

# INTERNAL AUDIT REPORT

LIMITED OPERATIONAL AUDIT  
MARITIME STORMWATER UTILITY

JANUARY 1, 2016 – JUNE 30, 2017

ISSUE DATE: OCTOBER 6, 2017  
REPORT NO. 2017-17

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## EXECUTIVE SUMMARY

Internal Audit (IA) completed a limited operational audit of the Maritime Stormwater Utility for the period January 1, 2016 – June 30, 2017. The audit was performed to assess the design and operating effectiveness of internal controls.

We concluded that key terms in the Interlocal Agreement were achieved and that a system was established to assess, and, repair, or replace, stormwater infrastructure by December 31, 2019.

IA identified the following issue:

- 1) Internal controls should be implemented to decrease the likelihood of billing errors. To improve efficiency, management should also develop a plan to automate the billing process.

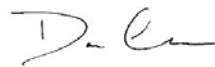
Management agrees with the issue and developed an action plan to remediate the issue by January 1, 2018 (see schedule of findings and recommendations on page six).

Our audit was conducted 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 Environmental Services Department for their assistance and cooperation during the audit.



Glenn Fernandes, CPA  
Director, Internal Audit



Dan Chase, CPA  
Manager, Internal Audit

### RESPONSIBLE MANAGEMENT TEAM

Lindsay Pulsifer, Managing Director, Maritime  
Stephanie Jones Stebbins, Director Environmental/Planning  
Srinivas Pendikatl, Utility Program Manager  
Jane Dewell, Senior Environmental Program Manager

## BACKGROUND

The Port of Seattle (Port) created the Maritime Stormwater Utility (Utility) by negotiating an agreement with the City of Seattle (City). On January 1, 2015, the Port established the Utility pursuant to the Revised Code of Washington 53.08040, 53.08043, 35.67.010, and 35.67.020. These statutes authorize port districts to establish, operate, furnish, and fund surface water and stormwater services, facilities, systems, and programs, including pollution control and treatment of stormwater discharge.

Prior to establishing the Utility, the Port paid the City stormwater drainage fees that reached nearly four million in 2014. The fees were rising annually by about 10% and the Port received no return on investment. By establishing the Utility, the fees collected from Port tenants are used to assess, repair, and improve stormwater infrastructure.

The Port's Stormwater Utility Charter, includes stormwater service charges per 1,000 square feet of billable area. The rates are grouped into five categories or groupings (undeveloped, light, medium, heavy, very heavy) based on impervious surface percentage. Impervious surface is defined as impenetrable materials preventing water from entering the ground. These surfaces include paved areas, roofs, docks, piers, and gravel. Pervious surface includes dirt and grass and allows water to infiltrate through the top surface.

Below are the 2015, 2016, and 2017 service charges per 1,000 square feet of billable area:

Stormwater Service Charge per 1,000 Square Feet of Billable Area				
Category/Grouping	Impervious Percentage	2015	2016	2017
Undeveloped	0-15%	\$28.05	\$29.17	\$30.34
Light	16-35%	43.37	45.11	46.91
Medium	36-65%	63.00	65.52	68.14
Heavy	66-85%	84.53	87.91	91.42
Very Heavy	86-100%	99.98	103.98	108.14

In November 2016, the Port entered into an Interlocal Agreement (ILA) with the City which serves as the operating agreement. The ILA outlines roles and responsibilities, including: ownership and maintenance of drainage pipes and other storm water facilities, dispute resolution processes, and property access challenges (where one party's pipes or infrastructure are located on the other Party's property).

Below reflects the department's annual revenue:

Maritime Stormwater Utility			
Revenue	2015	2016	YTD 2017 *
Sale of Utilities - Surface Water	\$4,403,498	\$2,888,599	\$1,912,784
Sale of Utilities - Surface Water NWSP	-	788,835	673,611
Sale of Utilities - Intercompany	-	1,073,549	564,116
<b>TOTAL</b>	<b>\$4,403,498</b>	<b>\$4,750,983</b>	<b>\$3,150,511</b>

Data Source: PeopleSoft Financials

\*Through 8/31/2017

## AUDIT SCOPE AND METHODOLOGY

The period audited was January 1, 2016 - June 30, 2017. To obtain an understanding of the program audited, we interviewed management, reviewed policy and procedural documents, and analyzed data. Our audit included the following procedures:

- 1) Identified key terms in the ILA and verified compliance.
- 2) Evaluated the billing process:
  - Assessed internal controls.
  - Re-performed billing calculations to assess mathematical accuracy.
  - Agreed leased square footage and stormwater rates from PROPworks to the billing spreadsheet (Excel).
  - Confirmed the monthly tenant billing, calculated in Excel, was accurately entered into PROPworks.
  - Traced the amount billed from PROPworks to PeopleSoft.
- 3) Validated that a process was established to assess and repair stormwater infrastructure:
  - Reviewed assessment, cleaning, and rehabilitation targets reflected in the Maritime Stormwater Utility Steering Committee materials.
  - Reviewed video imaging of stormwater pipe assessments.
  - Traced video imaging to the Stormwater GIS 2.0 database and verified a structural score was assigned.

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

### RATING: MEDIUM

INTERNAL CONTROLS SHOULD BE IMPLEMENTED TO DECREASE THE LIKELIHOOD OF BILLING ERRORS. TO IMPROVE EFFICIENCY, MANAGEMENT SHOULD DEVELOP A PLAN TO AUTOMATE THE BILLING PROCESS.

The Stormwater Utility Manager uses an Excel spreadsheet to calculate the monthly stormwater billing for approximately 180 tenants. After the stormwater fee is calculated, the fee is provided to the Real-Estate Management department for re-entry into PROPworks.

Updating the spreadsheet is manual, thus, prone to input error, and is not reviewed by a second individual. Versions from prior months are not maintained, making it difficult to create an auditable trail. The spreadsheet also resides on an employee's desktop which limits the ability for another individual to perform the billing function should the employee be sick or leave the Port.

### Recommendation

- 1) Enhance internal controls around the existing Excel spreadsheet by including version controls, performing a secondary review of billing changes, and maintaining the spreadsheet in a shared location with limited edit privileges.
- 2) Implement a monthly process to agree monthly grand totals calculated in excel to the grand total entered into PROPworks.
- 3) Assess the feasibility of migrating the entire billing process into PROPworks.

### Management Response

We agree with Internal Audit's recommendations. The first and second recommendation will be addressed by January 1, 2018. We have moved the billing file to a SharePoint location used for other Utility documentation with limited edit privileges. We will introduce version control process and perform a secondary review of all billing changes. We will also obtain and review a monthly download of PROPworks data to compare to the billing numbers prior to bills processing every month.

The final recommendation will be addressed by the end of the first quarter of 2018. We will assess the feasibility of migrating the billing process to PROPworks. If it is determined to be feasible, we will develop a schedule for the migration to PROPworks. If not feasible, we will evaluate other options to automate the billing process with a verification step to ensure accuracy.