

INTERNAL AUDIT REPORT

Operational Audit

Fishermen's Terminal

January 2022 – December 2022

Issue Date: March 20, 2023

Report No. 2023-03

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Executive Summary

Internal Audit (IA) completed an audit of Fishermen's Terminal for the period January 2022 through December 2022. The audit was performed to evaluate billing processes, to evaluate segregation of duties, and to assess internal controls, including whether standard operating procedures were drafted and followed. The audit did not include PeopleSoft Financials.

This audit was requested by Maritime Management to assist them in evaluating if certain processes were being followed. Specifically requested was our assessment to determine if revenue billing was complete and accurate.

We concluded that billing of moorage and berthage was accurate and complete. However, errors were identified in revenue of auxiliary services, and we concluded that billing and collection processes need to be more holistically understood, documented, and followed. During our audit, roles and responsibilities were sometimes indistinct, making it unclear who is overseeing and responsible for its accuracy.

As part of our audit, we performed a walkthrough of Fishermen's Terminal, Salmon Bay Marina and any associated properties at the location. We noted the aging infrastructure at Salmon Bay Marina (SaBM), the net sheds at Fishermen's Terminal, and at the building that is slated to become the Maritime Innovation Center. Of particular concern was the roof at SaBM, which is at risk of structural failure. We reviewed an engineer's assessment report, requested by Maritime Management, that identified "**significant risks of structural instability**" and "**notable risk of fire**" due to the lack of a sprinkler system. The cost to repair the existing structure was estimated at \$1.3 million, removal of the roof was \$2.8 million, while a total roof replacement was estimated at \$13.5 million. Regardless of which alternative is chosen, the report highlights safety concerns, which if left unaddressed, could result in property damage, loss of life, and to a lesser extent, reputational harm.

Port Management was varied in their support of the initial purchase of SaBM. On December 5, 2017, Port Commission approved the purchase with a vote of four to one for \$15,679,120. As a municipal corporation that contributes to economic development in Seattle, SaBM adds to the existing portfolio of marinas owned and operated by the Port.

One medium rated issue is listed below and discussed in more detail, beginning on page six of this report.

1. **(Medium)** - Billing and collection procedures at Fishermen's Terminal were informal and internal controls needed to be strengthened. We identified underbilling of revenue and a sizable accounts receivables balance primarily managed by one individual.



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Director, Internal Audit

Responsible Management Team

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Kenny Lyles, Director Maritime Operations and Security

Background

Fishermen's Terminal

Fishermen's Terminal opened in 1914 and serves as the home port for Seattle's commercial fishing fleet. In 2002, it began accepting non-commercial pleasure craft. Today, it serves more than 700 vessels and provides short-term and long-term freshwater mooring for both fishing and commercial vessels, as well as pleasure crafts. The facility also includes 227,000 square feet of office, retail, restaurant, and warehouse space. Reflected below is revenue for the last three years:

<u>Revenue Source</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Berthage and Moorage	\$2,175,639	\$2,175,067	\$2,358,758
Concession Services	657,232	614,430	663,961
Space Rental	148,541	107,867	120,390
Utility Sales Revenue	88,596	144,947	128,817
Other Equipment Rental	34,571	38,253	33,551
Maintenance Service Fees	11,028	16,003	12,516
Other Services Revenue	63,781	67,014	67,544
	<u>\$3,179,388</u>	<u>\$3,163,581</u>	<u>\$3,385,537</u>

Salmon Bay Marina

Salmon Bay Marina offers covered and uncovered freshwater monthly moorage for recreational boats. It is located just inside the Ballard Locks, next to the Ballard Bridge. Various services such as restrooms, laundry facilities, storage and lockers, parking, access to electrical outlets, and water/ garbage disposal, are available for customers. The facility is open all year-round with staff available 24 hours a day, 7 days a week, and is walking distance to restaurants and shops at Fishermen's Terminal. Reflected below is revenue for the last three years:

<u>Revenue Source</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Berthage and Moorage	\$831,065	\$871,038	\$934,283
Concession Services	6,728	6,888	7,003
Utility Sales Revenue	28,351	28,236	30,692
Other Services Revenue	6,251	6,756	6,643
	<u>\$872,395</u>	<u>\$912,918</u>	<u>\$978,621</u>

Maritime Industrial Center

The Maritime Industrial Center offers short-term and daily moorage for vessels up to 250 feet (76m) in length. It is located in freshwater, just inside the Ballard Locks. The center has over 1,500 linear feet of concrete dock space for loading and repair/ maintenance work. Shore power, potable water, phone service, and waste / recycling services are available to customers as well. The center is managed by Fishermen's Terminal with staff available 24 hours a day, 7 days a week.

<u>Revenue Source</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Berthage and Moorage	188,424	118,516	100,983
Space Rental	37,641	28,438	39,003
Other Equipment Rental	2,391	911	1,606
Other Services Revenue	9,964	10,323	10,164
	<u>\$238,420</u>	<u>\$158,188</u>	<u>\$151,756</u>

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 cases, we used a judgmental method to determine the samples selected for our audit test work. The results of this work cannot be projected to the full population as we did not select a statistical based random sample.

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

Billing Processes:

- Conducted inquiries and performed walkthroughs to gain an understanding of the billing process.
- Reviewed customer payments within the Marina Management System (MMS) and recalculated those, for accuracy.
- Obtained material agreements and contracts to assure that amounts are being billed appropriately and correctly.

Standard Operating Procedures:

- Obtained and reviewed Standard Operating Procedures available, to assure that established and standardized processes exist and are being followed / implemented.

