

# Port District Audit Planning Guide



## February 18, 2020

Limited revisions May 21 and September 24, 2020

### *Table of Contents*

WHAT'S NEW .....	2
REQUIRED RISKS TO ASSESS .....	2
BACKGROUND .....	3
PLANNING & ADMINISTRATION.....	4
ACCOUNTABILITY.....	4
INDUSTRIAL DEVELOPMENT CORPORATIONS & ECONOMIC DEVELOPMENT FINANCE AUTHORITIES .....	9
FINANCIAL STATEMENTS .....	9
SINGLE AUDIT .....	11
PASSENGER FACILITY CHARGES (PFC) AUDIT .....	11
PERFORMANCE AUDIT .....	11
Appendix 1: Marine Terminal Operations.....	12
Appendix 2: Parts of a Port.....	13

### *Planning Guide Information*

Supersedes previous planning guide dated April 12, 2018. Please direct questions or suggestions to a Port Subject Matter Expert.

Guidance is based on the extensive research, brainstorming and reviews conducted as part of the [planning guide update process](#). Guidance is intended only for internal use to help auditors gain an understanding of ports. The guide is intended to enhance planning and risk assessment procedures, not replace them. Information in the guide should therefore be considered along with other planning and risk assessment procedures. While guidance is designed to be as comprehensive as feasible, auditors must be alert for audit issues and situations not specifically addressed.

**This guide is used by the State Auditor's Office staff as they plan audit engagements. Information presented in this document does not represent policy or legal guidance. State agencies and local governments should contact their legal counsels with specific questions.**

## **WHAT'S NEW**

Auditors should be aware of the following significant updates:

- [Security Deposits](#) - Commissioners may not issue a blanket waiver of security deposits across all or a category of leases, although discretion may be used because of the broad authority of ports. Ports should be able to provide documentation to support waiving the security deposit for each.
- [Commissioner Compensation](#) - While the law states ports must pay commissioners at amounts in accordance with RCW, it also states that they may set the pay at other amounts as long as it is approved by the commissioners.
- [Promotional Hosting Expenditure Limits](#) - Table added to display promotional hosting expenditure limits by revenue amount.
- [Passenger Facility Charge \(PFC\) Reports](#) – PFC reports will now be separately published for each entity rather than combined into the financial/financial single reports.

## **REQUIRED RISKS TO ASSESS**

The following risks must be documented as red flags and discussed during brainstorming to ensure sufficient consideration. They should be prioritized for all audit types to the extent they are applicable and significant to the port and type of audit.

**Financial Condition** - Governments have experienced a wide range of negative economic and operational effects as a result of COVID-19. We would expect that most governments have and will need to cope with reduced and/or delayed revenues and increased expenses. However, these effects may vary widely by government and will depend on a number of factors, including the government's policy or program responses to the pandemic, the extent of any offsetting decreases in other expenses, state or federal relief funding, and the strength of its financial condition to start with. This risk should be assessed for both accountability and financial audits as part of regular planning steps, and especially as part of the risk assessment inquiry. If needed, [auditors may use the "Financial Condition" step available in TeamMate in the Accountability folder to further evaluate this risk.](#)

Auditors should review [FYI 2020-01](#) COVID-19 Subsequent Event Considerations for expected subsequent event disclosures and considerations by government type.

**EFT Controls** - Due to the increase in the number of payroll and vendor EFT cyber related frauds, testing EFT controls is a required risk to assess for all entities we audit. Of primary importance is to discuss controls related to changing existing EFT associated bank account numbers. Individuals with the ability to change or add EFT accounts need to have clear guidance on the process to authorize these changes through a proper validation method, specifically, a follow-up phone call. The majority of these frauds are prompted through email communication, but all change requests, including mail, fax and phone calls, should be followed up with a known contact using previously known contact information and not the contact information that may be provided in the request.

[A testing strategy is available in TeamMate at Accountability | Expenses | EFT Disbursements | Controls over EFTs.](#) Contact Team IT Audit at [SAOITAudit@sao.wa.gov](mailto:SAOITAudit@sao.wa.gov) for additional clarification or guidance.

**Additional Compensation/Bonuses/Extra pay/Incentive programs** – It is common for ports to offer incentives or other types of extra pay compensation to staff. Due to laws prohibiting many types of additional pay auditors should be aware in planning of pay increases or one time disbursements that may indicate an unallowable payment.

[Auditors should use the Bonus & Incentive Payments step available in Teammate in the Accountability | Expenses | Payroll Disbursements folder to audit this risk.](#)

**Leases** - Due to the implementation of GASB 87, both GAAP and cash-basis ports may be re-evaluating and restructuring lease arrangements. The reporting requirements were postponed and are not applicable until FY22 but most ports are aware that preparation is strongly suggested ahead of time from an operational perspective.

Potential risks as a result of these changes, in addition to typical risks noted in the [Leasing Activities](#) section below, include:

- Cancellation of contracts not in accordance with the terms of the lease.
- New leases created that are not in line with policy requirements at the time and deviations are not adequately approved by commissioners or their designees.
- Leases classified as short term (less than a year) with a potential for a gap before signing a new lease with the same lessee, but lessee continues to occupy or use the non-financial asset (rental facility). See Leasing Activities section for potential audit techniques.

