INTERNAL AUDIT REPORT

AVIATION DIVISION – RECEIPTING OPERATIONS

Limited Operational Audit

January 1, 2013 – December 31, 2014, through the current time

ISSUE DATE: August 11, 2015
REPORT NO. 2015-08

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Aviation Division – Receipting Operations. We reviewed information for the period January 1, 2013 – December 31, 2014, through the current time.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the management and staff of the Aviation Division and Accounting and Financial Reporting for their assistance and cooperation during the audit.

Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Ruth Riddle, Senior Auditor	Borgan Anderson, Director, Aviation Finance and Budget
Jack Hutchinson, Manager	Rudy Caluza, Director, Accounting and Financial Reporting

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether Aviation Division management controls are adequate to ensure:

1. Manual receipts are complete.
2. Complied with applicable legal requirements.

We reviewed information for the period January 1, 2013 - December 31, 2014, through the current time. Details of our audit's scope and methodology are on page 6.

BACKGROUND

There are over 50 departments in the Aviation Division. We identified 38 departments with either known or possible receipting activity. For purposes of this audit, we define receipting activity as the following:

- Payments from customers (e.g., parking customers, airport tenants).
- Refunds from vendors (e.g., utility companies, equipment/tool suppliers).
- Payments from employees (e.g., payments for Port events, reimbursements of travel expenses).
- Payments from other organizations (e.g., reimbursements from other governments).

We submitted a preliminary survey to the 38 departments to determine the exact nature of their receipting activity.

We followed up with 26 departments, which we determined conducted receipting activity. From the 26 departments, we selected 5 for further detailed testing.

AUDIT RESULT

Management controls are adequate to ensure receipts are materially complete and in compliance with legal requirements that we deemed significant to the objectives of our audit.

BACKGROUND

There are over 50 departments within the Aviation Division. We identified 38 departments with either known or possible receipting activity. Of the 38, 26 conduct receipting activity, which we define as follows:

- Payments from customers (e.g., parking customers, airport tenants).
- Refunds from vendors (e.g., utility companies, equipment/tool suppliers).
- Payments from employees (e.g., payments for Port events, reimbursements of travel expenses).
- Payments from other organizations (e.g., reimbursements from other governments).

Of the 26 departments with receipting activity, some departments use automated receipting systems (e.g., Public Parking), but many of the departments handle payments manually. The manual receipting includes:

- Occasional employee reimbursements.
- Charitable campaigns (e.g., the Port's annual Community Giving campaign).
- Customer payments, which should go to the Port's lock box, but which are delivered by mail or in person to staff at the airport.
- Refunds from vendors, who send the money to the airport mailbox.
- Reimbursements from other organizations, which send the money to the airport mailbox.

These manual receipts are processed by myriad staff. Current procedure requires manual receipts to be processed using the Checks/Cash Deposits Form. This form is completed online and submitted to a secure mailbox within Accounting and Financial Reporting (AFR). The original check and a copy of the form (and any other supporting documents) are transmitted to AFR via interoffice mail.

FINANCIAL HIGHLIGHTS

AVIATION DIVISION - RECEIPTING ACTIVITY – 2013 – 2014				
MODE OF DEPOSIT TO BANK	2013	%	2014	%
Wire and ACH	$ 167,363,297	34%	$ 342,601,797	62%
Lock Box	142,293,097	29%	98,727,867	18%
Manual (P69) Via Armored Car (1)	106,225,833	22%	40,419,157	7%
Manual (Aviation) Via Armored Car	8,508,923	2%	9,526,993	2%
Credit Card	63,211,728	13%	65,213,633	12%
TOTAL DEPOSITS TO BANK	$ 487,602,878	100%	$ 556,489,447	100%
Source: PeopleSoft				
(1) In 2013, there was a high level of aviation manual receipting at P69 due to SLOA II and III payments				
sent to P69. These types of payments typically would have been remitted via lock box or ACH.				

The majority of receipts (e.g., >90% in 2014) are processed and deposited directly to the bank through a lock box, by Automatic Clearing House (ACH), by credit card, or by wire. Deposits to the bank using armored car represent manual receipting activity, which has high inherent risk of misappropriation and necessitates adequate management controls. The audit focused on these manual receipts processed in the Aviation Division.

HIGHLIGHTS AND ACCOMPLISHMENTS

- Money handling has been reduced to the extent practical. Armored car transports the manual deposits to the bank.
- As of late 2014, miscellaneous receipts (checks) are scanned daily into the bank records using desktop deposit scanner.
- Currency/coin receipts are minimal (from $.01 to $1,300 per month) reducing the risk of fraud. The deposits are made to the bank weekly.
- The Accounting and Financial Reporting (AFR) Department is updating its Guidelines and Policies for Cash Handling. (Note: Cash is defined to include "currency, coins, checks, wire, automatic clearing house (ACH) and payment cards (credit cards, debit cards and gift cards.")
- AFR plans to conduct Port-wide training in the Cash Handling Guidelines in late 2015.
- AFR is updating the form for processing manual receipts. It is developing a SharePoint work flow, which will replace the Checks/Cash Deposits Form.

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2013 - December 31, 2014, through the current time. We utilized a risk-based approach from planning to testing. We gathered information through surveys, interviews, observations, and data analysis, in order to obtain a complete understanding of the receipting operations. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

1. To determine whether management controls are adequate to ensure receipts are complete:

   We conducted in-person, follow-up surveys of the 26 departments with receipting activity. We compiled the results of the survey and assigned quantitative risk of 1 (low) to 5 (high) based on the following factors:

   - Amount of collections.
   - Types and method of collections.
   - Segregation of duties.

Based on the risk assessment, we selected the following five departments for further substantive testing:

- Three departments with manual receipting operations:

    o Aviation Business Development
    o Aviation Facilities and Infrastructure
    o Aviation Environmental Programs

- Two departments with automated receipting systems, but which prepare manual deposits:

    o Public Parking
    o Employee Parking

To determine whether receipts are complete, we conducted the following procedures:

- Performed surprise cash counts.
- Obtained independent confirmation of activity from vendors for a specified period of time and traced to bank and book.
- Obtained activity for a specified period of time from the receipting systems and traced to bank and book.

2. To determine whether in compliance with legal requirements, we verified whether receipts are processed within required timeline:
    - RCW 43.09.240 mandates within 24 hours.
    - Port Treasury will authorize a one-week delay in deposit, if circumstances warrant.

CONCLUSION

Management controls are adequate to ensure receipts are materially complete and in compliance with legal requirements that we deemed significant to the objectives of our audit.