

INTERNAL AUDIT REPORT



**Limited Contract Compliance Audit
Louis Dreyfus Company Washington LLC**

January 2020 – December 2022

Issue Date: August 18, 2023

Report No. 2023-11

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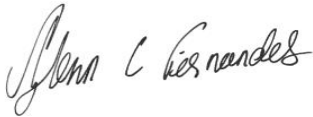
Executive Summary

Internal Audit (IA) completed an audit of the Lease Agreement (Agreement) between LDC Washington LLC (Louis Dreyfus Company) and the Port of Seattle (Port). The period audited was January 1, 2020, through December 31, 2022. The audit was performed to determine whether Louis Dreyfus Company (Louis Dreyfus) reported Concession Fees related to Tonnage Rent were complete, properly calculated, and remitted timely to the Port.

Louis Dreyfus is the operator of the Port of Seattle's (Port's) Grain Facility at Terminal 86. The terminal is a completely automated grain facility due to a wide array of sophisticated electronic controls and mechanical devices in place. This assures the quick and efficient movement of commodities from trucks and/or rail cars to silos for storage and ships' holds for export. Total grain storage capacity is almost 4 million bushels, which is over 101,000 metric tons. Vessels are loaded using two belt conveyor systems with five loading sprouts, which allows for a maximum load rate of approximately 20,000 metric tons in a 10-hour shift. The Washington State Department of Agriculture is responsible for independent certification of the grain quality and quantity.

We concluded that Louis Dreyfus had materially complied with the terms of Agreement, specifically that Concession Fees were accurate, complete, and remitted timely to the Port. No issues were identified requiring a management response.

We extend our appreciation to management and staff of the Economic Development and Accounting & Financial Reporting (AFR) Departments for their assistance and cooperation during the audit.



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Director, Internal Audit

Responsible Management Team

Rudy Caluza, Director, Accounting and Financial Reporting
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Background

Louis Dreyfus Company (Louis Dreyfus) is a French merchant firm founded in 1851. Today, the company is involved in diverse industries worldwide which includes agriculture, food processing, international shipping, and finance. Since 1909, Louis Dreyfus has had an active presence in the US and currently employs over 1,000 people nationwide. The company is a top exporter of various agricultural commodities, such as cotton, soybeans, wheat, and corn.

As for its local presence in Seattle, Louis Dreyfus is the operator of the Port of Seattle's (Port's) Grain Facility at Terminal 86. The terminal is a completely automated grain facility due to a wide array of sophisticated electronic controls and mechanical devices in place. This assures the quick and efficient movement of commodities from trucks and/or rail cars to silos for storage and ships' holds for export. Total grain storage capacity is almost 4 million bushels, which is over 101,000 metric tons. Vessels are loaded using two belt conveyor systems with five loading sprouts, which allows for a maximum load rate of approximately 20,000 metric tons in a 10-hour shift. The Washington State Department of Agriculture is responsible for independent certification of the grain quality and quantity.

Under the lease agreement between the Port and Louis Dreyfus signed November 1, 2014, Louis Dreyfus operates the terminal and pays the Port a monthly base rental fee plus a concession fee (tonnage rent) based on loaded ship tonnage. Monthly tonnage rent is calculated based upon the total number of bushels of grain, corn, soybeans, and other commodities, exported in a crop year (September 1st to August 31st of the following year). Currently, tonnage fee rate per metric ton ranges from approximately \$0.47 to \$1.16 depending on total volume for the year.

The table below reflects the yearly base rent and tonnage rent during the years being audited:

| Year | Tonnage Rent | Base Rent | Total |
|--------------|----------------------|---------------------|----------------------|
| 2020 | \$ 4,273,743 | \$ 1,097,511 | \$ 5,371,254 |
| 2021 | \$ 5,451,248 | \$ 1,082,405 | \$ 6,533,652 |
| 2022 | \$ 5,077,095 | \$ 1,085,105 | \$ 6,162,200 |
| Total | \$ 14,802,086 | \$ 3,265,021 | \$ 18,067,106 |

In terms of the billing process, a written report based upon Louis Dreyfus' crop year forecast is submitted to the Port on or before August 20th of each year to determine the tonnage fee to be applied during the forthcoming crop year. At the end of each crop year, a reconciliation is then subsequently performed based upon the actual volume exported for said year. If any adjustment is necessary, whether it be for the Port or Louis Dreyfus, this is settled within 60 days after the end of each crop year. Lastly, payment is due within 10 business days from receipt by Louis Dreyfus. Otherwise, a late fee of \$1,000 is imposed, in addition to the owed installment of rent, after the 10th day.

The table below reflects the breakdown of commodities exported during the years being audited:

| Commodity (in Metric Tons) | Year | | |
|-------------------------------|------------------|------------------|------------------|
| | 2020 | 2021 | 2022 |
| Yellow Corn | 1,240,437 | 1,904,159 | 1,859,757 |
| Soybeans | 2,751,841 | 1,485,865 | 1,870,459 |
| Grain Sorghum | 247,526 | 467,779 | 660,395 |
| Total | 4,239,804 | 3,857,803 | 4,390,611 |

Audit Scope and Methodology

We conducted the engagement 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 conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

In some instances, we used non-statistical random and/or judgmental sampling methods to determine the samples selected for our audit test work. In those cases, the results of the work cannot be projected to the population as a whole.

The period audited was January 2020 through December 2022 and included the following procedures:

Concession Fees Completeness, Accuracy, and Timeliness

- Reviewed relevant documents (e.g., Lease Agreement, Grain Billing Adjustment Worksheets, Rates Schedule, etc.) to gain an understanding of the calculation of Concession Fee (Tonnage Fee) payments.
- Tested a sample of 18 vessels (6 for each audit year, across three different types of commodities: Yellow Corn, Soybeans, and Grain Sorghum). These 18 vessels account for 30%, 40%, and 50% of loaded Yellow Corn, Soybeans, and Grain Sorghum tonnage for the three years, respectively.
 - Agreed the Mate's Receipt to the respective WA Official Grain Weight Certificate.
 - Verified and ensured Port Invoice was complete and accurate, matching the terms on the Mate's Receipt and Grain Weight Certificate.
 - Investigated and reconciled any differences, as necessary.
- Recalculated and verified tonnage rate being billed during the 9/1/2020 to 8/31/2021 crop year, based upon the total volume of commodities loaded for said year.
- Traced concession payments to Port records to verify payments were received timely, and if not, late fees were assessed appropriately.

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

| Rating | Financial Stewardship | Internal Controls | Compliance | Public | Commission/ Management |
|---------------|-----------------------|---|--|--|--------------------------------------|
| High | Significant | Missing or not followed | Non-compliance with Laws, Port Policies, Contracts | High probability for external audit issues and / or negative public perception | Requires immediate attention |
| Medium | Moderate | Partial controls Not functioning effectively | Partial compliance with Laws, Port Policies Contracts | Moderate probability for external audit issues and / or negative public perception | Requires attention |
| Low | Minimal | Functioning as intended but could be enhanced | Mostly complies with Laws, Port Policies, Contracts | Low probability for external audit issues and/or negative public perception | Does not require immediate attention |