A testing strategy is available in TeamMate at Accountability | Entity-Specific Areas | Port District folder | "Review Lease Agreements".

## **BACKGROUND**

Port districts are municipal corporations established under Title 53 RCW for the purpose of providing harbor, airport and industrial development facilities. A primary purpose of port activities is economic development. Ports raise revenue by levy of an annual tax and through charges for services. The Washington Public Ports Association website at [www.washingtonports.org](http://www.washingtonports.org) has additional background information on ports including a [directory](#) of ports.

Ports are governed by an elected three or five member board of commissioners. The commissioners may delegate administrative authority to an executive director to conduct operations of the port.

Ports are allowed expenses for industrial development, trade promotion, tourist promotion and facilities and economic development programs. Common activities include the creation and operation of industrial parks or facilities, marinas, marine terminals, and airports. Promotional hosting, as described below in the accountability and legal compliance section, is another common activity that is unique to ports. Ports may also have toll facilities, pollution control facilities, water-sewer facilities, park and recreational facilities, fire departments and police departments.

In addition to authority under the interlocal agreement act, ports may also create and operate:

- Industrial Development Corporations (Chapter 39.84 RCW)
- Industrial Development Districts (Chapter 53.25 RCW)
- Economic Development Finance Authorities (Chapter 39.110 RCW)
- Tax credit partnerships (RCW 35.21.735)
- Trade Centers (Chapter 53.29 RCW)
- Export Trading Companies (Chapter 53.31 RCW)
- Foreign trade zones (RCW 53.08.030)
- Port Development Authority (Chapter 53.57 RCW)

If you are auditing a port with one or more of these, additional audit steps or entire audits may be required. Auditors should check the [Local Government Basic Information Spreadsheet](#) for additional information on each entity, including if they are subject to audit.

Often times stand alone Airport Boards are formed by cities or counties to run airports. These are likely formed under RCW 14.08 and are not classified as Ports. While they are separate entity types, many of the risks in this planning guide may still apply to the Airport Board.

### ***Industry, Regulatory and Other External Factors***

While most port revenues are exposed to market competition, the port's position as an infrastructure service provider is normally stable. Business risk would only arise when the port is providing infrastructure for a market that is not large enough to support it or when there is a major decline in the market. A major decline may be caused by general or local economic conditions, by the loss of a major customer or tenant or by significant new competition.

A second potential business risk for ports is environmental liabilities. Such liabilities may arise from either port activities or tenant activities where the port could be named as a potentially responsible party.

### ***Measurement of Financial Health***

Many ports are in financial distress because of various factors. Competitive position, reduced business traffic, loss of key contracts and aging infrastructure are among the factors weakening financial position. Additionally, increased burden on many ports with environmental liabilities has occurred because of state taxes that are tied to wholesale gasoline prices being dramatically reduced over the past couple years.

Auditors can use the “Financial Condition” step available in TeamMate in the Accountability folder to evaluate this risk plus the following considerations when evaluating financial condition (see also [Required Risks to Assess](#)):

- Extent of dependence on major customers and the current status and/or outlook for these customers.
- Extent of exposure to changes in local or general economic conditions and the current status and/or outlook for these conditions.
- Presence of any contingent liabilities, such as pollution remediation.
- Available taxing authority, if the port is not already taxing up to their limit.
- Condition of infrastructure and competition. For example, a port with poor access to interstate highways or rail may be at a competitive disadvantage.

We would expect such information and analysis to be done already by management as part of their risk assessment procedures and for the MD&A.

## **PLANNING & ADMINISTRATION**

Ports are required to create and annually update a Comprehensive Harbor Improvement plan, detailing all of their current and planned activities.

### ***Additional Resources***

Additional resources related to ports can be found on [MRSC's Port Resources page](#).

### ***Key Operational Information***

Key information about port operations the auditor should document in the permanent file would include:

- Major activities or programs. Note 1 in the notes to the financial statements should list major types of services provided and the port's comprehensive plan should provide a complete picture of the port's activities and programs and its future plans for each of these areas.
- A list or map of all facilities available for rent or lease.
- Any major tenants or customers (ex: customers that individually represent 10% or more of the port's revenue).
- The extent to which commissioners have delegated authority to port management, such as through a "Delegation of Authority" resolution.
- Auditors should strongly consider either doing a driving tour of facilities or reviewing maps or aerial photos with someone knowledgeable from the port. This process will help auditors understand the unique aspects of each port and will help identify more relevant risks in planning. Additional information on the basics of Port properties has been included in [Appendix 2](#).

## **ACCOUNTABILITY**

Ports meeting the criteria of RCW 53.36.010 may elect to act as their own treasurer; otherwise, ports are required to use the county treasurer. If used, county treasurer expenditure reports represent an independent, third-party confirmation of actual expense details and should be used by the auditor and in the Port's internal control systems whenever feasible.