Internal Controls:

- Conducted inquiries and performed walkthroughs with key employees to gain an overall understanding of internal controls present.
- Obtained the User Account Review report for MMS and reviewed user roles and access for employees, verifying appropriateness.

Segregation of Duties:

- Conducted inquiries and performed walkthroughs with key employees to gain an understanding of the business' operations.

Schedule of Findings and Recommendations

1) Rating: Medium

Billing and collection procedures at Fishermen's Terminal were informal and internal controls needed to be strengthened. We identified underbilling of revenue and a sizable accounts receivables balance primarily managed by one individual.

Billing

Billing adjustments can be made in MMS by multiple people unilaterally, requiring no formal approval. A fundamental internal control principle requires that someone other than the individual who entered the adjustment, usually the person's manager, review and release the adjustment. This way, errors or internal fraud, can be identified and prevented.

For example, our testing identified approximately \$3,800 of underbilled revenue related to auxiliary services. We tested five transactions for space rental and three had been billed using outdated rates. The revenue billed for this service for the year 2022 was \$116,013.92. Applying the exception rate from our testing, an estimated \$36,500 was underbilled for the year 2022.

Management also identified that the rate billed for use of the Nordby conference room was not accurate. Rather, an outdated rate on the Fishermen's Terminal website was incorrectly used. As a result, in 2022, management estimated approximately \$1,700 was underbilled.

These two examples highlight the need to have a formal and established review process over billing. A formal review process is an internal control that could have identified and prevented the errors.

Collection

The outstanding balance of accounts receivables at FT and Salmon Bay Marina as of January 31, 2023, was approximately \$900,000 and represents about 600 customer accounts (see Table I below). Of the \$900,000 outstanding, about \$263,000 has been outstanding for over 120 days. The collections process, however, is primarily managed by only one person. With only one individual performing this function, the operations are more susceptible to continuity risks, should the person leave their position.

While delinquencies are not uncommon, this person can also delete billing records in MMS without detection, further compounding the risks within the business. Employees who collect cash from customers should not also be able to delete customer billings.

Table I

	Days Past Due						Total
	Current	1-30	31-60	61-90	91-120	over 120	
Fishermen's Terminal	\$ 337,638	\$ 90,586	\$ 58,315	\$ 29,632	\$ 25,181	\$ 254,688	\$ 796,040
Salmon Bay Marina	74,154	10,405	5,112	3,413	2,380	8,760	104,224
Total	\$ 411,792	\$ 100,991	\$ 63,427	\$ 33,045	\$ 27,561	\$ 263,448	\$ 900,264

Recommendations:

Billing and collection processes should be documented and include management reviews so that oversight is well understood and required. They should also include who performs the review, when it is conducted, and what is reviewed.

We also recommend evaluating permissions and access within MMS so that individuals can't delete or adjust charges to customer accounts.

Management Response/Action Plan:

This memo represents the Management Response/Action Plan to the 2023 Commercial Fishing Internal Audit. The Maritime department that oversees the commercial fishing business unit, Maritime Operations and Security, requested the Internal Audit to review business practices used in the management of Fishermen's Terminal, (F.T.); Salmon Bay Marina, (SaBM); and the Maritime Industrial Center, (MIC).

In November of 2021, a new Sr. Manager of commercial fishing was hired to lead the business group. With the change in management in place after one year, the Director of Operations & Security felt a review of practices was timely.

Maritime Operations & Security accepts the findings of the 2023 Internal Audit, as well as the associated recommendations. Based on these recommendations, Commercial Fishing will work to create a structure that will accomplish a separation of duties to ensure integrity in the revenue management program.

Areas identified in the revenue management program warranting structural enhancement are Billing and Collection procedures. Currently, the program is informal and needs to be strengthened. This has resulted in underbilling and a sizable accounts receivables balance. Currently, these programs are managed by one individual, the business and operations manager.

In 2002, the Seaport Division, (the precursor to the Maritime Division), reorganized, eliminating a business manager position by one FTE or Full Time Equivalent. Since that time, one business manager has been responsible for managing billing and collections. The resulting reduction in financial oversight can be attributed to approximately \$230,000 for overdue accounts of 120 days or more, YTD. To compound this exposure, should the business manager position be vacated, records of customer collection management would be susceptible to loss.

With the desire to competently manage revenue and accounts receivable, commercial fishing management will work to design a structure that will achieve the recommended "separation of duties". Management is evaluating whether an additional position is needed or can be accommodated with existing staff, to provide separation of customer intake, (assigning moorage), and billing, to provide revenue management accountability. This position will also provide the same separation of duties for the billing and collection management program associated with the financial management process.

Processes will also be brought up to date by automating customer engagement tracking for the collections process, as well as the incorporation and utilization of "Dashboards" for reporting and information retention, and the soon to be completed Marine Vessel Management System or "MVMS", platform currently in the final stages of development by internal ICT developers. (The

original launching of the MVMS system was delayed over a year as a result of circumstances beyond the control of the ICT design and development team. Current schedule for launching *MVMS is early Spring, 2023*). These automated tools will provide a more reliable system of customer assignment, revenue, billing and collections management.

Finally, the Maritime Division will launch the 2024 Capital program budget process this Spring. In preparation of the capital budget project funding allocations and schedules, the SaBM Roof program is scheduled to be in the review. The condition assessment and planning process concluded for the roof at SaBM this past November and is ready for Capital Review funding assignment.

DUE DATE: 03/31/2024

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