



# INTERNAL AUDIT REPORT

LIMITED OPERATIONAL AUDIT

PROMOTIONAL HOSTING

TRADE/BUSINESS AND COMMUNITY DEVELOPMENT

JANUARY 1, 2015 – DECEMBER 31, 2016

ISSUE DATE: JULY 21, 2017

REPORT NO. 2017-09

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## TRANSMITTAL LETTER

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of internal control monitoring and compliance of promotional hosting and trade/business and community development expenses. We reviewed information for the period January 1, 2015 through December 31, 2016.

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 Accounting and Financial Reporting and Legal for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA  
Director, Internal Audit

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Spencer Bright, CIA, CFE, CGAP, Senior Auditor	Debbi Browning, Assistant Director AFR
Dan Chase, CPA, Audit Manager- Acting	Rudy Caluza, Director AFR
	Dan Thomas, Chief Financial Officer
	Craig Watson, General Counsel

## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

- Promotional hosting and Trade/Business and Community Development (TBCD) expenses were reasonable and directly related to promoting trade or industrial development.
- Port management monitoring controls were adequate and sufficient to ensure compliance with state laws and Port Policy.

We reviewed information for the period January 1, 2015 through December 31, 2016.

### BACKGROUND

Promotional hosting activities are explicitly related to promoting trade and industrial development. The activities may include furnishing customary meals, refreshments, lodging, transportation or any combination of those items in connection with business meetings, social gatherings and ceremonies honoring persons or events.

The TBCD program is for legally authorized costs and expenses incurred for events and activities that relate to the Port's specific statutory purpose and authority. TBCD events and activities are designed to or have the effect of:

- Promoting trade or tourism in the region
- Informing or educating the general public about the Port of Seattle
- Promoting or increasing the awareness of Port facilities, programs, or services

### AUDIT RESULT

In general, internal controls were reasonable and sufficient to ensure compliance with state laws and Port Policy. However, we identified instances where internal controls were not always effective (see schedule of findings and recommendations).

To continue our efforts to add value and strengthen the control environment at the Port, we noted certain opportunities to strengthen existing controls over promotional hosting events. Those opportunities were communicated to Port management in a separate letter dated July 21, 2017.

## BACKGROUND

Promotional hosting activities are explicitly related to promoting trade and industrial development. The activities may include furnishing customary meals, refreshments, lodging, transportation or any combination of those items in connection with business meetings, social gatherings and ceremonies honoring persons or events.

Promotional hosting may also include reasonable and customary entertainment and souvenirs of nominal value, incidental to such events. To be allowable, promotional hosting expenses must be reasonable and directly related to promoting trade or industrial development. The Port must reasonably believe that persons hosted could sufficiently influence trade or industrial development.

The Trade, Business, and Community Development (TBCD) program is for costs and expenses incurred for events and activities that relate to the Port’s specific statutory purpose and authority. TBCD events and activities are designed to or have the effect of:

- Promoting trade or tourism in the region
- Informing or educating the general public about the Port of Seattle
- Promoting or increasing the awareness of Port facilities, programs, or services

TBCD events, activities and their costs are approved in advance by the Development Funding Review Committee per Port policy.

## FINANCIAL HIGHLIGHTS

The Port’s actual expenses for the audit period are as follows:

<b>PROMOTIONAL HOSTING AND TRADE/BUSINESS AND COMMUNITY DEVELOPMENT EXPENSES</b>			
<b>ACCOUNT</b>	<b>2015</b>	<b>2016</b>	<b>TOTAL</b>
66100- Promotional Hosting	\$335,244	\$264,700	\$599,944
66400- Trade/Business Community Development	\$827,139	\$817,007	\$1,644,146
<b>TOTAL</b>	<b>\$1,162,383</b>	<b>\$1,081,707</b>	<b>\$2,244,090</b>

Data Source: PeopleSoft Financials

## AUDIT SCOPE AND METHODOLOGY

We utilized a risk-based audit approach from planning through testing for the period January 1, 2015 through December 31, 2016. We obtained a complete understanding of legal and policy requirements through document review, staff interviews, observation, and data analysis. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

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

1. To determine if promotional hosting and Trade/Business and Community Development (TBCD) expenses were reasonable and directly related to promoting trade or industrial development, we:
  - i. Created a detail transaction report from PeopleSoft Financial System which included all expenditures charged to promotional hosting and TBCD.
  - ii. Used a risk based approach, selected 74 transactions for both promotional hosting (40 transactions) and TBCD (34 transactions). Reviewed supporting documentation to verify the transactions were properly supported, reasonable and directly related to promotional hosting or TBCD.
  - iii. Re-calculated the promotional hosting limit specified by State law and compared to expenses.
2. To determine whether management controls were effective we:
  - i. Gained an understanding of the internal control process through discussions with Port management and review of documentation.
  - ii. Evaluated the design and operating effectiveness of internal controls:
    - a. Selected a total of 20 transactions representing both promotional hosting and TBCD for 2015 and 2016.
    - b. Reviewed the documentation to determine whether the internal control process was working as intended.