### ***Revenues***

Common revenue streams, by major activity, are as follows. Each revenue stream can be susceptible to unique risks and auditors should gain an understanding of the nature of the revenue activities to adequately assess the risk:

### Marina

- Moorage – Guest (often receipted on the docks or other decentralized locations), permanent, fishing, commercial.
- Fuel sales
- Fuel flowage fees (charged for delivery of fuel to airport property; ex. Fuel truck from outside vendor comes to port property to fuel a ship)
- Showers
- Laundry
- Vending machines
- Marina land/building leases
- Equipment rentals
- Vendor leases (restaurants, shops, etc.)\*

### Airport / Airpark

- Fuel flowage (see example above)
- Fuel sales
- Hangar rent (to private plane owners)
- Terminal leases (to airlines)
- Landing fees
- Vendor leases (restaurants & shops)\*
- Passenger Facilities Charges (PFC's) Note: PFC's require a separate audit – see [PFC section](#) in this planning guide
- Airport improvement grants (federal)
- Parking
- Car rental leases

\* For vendor leases, the monthly lease payment is often based on a percentage of sales. Several audits have noted instances of underpayments on vendor leases. Poor contract management on the part of the port increases the risk that the port is not receiving all funds due.

### Charges and Billing

Most ports have limited staff and may not charge or bill customers correctly. Risks include not entering customers into billing software in a timely manner (or at all), charging incorrect rates based on the port specific fee schedules, inadequate controls over guest or transient use of facilities, unmonitored delinquent customers, facilities used for different purpose than billed, etc.

### Cash Receipting

Receipting at decentralized locations for many of the revenues listed above may be risks. Specific risks for receipting that have been problematic are drop boxes, receipting by seasonal workers, no review of voids or adjustments, no reconciliation of revenues to sales, and third party cash receipting. Auditors should obtain lists of cash receipting locations and activity at each location to evaluate during planning.

### Marine Terminal

Terminal operations, which are regulated by the Federal Maritime Commission (FMC), vary widely depending on the type of port facilities and the management practices of the port. Terminal revenues are collectively referred to as "tariffs." The schedule of tariffs charged by a port (list and calculation of all rates and fees) must be filed with the FMC in order to be effective. Official tariff agreements can be found on the FMC website ([www.fmc.gov](http://www.fmc.gov)) under "Agreement Library" –typically, the official schedule is on the port's website.. Depending on the port's terminals, facilities and equipment, tariffs may include:

- *Dockage* – Charges for the time ships are docked at the port's berth (also referred to as a terminal or wharf).
- *Wharfage* - A charge assessed on all freight conveyed over wharves or between vessels when berthed at a wharf. Wharfage is the charge for use of wharf and does not include charges for any other service.
- *Linesmen, Handling, Loading and Unloading (equipment and labor)* – Charges for use of longshoremen and port equipment in docking, loading or unloading cargo, either onto the dock, into storage or onto rail cars. Charges will depend on what exactly needs to be done to move the cargo, which will depend on the type of cargo and the equipment and facilities available. Ports may charge different rates for different types of cargo even if the activity is the same. Equipment rates are typically extra, if equipment (like forklifts, cranes, loaders or other special equipment) needs to be used. Labor rates will be based on longshoreman wage or contract rates paid by the port.

- *Storage, Space Rental, Warehousing and Demurrage* – Depending on the types of cargo and facilities that the terminal handles, the port may charge for space used on the wharf or in warehouses or other facilities by cargo waiting to be loaded or transported off-site.
- *Miscellaneous Services* – Depending on the types of cargo the terminal handles, the port may receive additional revenues for counting, checking or weighing cargo, electricity and water provided to ships (including hook-up charges and use charges), fire suppression services, fueling tugs and barges, garbage disposal, security fees, stenciling and other miscellaneous charges.

#### Property Tax and Other Revenues

Ports may levy property taxes and have authority to create Local Improvement Districts (LIDs) under RCW 53.08. For most ports, taxes are a major source of revenue, but are not considered to be at high risk for misappropriation, because they are collected and distributed by the county treasurer. [The TeamStore has several testing strategies for LIDs in the Accountability | Entity-Specific Areas | Local Improvement District folder.](#)

Ports may also receive revenue from state grants for infrastructure development, IDC fees, park facilities and other sources depending on their activities.

#### Leasing Activities

Leasing of port property is a primary business activity of most ports. Legal requirements related to leasing activities reflect good business practices and are intended to ensure public resources are safeguarded. Ongoing risks for leases include, see also [Required Risks to Assess](#):

- Lack of controls, oversight, and monitoring.
- Inadequate policies and procedures for negotiating terms of leases, selecting tenants, determining fair market value, and pricing of properties.
- Lack of complete, clear information being provided to commissioners when making decisions. Recent audits have found tenants paying lower rates than five years ago, with no reasonable explanation and in situations where commissioners were not provided with rate history.
- Waiving late fees or penalties without proper approval by the executive director or commission.
- Fraudulent use of rental facilities such as collecting cash but indicating a property is vacant (this may be an even greater risk with rentals managed by property management companies). Auditors could obtain a list of current vacant facilities and visually inspect to ensure they're empty or obtain historical rental and utility records to see if utilities indicate more than minimum usage.

Ports have the authority to set the terms of its leases, including lease amount, security deposits, and late fees. RCW 53.08.085 requires ports to obtain security for leases unless the port commissioners waive the requirement. Commissioners may not issue a blanket waiver of security deposits across all or a category of leases, although discretion may be used because of the broad authority of ports. Ports should be able to provide documentation to support waiving the security deposit for each..

