

Internal Audit Briefing

**Presented to the Port of Seattle
Audit Committee and Tay Yoshitani, CEO**

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Agenda

- **Audit Planning Updates**
 - Capital Improvement Program (CIP)
 - Billings/Receivables
- **2010 Audit Work Plan - Progress Update**

Capital Improvement Program (CIP)

Audit Objectives

1. To determine if the Port has effectively managed its Capital Improvement Program (CIP) in order to minimize costs and increase efficiency related to planning, design, procurement and construction, and close-out of its capital projects.
2. Assess the Port's efforts to address significant recommendations from the 2007 SAO performance audit.

Capital Improvement Program (CIP)

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Audit Scope

The Washington State Auditor's Office (SAO) conducted an audit of the Port's construction management practices and issued its report in December of 2007. The audit report contained a number of findings, and the CEO responded to the audit report by implementing many policy changes including department re-alignment and re-organization. Based on the time frame of the SAO audit report and the implementation of Port changes, the scope of our audit will be 2009. We believe the implemented policies and procedures should have taken effect and matured prior to 2009.

Capital Improvement Program (CIP)

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Background

The Port Capital Development Division (CDD) oversees Port wide procurement and construction services and is comprised of the following groups: Airport Project Management, Seaport Project Management, Engineering Services, Port Construction Services, and the Central Procurement Office (Construction Contract Services, Service Agreements, Procurement Services)

Audit Planning Updates

Capital Improvement Program (CIP)

continued...

Financial Highlights

Approximate breakdown of all project costs in millions by division.

Division	2008	2009
Corporate	\$ 14	\$ 10
Aviation	\$ 237	\$ 207
Seaport	\$ 112	\$ 76
Real Estate	\$ 21	\$ 75
Total	\$ 384	\$ 368

Source: PeopleSoft

Capital Improvement Program (CIP)

continued...

Audit procedures Completed or in Progress

- Consideration of the 2007 SAO performance audit issues and Port's response
- Interviews with Capital Development Division (CDD) key personnel
- Document procedural practices and conduct walk-through
- In-depth data analysis
- Risk assessments

Capital Improvement Program (CIP)

continued...

Preliminary Areas of Focus

- Procurement of professional and personal services for Port's defined categories I & II, including compliance with the CPO requirements
- Change Orders – evidence of documentation and due diligence over cost estimates, negotiation, monitoring, and approval. Consider change and impact on the original scope of work.
- Performance measures - assess established performance measures for reasonableness, practicality, and effectiveness in measuring intended outcomes

Capital Improvement Program (CIP)

continued...

Preliminary Areas of Focus (continued...)

- Contract payments:
 - Professional and Personal Services – adequate support and review of contract payment requests
 - Small Works – adequate support and review of contract payment requests, including allowable labor and material; and overhead markups
 - Major Construction - adequate support for percentage of completion, subcontract markups, etc.,

Billings and Receivables

Audit Objective

To determine if the Port has implemented effective controls to ensure that the Billing and Accounts Receivable system is efficient, complete, and accurate.

Audit Scope

Current Practices

Audit Planning Updates

Billings and Receivables

continued...

Financial Highlights

BUSINESS_UNIT	2008	2009
LEASS	289,514,650	301,448,768
LEASM	84,334,802	83,843,897
CORPS	65,747,487	63,765,425
CONT	21,907,981	17,450,720
AIRFD	14,592,234	4,381,729
GRACC	9,914,653	9,564,153
SHILS	8,010,704	8,681,757
CORPM	4,320,106	6,928,789
CARGP	3,265,438	3,467,587
FTPP	2,490,656	2,572,405
GRPIN	1,453,602	1,419,827
IDACC	570,174	489,982
HIM	431,144	432,144
MIC	192,624	153,305
FTZ	10,000	0
HOUSE	3,600	6,400
BHRBM		44,867
Grand Total	506,759,855	504,651,757

Billings and Receivables

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Audit procedures Completed or in Progress

- Identification of potential risks facing a Billing and Accounts Receivable function.
- Control identification based on interviews with key personnel and a complete understanding of the procedures.
- In-depth data analysis.
- Risk assessments.
- Review external auditor's working papers.

Billings and Receivables

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Preliminary Areas of Focus

- Logical separation of duties including system access
- Account Receivable Aging
- Credits
- Pier 69 miscellaneous receipting and cash handling

2010 Audit Work Plan Progress Update

2010 Audit Work Plan - Progress Update

- Audit Committee Approved 2010 Audits
 - » 35 individual engagements

- Completed and In-Progress Audits
 - » 23 audits (65%) of the approved audits
 - » Non-scheduled reviews
 - ❖ Payment Card Industry (PCI) compliance over credit card information

- Completed five 2009 audits in the 1st Quarter of 2010