



Internal Audit Report

Seaport Container Management **Comprehensive Operational Audit**

January 1, 2010 to December 31, 2010

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Table of Contents

Transmittal Letter 3

Executive Summary 4

Background 5

Audit Objective 5

Department Highlights and Accomplishments..... 6

Audit Scope and Methodology..... 6

Conclusion..... 7

Transmittal Letter

We have completed a comprehensive operational audit of Seaport Container Management Department. The purpose of the audit was to determine whether management has adequate controls to ensure effective operations and compliance with applicable rules and regulations. We reviewed information relating to calendar year 2010.

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.

The Container Management Department has adequate and effective controls to ensure operations are effective and in compliance with applicable requirements.

We extend our appreciation to Seaport Container Management Department and staff for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Internal Audit, Director

Executive Summary

Audit Scope and Objective Our audit objective was to determine if management has implemented adequate controls to assure that:

1. Terminal and crane rent lease agreements are effectively managed.
2. Lease and billing information is effectively monitored in PROPworks.

We reviewed information related to the period from January 1, 2010 to December 31, 2010.

Background Container operations as a group has four full time equivalents (FTEs) and manages five terminals located on 500 plus acres. Terminal space is leased to and operated by private companies that include Eagle Marine Services, SSA Terminals, Total Terminals International, and Northland Services. The department is responsible for establishing terminal and crane lease agreements, and managing the lease agreements to ensure that Port assets are properly maintained.

The department generates 60+ million in operating revenues and incurs 2+ million in operating expenses. Terminal and crane rent billing is a shared responsibility between the department, Real Estate Lease Administration, and Port's Accounting Department.

Audit Result Summary Based on the audit procedures performed, Container Management Department has adequate and effective controls to ensure that terminal and crane rent lease agreements are effectively managed. In addition, we observed that lease and billing information is effectively monitored.



**Internal Audit
Seaport Container Management
Comprehensive Operational Audit**

Background

The mission of the department is to provide cargo facilities, equipment, and services to enable customers to move greater amounts of cargo through the Port of Seattle. Container operations include five terminals located on 500 plus acres. Terminal space is leased to private terminal operators as follows:

- Terminal 5 - Eagle Marine Services
- Terminal 18 - SSA Terminals
- Terminal 30 - SSA Terminals
- Terminal 46 - Total Terminals International
- Terminal 115 - Northland Services.

The department has four full time equivalents (FTEs) to manage lease agreements and generates approximately \$60+ million in operating revenues annually from terminal and crane rent. The department directly manages lease agreements, but terminal/crane rent billings are coordinated with Real Estate Lease Administration and Port's Accounting Department.

Summary of Operating Income and Expenses Related to Container Traffic

Operating Revenue	2008	2009	2010
Terminal 5	21,061,252	22,065,239	23,624,788
Terminal 18	15,481,152	16,678,702	16,858,234
Terminal 30	3,819,158	5,687,937	7,979,328
Terminal 46	12,226,494	12,012,460	12,572,521
Terminal 115	4,532,127	4,593,207	4,662,725
Total Operating Revenue	\$57,120,183	\$61,037,545	\$65,697,596
Operating Expenses			
Terminal 5	(74,951)	529,415	622,539
Terminal 18	758,577	1,103,935	589,583
Terminal 30	1,688,549	2,462,911	220,894
Terminal 46	1,286,080	578,493	488,937
Terminal 115	222,385	245,835	345,030
Total Operating Expenses	\$3,880,640	\$4,920,589*	\$2,266,983*

Source: PeopleSoft/Responsibility Reports

*significant decrease in expenses is due to project cancelations and delays in 2010.

Audit Objective

The purpose of the audit was to determine if management has implemented adequate controls to assure that:

1. Terminal and crane rent lease agreements are effectively managed.
2. Lease and billing information is effectively monitored in PROPworks.

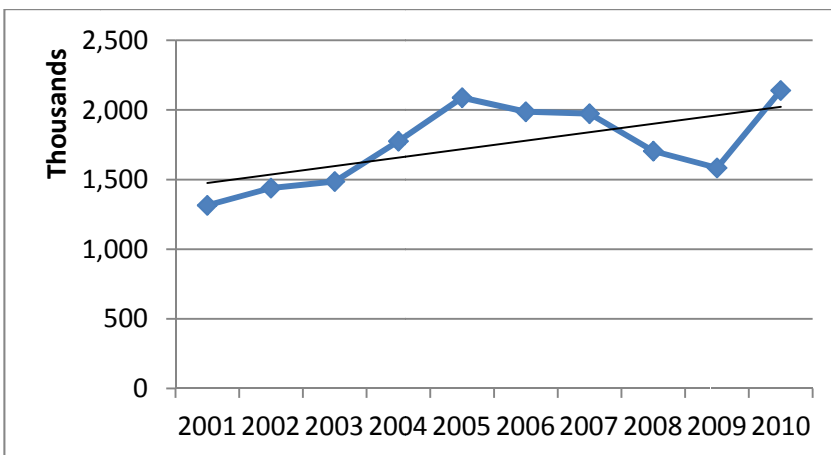
Department Highlights and Accomplishments

Faced with ever increasing competition in 2010, the department initiated a year-long Customer Support Package program to increase container traffic. The program included crane rent rebates and a thirty-day deferral of space rent payments.

The program contributed to:

- Record breaking cargo volume in 2010
- More than 2.1 million TEU's (twenty-foot equivalent units)
- Increase in operating revenue from 61.0 million in 2009 to 65.7 million in 2010

A summary of TEU's from 2001 to 2010 is as follows.



Source: Port of Seattle Container and Tonnage Statistics Reporting System

Audit Scope and Methodology

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 the Container Operations. We conducted an assessment of significant risks associated with Container Operations, and identified controls to mitigate those risks. We evaluated whether the implemented controls were functioning as intended. Based on the risk assessment, we established the area of audit focus.

Our additional detailed audit procedures on the area of audit focus can be grouped and summarized into three categories:

1. Updating billing information
2. Insurance & Surety monitoring
3. Maintenance of cranes & facilities

1. Updating Billing Information

a. Consumer Price Index

To determine the effectiveness of management controls to ensure complete and timely CPI adjustments to billing, we reviewed management use of CPI reminders in PROPworks for all five current leases. We recalculated 2010 lease amounts per terms and conditions of the agreements, and compared the amounts to the actual billed rates to determine whether the CPI adjustments were properly monitored.

b. Customer Support Package

We reviewed temporary cost reductions provided to the tenants in order to determine whether the Customer Support Package for the four applicable leases was effectively monitored. We reviewed the correspondence file for timely notification to the tenants of program initiation and termination.

2. Insurance & surety monitoring

To determine the effectiveness of management controls to ensure continuing adequate/sufficient insurance and surety coverage over Port's assets, we reviewed:

- Management use of the insurance and surety reminders in PROPworks, the Port's lease management system.
- Five leases for their adequacy and sufficiency in insurance and surety coverage, as defined in the agreements.

3. Maintenance of cranes & facilities

We identified management controls over proper maintenance of the Port's facilities and cranes by tenants. To determine the effectiveness of such controls, we reviewed:

- Nine of seventeen annual crane mechanical certifications and structural inspections to ensure timely certification and complete mitigation efforts of issues, if any, noted during the certification process.
- Three of the five annual terminal condition studies conducted by the Port.

Conclusion

Based on the audit procedures performed, Seaport Container Management Department has adequate and effective controls to ensure that terminal and crane rent lease agreements are effectively managed and billing information is effectively monitored.