



Port of Seattle

Internal Audit Report

Comprehensive Operational Audit--Central Processing System

Asset Management

January 1, 2010 to July 31, 2011

Issue Date: October 4, 2011
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**Internal Audit Report
Asset Management System
January 1, 2010 to July 31, 2011**

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Transmittal Letter

We have completed an audit of the Port's asset management system. The asset management system involves many departments at the Port; however, our audit focused on the functions performed by the Capital Services team within Accounting and Financial Reporting Department.

The purpose of the audit was to assess controls and determine whether:

- 1) Newly created assets are entered in the asset management system timely, efficiently and completely.
- 2) Asset retirements are recorded in asset management in a timely, efficient and complete manner.
- 3) The capital asset list used for the physical inventory in all Divisions is accurate and complete.
- 4) Capital Services new asset creation and retirement processes are effective and complete.

We reviewed information relating to the period between January 1, 2010 and July 31, 2011.

Management has the primary responsibility to establish and implement effective controls. Our role 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. The audit was planned and performed to obtain reasonable assurance that department controls are adequate and operating effectively as intended.

Based on the audit procedures performed, Capital Services has established adequate and effective controls related to asset management.

We extend our appreciation to Capital Services Management and staff for their assistance and cooperation during the audit.

A handwritten signature in black ink, appearing to read "Kirangi".

Joyce Kirangi, CPA
Internal Audit, Director

Executive Summary

Audit Scope and Objective The purpose of the audit was to assess controls and determine whether:

- 1) Newly created assets are entered in the asset management system timely, efficiently and completely.
- 2) Asset retirements are recorded in asset management in a timely, efficient and complete manner.
- 3) The capital asset list used for the physical inventory in all Divisions is accurate and complete.
- 4) Capital Services new asset creation and retirement processes are effective and complete.

We reviewed information relating to the period between January 1, 2010 and July 31, 2011.

Background The Port's investment in capital assets includes land, air rights, facilities and improvements, equipment, vehicles, furniture and fixtures, and construction work in progress. As of December 31, 2010, the Port had \$5.5 billion in capital assets (net of accumulated depreciation). The Port's investment in capital assets increased by \$34.2 million in 2010. During 2010, completed projects totaling \$73.8 million were closed from construction work in progress to their respective capital accounts.

The asset accounting management functions for the Port are handled centrally by the Capital Services team within the Accounting and Financial Reporting Department. Capital Services tracks information related to construction work in progress, asset creation, asset existence, and asset retirement for use in asset management and financial reporting.

Audit Result Summary Capital Services has established adequate and effective controls related to asset management.



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Background

The asset accounting management functions for the Port are handled centrally by the Capital Services team within the Accounting and Financial Reporting Department. Port policy dictates that capital assets be identifiable and have to meet the following criteria:

- 1) The Port has ownership of the capital asset (i.e. the Port has control over asset use);
- 2) The capital asset has a useful life of three or more years;
- 3) The total capital project costs are greater than \$20,000.

Note: The capitalization threshold under #3 may include multiple components that form a system asset. For example, a camera surveillance security system across multiple terminals may be linked through shared software.

As of July 28, 2011, the Port has 26,130 in-service capital assets with a historical cost of \$6.6 billion across several different categories as follows:

In-Service Capital Assets by Category

Asset Category	Historical Cost (in millions)
Land	\$1,652
Building	1,485
Utility and Other Systems	1,047
Structures	1,046
Roads & Grounds	584
Land and Air Rights	306
Equipment	260
Improvements	125
Software	43
Vehicles	34
Intangibles	26
Furniture	17
Art Work	7
Total	\$6,631

Source: PeopleSoft

Capital Services is responsible for the project costing and asset management information systems, where they track information reported by the individual business units related to construction work in progress, asset creation, asset existence, and asset retirement. This information is used to generate the physical asset inventory list and in financial reporting.

Audit Objectives

The purpose of the audit was to assess the controls and to determine whether:

- 1) Newly created assets are entered in the asset management system timely, efficiently and are complete.
- 2) Asset retirements are recorded in asset management in a timely, efficient and complete manner.
- 3) The capital asset list used for the physical inventory in all Divisions is accurate and complete.
- 4) Capital Services new asset creation and retirement processes are effective and complete.

Highlights and Accomplishments

- Capital Services implemented a staff cross-training approach towards many of its functions. The cross-training approach is intended to promote departmental effectiveness and efficiency.

Audit Scope and Methodology

We reviewed information for the period January 1, 2010, through July 31, 2011. We utilized a risk-based audit approach from planning to test sampling. We performed a multitude of information gathering methods including research, interviews, observations, and analytical reviews in order to obtain a complete understanding of Capital Services' operations and environment. We conducted an assessment of significant risks and identified controls to mitigate those risks. We evaluated whether the implemented controls were functioning as intended.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1) Timely Recording of Assets

We identified 349 asset additions between 1/1/2010 and 7/31/2011 as a test population to determine whether Capital Services records assets in the Asset Management System in a timely manner. Of 349 assets, we focused on those that were posted more than 30 days after their in-service date. After having considered a time lag between the enter/post date and multiple line items for the same asset number, we identified a population of 154 assets. A sample of 20 assets was judgmentally selected from the population for testing based on the following criteria:

- Selection of assets from 20 different organizational units;

- one selection of multiple similar assets with the same asset number or type of asset for same project, (i.e., MDA Video Implementation);
- A variety of asset types (equipment, buildings, systems, vehicles) concentrating on those <\$500,000.

2) Timeliness of Asset Retirements

We tested to determine whether Capital Services processes asset retirements in a timely manner. We reviewed retired assets between January 1, 2010 and July 31, 2011 to establish a test population. We selected ten retirement transactions by focusing on assets that were entered into the system more than thirty days after the out-of-service-date. The retired assets were a mix of assets from across the Port's divisions.

3) Asset Inventory

We reviewed the queries used to produce the capital asset lists for the physical inventory to determine whether any capital assets were being inappropriately excluded from the inventory. We compared the queries used by Capital Services to produce the lists for the Aviation and Corporate divisions with the queries used by Seaport Finance to produce the lists for the Seaport and Real Estate divisions. The objective was to determine whether the queries resulted in complete asset lists.

4) Effectiveness of Capital Services in Asset Creation and Retirement

To determine the effectiveness of Capital Services operations in asset activation or retirement, we reviewed projects between 1/1/2010 and 7/31/2011. A total of ten projects were selected based on the following risk-based criteria:

- Excluded projects >500K which is the materiality threshold for Moss Adams assets and a focal point of their review procedures.
- Included projects under but close to Commission Approval requirements (\$300,000) and those between \$300,000 and \$400,000 for Commission Approval.
- Included those with an apparent budget overrun (budget adjustment approval required)

Audit Observation that is Outside the Scope of this Audit

The primary focus of the audit was whether the central asset accounting system, as operated and managed by AFR, is effective and efficient (i.e., timely) with its processes. To test for the timeliness, we used a risk-based approach. We conducted an asset analysis to determine the timeliness of asset creation and retirement. Through the analysis, we identified a number of instances where the creation or retirement of assets in PeopleSoft was delayed, ranging from 30 to 120+ days. *We further tested the transactions that appeared late* and observed that the delay was



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caused by some Port departments not timely submitting the necessary documents to Capital Services.

Since our primary focus of the audit was the central accounting system, we will follow up on this issue when we conduct departmental audits.

Conclusion

Capital Services has established adequate and effective controls related to asset management.