All port leases are subject to state leasehold excise tax, under chapter 82.29A RCW. Leasehold taxes are audited by Department of Revenue (DOR), who will provide a written report to the port at the conclusion of each audit.

Leases with variable calculation structures, such as percentage of sales, should have adequate controls in place to ensure the ports are receiving the correct amount of revenues they are owed. Information communicated from the lessee should be compared to supporting documentation, such as sales reports.

[If leasing activities are significant to the port, auditors should evaluate controls and consider testing using the "Review Lease Agreements" step available in TeamMate in the Accountability | Entity-Specific Areas | Port District folder.](#)

#### ***Expenses***

In addition to normal accounts payable and payroll systems, ports with terminal operations may have a special system, procedures or controls over longshoremen expenses (see [Appendix 1](#)).



## ***Assets***

Most ports have a relatively large amount of small and attractive assets, depending primarily on the size and scope of operations. Specialized equipment typically presents a low risk of misuse or misappropriation; however, ports often have a large amount of maintenance equipment, tools, supplies, parts and vehicles potentially at risk for misappropriation or misuse. In addition, significant tenant inventories or materials may be present at the port and facilities. For example, we have seen a number of copper thefts and vandalism of port facilities. While we don't anticipate needing audit work to address each security incident, we would expect the port to have a physical security plan in place, procedures to ensure tenants maintain sufficient liability coverage for theft and damage of port property and reasonable procedures to follow up on each security incident (police report, insurance recovery, re-evaluation of plan, etc.).

RCW 53.08.090 requires that real and personal property of more than \$10,000 be sold or conveyed after the port commissioners have declared it surplus by resolution and taken other actions. Each year, by resolution, the commissioners may delegate authority to the executive director to sell or convey property less than \$10,000; in such cases, the executive director must list property sold or conveyed and certify to the board that it was surplus.

## ***Compliance Requirements***

General state law requirements apply to ports, including Open Public Meetings Act, expense audit and certification, conflict of interest, limitation on compensation of public officials, insurance / bonding requirements, limitation of indebtedness and authorized investments.

However, budget compliance is not applicable. As a proprietary fund, port budgets are not considered to be appropriations. Therefore, although ports are required by Chapter 53.35 RCW to create a budget, they are not required to adhere to the budget.

Other legal compliance requirements and risks to be aware of are as follows:

- **Commissioner Compensation (RCW 53.12.260)** – RCW 53.12.260 was modified to allow OFM to increase compensation based on inflation every five years. These increases are automatic during commissioners' current terms.

As of July 1, 2013, the compensation was authorized at a rate of \$114 per day up to an annual amount not to exceed \$10,944 or \$13,680 per year for Ports with a gross operating income<sup>1</sup> of \$25 million or more in the preceeding calendar year. The monthly salary was set at \$635 for Ports with gross operating income of \$25 million or more in the preceding calendar year or \$254 for Ports with gross operating income in the preceding calendar year from \$1 million to \$25 million. See [OFM 2013 notice](#).

As of July 1, 2018, the compensation is authorized at a rate of \$128 per day up to an annual amount not to exceed \$12,288 or \$15,360 per year for Ports with a gross operating income of \$25 million or more in the preceeding calendar year. The monthly salary is set at \$713 for Ports with gross operating income of \$25 million or more in the preceding calendar year or \$285 for Ports with gross operating income in the preceding calendar year from \$1 million to \$25 million. See [OFM 2018 notice](#).

*Important note:* While the law states ports must pay commissioners at amounts in accordance with RCW 53.12.260, the RCW also says commissioners may set the pay at other amounts. This could be more or less than the amounts indicated in the RCW (and subsequent OFM adjustments) as long as it is approved by the commissioners.

- **Promotional Hosting Expenses (RCW 53.36.120-150)** - Ports are allowed to expend funds for promotional hosting activities, which may include expenses for meals, refreshments (including alcohol), lodging, transportation, entertainment and souvenirs in connection with business meetings, social gatherings and ceremonies. To be allowable, promotional hosting expenses must be reasonable, be directly related to

---

<sup>1</sup> RCW 53.12 uses the terms "gross operating income" and "gross operating revenue" interchangeably, but defines it specifically as total of all revenues received by a Port.

promoting trade or industrial development and the port must reasonably believe that persons hosted could sufficiently influence trade or industrial development. *Important note:* Promotional hosting expenses are **limited** to an annual amount based on the port's revenues as specified in RCW 53.36.130.

Gross Operating Revenues	Promotional Hosting Expenditure Limit
<b>\$250,000 or less</b>	\$2,500
<b>\$250,000 to \$2.5 million</b>	1% of gross operating revenues
<b>\$2.5 million to \$5 million</b>	\$25,000 plus 0.5% of operating revenues in excess of \$2.5 million
<b>Over \$5 million</b>	\$37,500 plus 0.25% of operating revenues in excess of \$5 million

Ports are required by RCW 53.36.140 to establish policies related to promotional hosting. Search the BARS manual for 'Promotional Hosting' for more details about requirements. Additionally, there is a [testing strategy for limited testing of promotional hosting in the Accountability | Entity-Specific Areas | Port District folder of the TeamStore](#).

