



INTERNAL AUDIT REPORT

LEASE AND CONCESSION AGREEMENT AUDIT

PIER 86 GRAIN TERMINAL

JANUARY 1, 2015 – AUGUST 31, 2016

ISSUE DATE: MARCH 24, 2017

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of Pier 86 Grain Terminal. We reviewed information for the period 01/01/2015 - 08/31/2016.

We conducted the 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 Maritime, Economic Development Department, Accounting and Financial Reporting for their assistance and cooperation during the audit.

A handwritten signature in black ink that reads "Kirangi".

Joyce Kirangi, CPA, CGMA
Director, Internal Audit

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Dan Chase, CPA Internal Audit Manager, Acting	Melinda Miller, Dir. RE Asset Management Lindsay Pulsifer, Managing Dir. Maritime Rudy Caluza, Dir. AFR

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

1. The lessee complied with significant lease provisions.

We reviewed and analyzed records for the Agreement period. For purposes of rendering our opinion, we focused on the period January 1, 2015 through August 31, 2016.

Details of our audit's scope and methodology are on page three.

BACKGROUND

The Pier 86 Grain Terminal was constructed by the Port in 1970. The electronic controls and mechanical devices installed in the terminal made it one of the most automated grain facilities in the world, insuring maximum speed and efficiency in moving grain from rail cars to silos or directly to a ship's hold.

The Washington State Department of Agriculture is the local U.S. regulatory representation, responsible for independent certification of the grain quality and quantity.

Under the lease and concession agreement, Louis Dreyfus operates the terminal and pays the Port a rental fee plus a concession based on loaded ship tonnage.

AUDIT RESULT

The lessee materially complied with significant provisions of the Lease Agreement.

BACKGROUND

The Pier 86 Grain Terminal was constructed by the Port in 1970. The electronic controls and mechanical devices installed in the terminal made it one of the most automated grain facilities in the world, insuring maximum speed and efficiency in moving grain from rail cars to silos or directly to a ship's hold.

Total grain storage capacity is almost 4 million bushels (over 101,000 metric tons) and is divided into 8 shipping bins, 60 large tanks, 39 interstices, and 13 house bins.

The dock is 600 feet long and can accommodate a 1,400 foot vessel.

All grain is received by rail hopper cars. The two rail pits combined average unload rate is 20-22 cars per hour. A unit train of 100-110 cars can be unloaded in an average of five to six hours.

The two new direct transfer drag conveyors enable grain from the inbound rail system to go directly into the ships bins without first going into the house bins. This reduces energy costs and breakage and can speed elevation rates to the ships bins.

Vessels are loaded using two belt conveyor systems with five loading spouts. The maximum load rate is approximately 20,000 metric tons in a 10-hour shift. The average Panamax vessel is loaded in about five to six shifts.

The Washington State Department of Agriculture is responsible for independent certification of the grain quality and quantity.

Under the lease and concession agreement, Louis Dreyfus operates the terminal and pays the Port a rental fee plus a concession based on loaded ship tonnage.

FINANCIAL HIGHLIGHTS

Net operating income was \$4.1 million in 2015.

Grain volume from January through August 2016 was 2,500 thousand metric tons.

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2015 - August 31, 2016. We utilized a risk-based audit approach from planning to testing. We gathered information through document requests, interviews, observation, and data analysis.

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

- We observed the operations at the Grain Terminal, including the movement and automated measurement of grain and the loading of vessels.
- We tested a sample of vessels loaded for the three months with the highest loaded tonnage. These 25 vessels account for 27% of loaded tonnage in the audit period.
 - Agreed the Mate's Receipt to the WA Official Grain Weight Certificate
 - Verified the Port invoice was complete and accurate
- We verified insurance coverage and surety meets or exceeds contract requirements.

CONCLUSION

The lessee materially complied with significant provisions of the Lease Agreement.