

PORT OF SEATTLE
MEMORANDUM

DATE: December 1, 2015

TO: Audit Committee

FROM: Joyce Kirangi, Internal Audit Director



SUBJECT: New Banking Contract with Wells Fargo Audit Termination Memo - Deemed Low Risk

Included in the 2015 Audit Committee Annual Work Plan was a limited operational audit of the New Banking Contract with Wells Fargo Bank, N.A. (Wells Fargo). After conducting our planning and risk assessment, we have decided to terminate the audit. We did not identify significant risk and therefore performing additional audit procedures would add no value.

Background

On May 9, 2014, the Port of Seattle entered into a banking services contract (the Contract) with Wells Fargo. The initial term of the contract is five years commencing on August 1, 2014. At the Port's sole option, the contract may be extended two times for an additional one year term. Some of the significant contract terms include the following requirements:

- Previous day and current day reporting of receipts and disbursements (ACH, wire transfer, checks), returned items, and opening and closing ledger balances.
- Security measures explained in detail to protect the Port against fraud and compromise.
- Insurance coverage procured and maintained from carriers with an A.M. Best rating of no less than A minus VI. Insurance coverages include Commercial General Liability of \$2 million per occurrence and in aggregate, crime and fidelity of \$5 million per occurrence, and professional liability of \$5 million per loss.
- Invoices provided in accordance with the fee schedule and subject to review and analysis prior to payment.
- Wells Fargo resources must be identified so that all activities necessary to fulfill the contract are fulfilled competently and efficiently.

Banking services provided under this contract include cash and credit card payment processing made by Port customers, fraud prevention tools such as Payee Positive Pay, and payment disbursement options. Those options include payments made by check, wire transfer, or Automated Clearing House (ACH). The table below provides detail on the transaction type (method), amount, and count of transaction for both incoming and outgoing monies within the Port's main account for the period January 1 through August 27, 2015:

METHOD	INCOMING		OUTGOING	
	AMOUNT	COUNT	AMOUNT	COUNT
ACH / ELECTRONIC FUND TRANSFER	\$ 418,711,612	5,374	\$ 168,745,377	4,737
CASH / CHECK	104,887,445	4,606	44,170,393	4,711
WIRE	1,233,040,330	382	1,430,069,991	620
TOTAL	\$ 1,756,639,387	10,362	\$ 1,642,985,761	10,068

Data Source: PeopleSoft Accounts Payable Voucher Vendor Payment File, Treasury Wire Log, Bank Credit Report

Audit Scope and Methodology

To assess risk with contract requirements, internal audit performed audit procedures to identify and test management controls. Those procedures provided the foundation for an assessment of residual risk in determining whether additional audit testing is necessary. Those procedures included:

- Interviews with management and staff within Accounting and Financial Reporting including Accounts Receivable and Accounts Payable, Treasury, and Information Communication Technology.
- Review of the process management has established to verify insurance coverage meets or exceeded Contract requirements and remains current throughout the Contract period.
- Confirmation that Port employees were provided with names and phone numbers of Wells Fargo representatives. These contacts include inquiries and questions related to treasury management, merchant credit card processing, account analysis, and overall relationship issues.
- Monthly reconciliations of invoices for banking service charges are performed and approved prior to payment. Monthly payments between January and August 2015 have ranged between \$108 and \$146 thousand.
- Observation of the process management has implemented using Wells Fargo's - Commercial Electronic Office (CEO). CEO is a web based portal that a limited number of Port employee's access to release wire transfers and ACH transactions.
- Verification that Wells Fargo is listed as an approved bank with sufficient deposit capacity by the Public Deposit Protection Commission.
- Verification that management has the ability to obtain prior and current day reporting to perform various functions including account reconciliations.

Conclusion

Our testing indicates that management has implemented controls so that contract terms and conditions have been met and will continue to be fulfilled. Further, through discussions with management and review of documentation, Internal Audit (IA) determined that Wells Fargo is providing service consistent with those stated in the contract. Accordingly, after careful consideration, IA determined that further testing, in addition to the procedures already performed, would not add significant value.