- **Contracts/Agreements** - The activities ports are involved with will often include unique agreements or contracts with other public agencies. Some considerations include whether the port has the authority to enter into the agreement (or its related activity). Allowable examples are public private partnerships, promoting tourism (beyond simple advertising) and operating golf courses or lodging facilities (RCW 53.08.255/260). However, we've identified several instances where ports have agreements and expenses for activities that are not included in port powers and authority. If auditors have questions about whether expenditures or agreements are within a port's authority or if any potential issues are identified, please consult the Program Manager.

Ports with more than \$10 million in annual gross revenues (excluding grant and loan funds) must maintain a database on their website of all contracts, including public works and personal services. The database must identify the contractor, the purpose of the contract, effective dates and periods of performance, the cost of the contract and funding source, any modifications to the contract, and whether the contract was competitively procured or awarded on a sole source basis (RCW 53.08.440).

- **Bid compliance (RCW 53.08.120-150)** - There is currently a high level of sensitivity about procurement of contracts, contract monitoring, professional service contracts, and bid law compliance at ports due to the 2007 Port of Seattle performance audit and subsequent legislative changes. Ports are required to competitively bid for:
  - Public works projects (small works roster process may be used, as applicable)
  - Chapter 53.19 RCW requires ports to competitively procure personal service contracts. Under RCW 53.19.010(6), "Personal Services" are defined as professional or technical consulting contracts for a specific project, not including services done in connection with a public work or architectural or engineering (A&E) services covered under Chapter 39.80 RCW, see the [Bidding & Procurement guide](#) for details regarding A&E services. An example of a personal service would be hiring a consultant to do a moorage rate study. Ports will be required to competitively solicit personal services between \$50,000 - \$200,000 and formally bid personal services over \$200,000. For details on this new requirement, refer to chapter 53.19 RCW or "[Personal Service Contracting Manual for Washington Ports](#)" published by MRSC.

Port statutes also set day labor limits and allow for use of the limited public works and small works roster processes. See the [Bidding & Procurement guide](#) for more details.

In the past, on-call public works contracting was an area of concern for Ports. However, with the passage of new legislation, this area is no longer a key concern. See the [Bidding & Procurement guide](#) for updated Port procurement thresholds.

- **Self-insurance programs** - RCW 43.09.260(1) and Audit Policy 1210 require an examination of all individual health and welfare programs and self-insurance programs at least once every two years. (Note: Self-Insurance will need to be included in every audit for those on a 3-year cycle.) Self-insurance programs include: liability, property, health and welfare, worker's compensation, and unemployment compensation.



We have found that several ports have self insurance for health and welfare risks (predominantly dental coverage) that are not approved by the State Risk Manager as required by law. If the port self-insures, review the [Self-Insurance / Risk Pool Planning Guide](#) for guidance on financial reporting and additional potential risks.

### ***IT Risks***

Due to the types of business responsibilities and assets held, Ports have been identified as an entity type with very high potential impact resulting from cybersecurity attacks. Auditors should review the [Information Technology planning guide](#).

## **INDUSTRIAL DEVELOPMENT CORPORATIONS & ECONOMIC DEVELOPMENT FINANCE AUTHORITIES**

Ports are authorized to assist local business development through creation of industrial development corporations (IDC) and economic development finance authorities (EDFA).

Auditors should determine whether the port has created an IDC or EDFA and identify bank accounts or activity. These entities are separate legal entities from the port and **should have their own MCAG numbers, submit their own annual reports, and be subject to their own audit in accordance with Policy 1210 (most likely an audit assessment)**. If you identify an IDC or EDFA that is active, but does not have an active MCAG number, please contact the port expert or Team Audit Support.

While considered a separate legal entity, activities are often accounted for within the port's general ledger; however, IDC and EDFA funds cannot be commingled with port funds and must be accounted for separately. For reporting purposes, IDCs and EDFAs are usually considered blended component units of the port and the Notes to the Financial Statements should include disclosure of this relationship whether the port is GAAP or cash (recent BARS change). Many IDCs and EDFAs are small, used once, then sit idle for many years. Often the only financial activity of these entities is having some cash in the bank and earning interest.

See the [Industrial Development Corporation planning guide](#) for additional details including a listing of known IDCs and EDFAs.

## **FINANCIAL STATEMENTS**

Ports are considered proprietary-type funds and are required by RCW 53.35.060 to adopt a December 31 fiscal year end. Ports may choose to report under GAAP or cash-basis.

### ***Financial statements for audit***

Entities are required to file annual financial reports and are encouraged to file them online using SAO's website. The financial statements, notes and schedules are available on the intranet under Auditor Resources | LGCS reports. For ports reporting on the cash basis, rather than requesting the financial reports from the port for audit, auditors should download the statements from LGCS and confirm with the port that these are the final versions for audit.

### ***Capital Assets***

Similar to cities and counties, many ports have a large amount of capital assets, including infrastructure. Often times entities will replace or overlay capital assets and will add the new asset to the books without fully depreciating or removing the asset that was replaced or covered. This is one of several risks that ports face with accounting for capital asset balances and the effects of errors could be material.