## CONCLUSION

In general, internal controls were reasonable and sufficient to ensure compliance with State laws and Port Policy. However, we identified instances where internal controls were not always effective (see issue one).

To continue our efforts to add value and strengthen the control environment at the Port, we noted certain opportunities to strengthen existing controls over promotional hosting events. Those opportunities were communicated to Port management in a separate letter dated July 21, 2017.

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

### 1. THE PORT'S APPROVAL PROCESS OF TBCD AND PROMOTIONAL HOSTING EXPENSES WERE NOT ALWAYS EFFECTIVE TO ENSURE COMPLIANCE WITH STATE LAWS AND PORT POLICY

Promotional hosting expenses must enhance or promote trade or development of the Port or the region. It is also anticipated that any beneficiary of promotional hosting expenses is capable of influencing or controlling decisions that impact enhanced trade or development. The Trade/Business and Community Development (TBCD) account is for legally authorized costs and expenses incurred for events, programs, or activities that relate to the Port's specific statutory purpose and authority. TBCD is designed to have the effect of promoting trade or tourism in the region. Additionally, TBCD is used to educate the public about the Port's facilities, programs and services.

Port Policy (AC-4) requires TBCD events to be approved in advance by the Development Funding Review Committee. The expenses are required to be coded to the TBCD general ledger account, and used to promote trade or tourism in the region; inform or educate the general public about the Port and its facilities, programs or services. Further, Policy AC-4 authorizes members of the Port Commission, The Chief Executive Officer, other exempt positions in the Executive Department, all line of business managers/department directors, and assistant department directors to incur promotional hosting expenses.

We tested 40 promotional hosting transactions and 34 TBCD transactions and noted the following exceptions:

#### Trade Business and Community Development:

- Three transactions at a total cost of \$3,130 were incorrectly charged to TBCD.
- One event that included an alcohol bar package at a cost of \$965. Alcohol purchases are not allowed for TBCD events.
- A welcome dinner comprised of three members of the executive leadership team and their spouses at a cost of \$665. Port employees are normally responsible for reimbursing the Port for any amounts incurred by the Port with respect to spouse attendance. The dinner included two \$50 corking fees. Alcohol is not an allowable TBCD expense. The event was originally approved as promotional hosting and subsequently changed to TBCD but was not approved by the Development Funding Review Committee.
- Although management asserted that the Development Funding Review Committee reviewed and approved requests, documentation was not maintained to support the approvals.
- Four instances where the TBCD form was approved after the expenditures were incurred.

#### Promotional Hosting:

- Three procurement card transactions with a total cost of \$2,285 were incorrectly charged to promotional hosting.
- One procurement card transaction for promotional items for the Northwest Seaport Alliance at a total cost of \$4,554. A list of the recipients of these items was not maintained.

Those charged with oversight of promotional hosting and TBCD programs do not perform adequate review of supporting documentation when procurement cards are used.

Further, documentation was not maintained to support that the Development Funding Review Committee reviewed and approved all TBCD expenses prior to the General Counsel's approval of TBCD forms.

Expenses that did not meet the requirements of promotional hosting and TBCD were charged to the programs without detection. Further, without documentation of the Development Funding Review Committee's approval, Port management is unable to provide support that the governance review process over TBCD expenses is followed in accordance with Policy AC-4.

**Recommendations:**

We recommend Port management review the current process over procurement card purchases and identify ways to ensure expenses charged to promotional hosting or TBCD are for allowable purposes.

We also recommend Port management maintain adequate documentation to support the Development Funding Review Committee's approval of TBCD expenses.

***Management Response:***

*Management agrees with the recommendation to strengthen the review of P-card transactions related to promotional hosting or TBCD expenses. Management also agrees with the recommendation to maintain better documentation of the TBCD Review Committee's decisions. The Port is in the process of replacing the Bank of America P-card Works system, whose functionality has proven to be limited in meeting the Port's review and approval documentation requirements for promotional hosting and TBCD expenses transacted on P-cards. The conversion will be to the online Concur P-card module, which will provide enhanced internal control capabilities similar to the way the Port is successfully administering employee travel and business expense transactions using the online Concur Travel Expense module. The contract amendment is currently pending with the Central Procurement Office for execution, after which the Port will move in a timely manner to implement process control enhancements for P-card promotional hosting and TBCD transactions.*