accounting and Financial Reporting department has been proactive with their approach to risk, and their formal Risk Assessment effectively identifies the risks specific to disbursements as well as the action plans necessary to mitigate those risks to an acceptable level. Their risk assessment process has set a standard for other departments to follow.
2. The internal controls that the Accounting and Financial Reporting Department has implemented for Requests for Checks, duplicate payments, timeliness of payments, Concur, P-cards, and payroll are deemed effective, and we did not note any material concerns

regarding accuracy, efficiency, or accountability. However, the ultimate responsibility rests with the individual departments that actually request the payments.

3. The computerized controls have been properly configured to a) prevent payments against an invalid contract, b) prevent unauthorized access to incompatible disbursement functions, c) prevent inappropriate changes to positive pay files, and d) ensure proper authorization of wire transfers.