### ***Revenues***

Marina operations, marine terminal operations, and leasing activities, described above in the [Accountability](#) section, are often material revenue balances of the financial statements for ports. It can be advantageous to perform multipurpose testing for both the accountability audit and financial statement audit when addressing a similar risk. For example, a financial audit test of the valuation of marine terminal revenues, by obtaining supporting documentation and recalculating charges for accuracy, could also address an accountability audit risk that marine

terminal revenues are not correctly calculated or supported. It is important that our testing provides sufficient coverage and assurance for the financial audit that the balance is fairly stated and materially accurate.

### ***Environmental Liabilities (GASB 49)***

Governments are required to estimate and accrue liabilities for pollution remediation if certain obligating events have occurred. We would expect environmental liabilities to be a risk for most ports. For example, dry docks and rail lines at terminals are at risk for creosote contamination; fuel storage and pumps at marinas or airport facilities are at risk for fuel seepage; and industrial manufacturing or wood treatment at industrial parks are at risk for various toxic spills. We would therefore expect port management to have taken steps to identify, evaluate and assess existing potential environmental liabilities as well as steps to avoid or mitigate future liabilities. **Auditors should use the "Pollution Liability Testing Strategy" workpaper available in TeamMate for testing this area.**

### ***OPEB Liabilities***

The following ports participate in health care plans administered by Public Employees Benefit Board (PEBB). If a Port is not listed below, auditors should still inquire with the Port as those are the ones we are currently aware of, plus they may have Other Post-Employment Benefit (OPEB) liabilities that are not through PEBB to report in accordance with GASB 45. In some cases the amount may be material. Auditors should evaluate if these ports are reporting their liability correctly. **Auditors should use the GASB 45 OPEB Balances step available in Financial Statements | GAAP Statements | Baseline Testing folder.**

Team	Legal Name	PEBB Subscriber Count	OPEB Reported in f/s?
Everett	Port of Edmonds		Yes
Olympia	Port of Centralia	8	NO
Olympia	Port of Chehalis	4	Yes
Olympia	Port of Grays Harbor	57	Yes
Olympia	Port of Olympia	48	Yes
Port Orchard	Port of Port Angeles	35	Yes
Port Orchard	Port of Port Townsend	13	Yes
Port Orchard	Port of Brownsville	7	Yes
Tri-Cities	Port of Benton	23	Yes
Tri-Cities	Port of Kennewick	15	Yes
Vancouver	Port of Ridgefield	10	Yes
Vancouver	Port of Kalama	20	Yes
Vancouver	Port of Longview	38	Yes
Vancouver	Klickitat County Port District No. 1	7	Yes
Wenatchee	Pangborn Memorial Airport	14	Yes
Wenatchee	Port District No. 1 of Chelan County	14	Yes
Wenatchee	Port District No. 1 of Douglas County	7	Yes
Yakima	Port of Sunnyside	20	Yes

### ***GAAP reporting changes***

All new GASBs are identified and evaluated by the Financial Audit Committee (FAC), as summarized on the [GASB Tracker](#) available on the FAC Sharepoint page. When evaluating implementation of new GASBs for Ports, auditors should specifically consider:

- **GASB 83** (Asset Retirement Obligations, original implementation effective FYE 2019, new implementation effective FYE 2020) is expected to impact some Ports. For example, we expect that it would apply to fuel tanks. See the Center's [Identifying Asset Retirement Obligations](#) guidance. **A testing strategy workpaper for GASB 83 is available in TeamMate in the GAAP folder.**
- **GASB 87** (Leases, original implementation effective FYE 2020, new implementation effective FYE 2022) is expected to have a major impact on Ports and require re-evaluating and changes to reporting for leases. Due to a Port's naturally decentralized operations and extent of activities, we would expect this to require

significant effort and analysis. We would not expect any early adoption of this GASB. [A TeamMate testing strategy workpaper is available in Financial Statement | GAAP | Workpapers.](#)

GASB 95, issued May 8, 2020, delayed the implementation date of certain new standards. Entities have the option to decide whether or not to delay implementation. During planning, as part of [Understanding the Entity & Environment](#), auditors should inquire with the entity and confirm the entity's implementation decisions.

### ***CPA Prepared Financial Statements***

Many ports have CPA firms prepare their financial statements. We have found many occasions where the ports accepted the financial statements without performing adequate review of the accuracy. This has led to many large misstatements. In gaining an understanding of controls over financial statement preparation, auditors should pay close attention to the substance of the review being performed by the port and should ensure there is evidence that a review was performed by someone knowledgeable of port accounting.

## **SINGLE AUDIT**

Many ports receive federal grants for airports, infrastructure, security or economic development activities.

The most common federal grants received by ports are from the Department of Transportation, such as CFDA 20.205, *Highway Planning and Construction*, or CFDA 20.106, *Airport Improvement Program*. Many resources to use for auditing this program may be found on the Federal Aviation Administration's (FAA) website at <https://www.faa.gov/airports/pfc/>. Auditors may also utilize the FAA site to confirm 5100-126 and 5100-127 reports have been submitted timely. See <https://cats.airports.faa.gov/Reports/reports.cfm?AirportID=2403&Year=2017>

## **PASSENGER FACILITY CHARGES (PFC) AUDIT**

Ports operating airports may receive passenger facilities charges (PFCs). PFCs are fees collected by airlines from passengers, with approval of the Federal Aviation Administration (FAA), for specifically approved passenger facility improvements at the airport. The port tracks billings and receivables and is required by the FAA to have the program audited, regardless of the dollar amount collected by the port.

A separate audit report is issued and includes an opinion on the Schedule of Passenger Facilities Charges Collected, Held and Used. See the [ARS Manual Part 3, Chapter 8](#) for report options. Although this program is administered by the FAA, it is not subject to the Single Audit requirements of 2 CFR 200.

[Auditors should use the PFC steps available in TeamMate in the Special Engagements folder.](#)

## **PERFORMANCE AUDIT**

Teams are asked to be alert in planning and performing their regular accountability audits for significant areas that appear uneconomical, inefficient or ineffective. Contact the Assistant Director of Performance Audit if you notice these issues, for help with brainstorming or to discuss ideas or potential performance audit work as needed.

Information on current performance audits is available on SAO's website at <http://www.sao.wa.gov/state/Pages/PAWorkInProgress.aspx>; please defer any questions to the Assistant Director of Performance Audit.

In addition, SAO offers local governments independent assessments of their IT security posture. These performance-based audits are an intensive, opt-in examination of selected IT security risk areas. When the work is completed, the IT security audit team will give detailed results from the audit to local government management. These results are considered security assessments and are exempt from public disclosure under RCW 42.56.420(4). Please forward any questions to Erin Laska, IT Security Audit Manager.

## **Appendix 1: Marine Terminal Operations**

Participants in marine terminal operations can vary from facility to facility. Typical participants include:

Steamship carrier – operates the ship and contracts with customers who need cargo transported

Stevedore – responsible for hiring and managing the longshore workers to load and unload the ship

Terminal operator – operates the terminal where cargo is loaded and unloaded from the ship

Longshore workers – responsible for loading and unloading cargo. Longshore workers are represented by the International Longshore and Warehouse Union (ILWU), which has a labor agreement with the Pacific Maritime Association (PMA) representing all West Coast ports.

It is not uncommon for the port to assume the stevedore and/or terminal operator roles. Understanding the port's roles is important for revenue and expense expectations, control expectations and risk assessment.

For example, the port may hire and manage longshore workers if acting as stevedore. If acting only as terminal operator, the port contracts with a stevedore for longshore workers. In either case, terms will be governed by agreement with the ILWU union. Longshore labor (whether hired or contracted) is on an as-needed basis only and therefore should be 100% billable to shipping companies. Comparing, tracing or reconciling longshoreman expenses with charges to shipping companies for longshore services is normally all that is necessary to verify the validity of these payroll or contracted service expenses. If the port has contracted with a terminal operator, the port will likely receive a standard or variable-rate payment from the operator for loading or unloading operations.



## Appendix 2: Parts of a Port

### Marine Terminal

Wharf – Area intended for loading and unloading of marine ships and temporary storage.

Berth – A space for a ship to moor (park). Usually this is while it's loaded, unloaded or waiting to do one or the other.

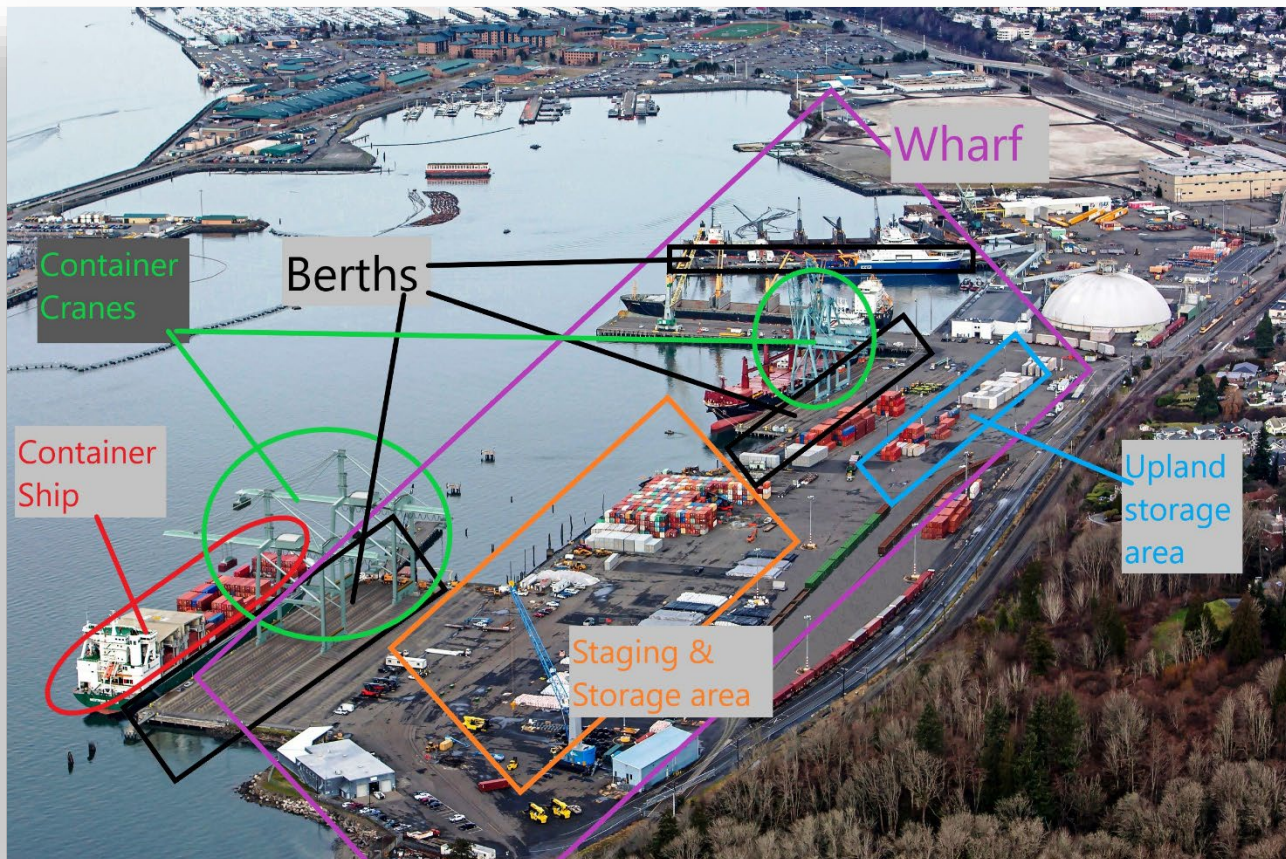
Container ship – Ship used to carry large quantities of containers or other cargo, the contents of which can vary widely. These can also vary greatly in size, some carrying just a few containers and larger ships carrying thousands. Twenty-foot Equivalent Unit (TEU) and Forty-foot Equivalent Unit (FEU) are the standard measurements of container sizes that fit on ships, trucks, and rail cars.

Container Cranes – Special cranes usually equipped with magnets that attach to containers to move them between the ship and the wharf. These are very expensive and are often leased.

Staging area – Area where longshoremen temporarily set containers or other cargo while it's between storage and a ship. This is used for quicker loading and unloading.

Upland storage – Storage area for containers or cargo that usually sits further from the berths. This can often cost less for companies to keep containers and cargo here because it's not as easily loaded and unloaded from ships and because it may be stored there for longer periods of time.

Break bulk (not pictured) – Odd sized or heavy cargo (not carried in containers) that usually requires a different set of equipment, expertise or care while loading and unloading from ships. Types of break bulk can be aircraft wings, bridge support beams, large tractors, or many other items. This is often higher risk for charges than regular containers because the pricing varies depending on the items. Extra supporting documentation may be necessary for these marine terminal revenues.





## Marina

Industrial Park – Designated area of a port for industrial businesses. The land is owned by the port and often the buildings are also owned and leased to industrial tenants.

Weblocker – Facilities similar to storage units usually leased to fishing vessels. Most often the contents stored are nets, crab pots and other fishing or boating equipment. Weblocker more literally means a locker for nets (webs).

Boathouses – Most often in marinas these are sections of docks within a marina that are fully enclosed for keeping boats and other contents. The cost of these are generally significantly higher than individual boat slips. The part of the term 'house' rarely indicates a residence, however, many ports allow for living aboard boats at an additional rate.

Dry Dock – A section usually close to the marina for boats to be stored out of water. The rates for these are usually much less than boat slips in the water because it takes additional effort to get the boat in the water. Most marinas will have a boat lift (often called a Travelift) that will lower and raise boats in and out of the water. These are usually operated by the ports but can be contracted out to a vendor to provide lift services.

Breakwater – A barrier set up outside the marina to block waves from entering the marina area. This protects boats in the harbors/marinas from damage.

Boat Slips – Individual slots along a dock for boats to moor. Think of these as boat parking spots. Usually marinas charge either by the size of the boat or size of the slip for moorage customers. Higher risk is associated with charges based on boat size because these can vary and aren't as easy to verify or monitor. Many boat slips make up a dock within the larger marina or harbor.

Boatlaunch – Most often a concrete ramp or group of ramps that extend out under the water used to put boats in the water without the use of a boat lift. Most public boat launches are free, but some ports charge a fee for use.

Marina – This term usually means specifically a grouping of docks used for mooring boats or other vessels. Sometimes a marina is also synonymous with a harbor.





## Airport

Runway – Section of an airport used for aircraft to take-off and land.

Taxiway – Section of airport that looks like the runway but is usually used by aircraft to travel slowly between the terminal and the runway.

Tie-downs – A space at an airport to keep aircraft secured by tying them down to the ground for either short or long periods of time. These can be a risk at airports because they are difficult to monitor and users may not be charged correctly.

Hangar – Enclosed facilities used for storing or working on aircrafts. A risk can be that hangars are only supposed to be used for this purpose, but tenants use them for something else like storing unauthorized vehicles, storing merchandise, permanent/temporary residence, or other uses that may not be authorized by airport policy.

Terminal – Typically used for multiple purposes but the primary purpose is for aircraft passengers to gather before or after a flight and for ports and private companies to conduct administration of flights such as monitoring or charging for the services. However, the terminal can be used for a wide variety of purposes.

