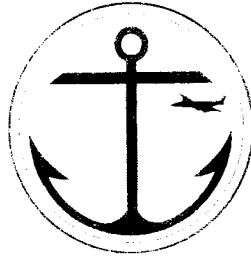


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Internal Audit Report 99-08 Preferential Use Agreements Port of Anchorage

Introduction. The Port of Anchorage (Port) charges a wharfage rate for merchandise received over the Municipal docks. According to the Port's Terminal Tariff, "wharfage is the charge assessed against any freight placed in a transit shed or on a wharf, or passing through, over or under a wharf or Municipal terminal, or transferred between vessels, or loaded to or unloaded from a vessel at a wharf, regardless of whether or not a wharf is used. Wharfage is solely the charge for use of wharf and does not include handling, sorting, piling of freight or charges for any other service." TOTE and Sea-Land provide monthly reports stating the total cargo tonnage that was loaded or unloaded at the Port. Wharfage charges are based on freight information provided by TOTE and Sea-Land and rates per ton of cargo as specified in the Preferential Use Agreements. In addition, dockage rates are charged in consideration for Anchorage granting permission to dock at the Port, including use of the premises. Dockage rates are based on the terms of the Preferential Use Agreements between the Port and both TOTE and Sea-Land.

Scope. The objective of this audit was to determine the accuracy of freight information submitted by TOTE and Sea-Land for the purpose of billing for wharfage charges. We also reviewed the adequacy of the Port's verification procedures associated with wharfage charges. In addition, we reviewed the accuracy of dockage charges billed to both TOTE and Sea-Land. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The scope of the audit covered the period of January through December 1998. The audit was performed during the period of April through June 1999. The audit was requested by the Port.

Overall Evaluation. Freight information submitted by TOTE and Sea-Land for wharfage purposes was not always accurate. The Preferential Use Agreements with TOTE and Sea-Land do not clearly define cargo items, therefore, the basis for computing wharfage becomes questionable. In addition, the Port's verification procedures require improvement for the timely detection and resolution of freight reporting discrepancies. Dockage charges were properly computed and billed to TOTE and Sea-Land during 1998.

Overall Management Comments. Management stated, "The Port of Anchorage appreciates the thoroughness of this Port requested Internal Audit. This audit report should serve as the source document which will enable the Port to more effectively administer the Preferential Use Agreements (PUAs) and serve as a guideline for the Port to recover additional, justified, current and future revenues from PUA arrangements. The Port thanks the Internal Auditor's Office for the diligent research effort which was undertaken to provide the Port with professional advice and has defined specific deficiencies in the Port's PUA Contracts and Terminal Tariff.

"This is the first audit of Port Preferential Use Agreement Contracts with its major carriers since their inception. The basic conditions of the PUA agreements with the ocean carriers were developed in the early 1960s for Sea-Land and in 1975 for Totem Ocean Trailer Express, Inc. (TOTE). The 1975 TOTE PUA was basically crafted on the earlier arranged Sea-Land document with some minor allowances for experience gained by the Port from 10 years of administering the Sea-Land PUA and operational differences between the two carriers. The initial PUAs contained generous financial and operational incentives to each ocean cargo carrier to encourage regional economic development of cargo traffic business through Anchorage. Due to a focus on parity between the two carriers, a number of the generous conditions contained in the initial PUAs were perpetuated into more recent PUA contracts which became effective in 1986 and 1996 for Sea-Land and TOTE respectively. This audit has also highlighted the requirement for a comprehensive review of the present Port of Anchorage PUAs, and the Port's Terminal Tariff, to alleviate any vague definitions of maritime transportation industry terms used therein, certain contract language interpretations of the parties and certain broad operating and reporting conditions.

“Due to the fact that the same management responses may address more than one of the Auditor’s Findings, Management Comments may appear somewhat redundant in several of the sections to answer those findings.”

FINDINGS AND RECOMMENDATIONS

1. Freight Information Was Not Always Properly Reported to the Port.

- a. **Finding.** Freight information was not always properly reported by TOTE and Sea-Land for wharfage purposes. Specifically, reports submitted by both TOTE and Sea-Land did not always include the weight of all freight shipped on southbound voyages. We estimate that approximately \$75,000 of wharfage revenue was not collected during 1998 as a result of TOTE and Sea-Land’s errors and omissions. We found the following examples during our review of both TOTE and Sea-Land’s reports of freight:
 - 1) TOTE inconsistently reported items such as empty milk crates, pallets, cardboard, empty beer kegs, and bread trays for southbound voyages. When these items were reported as deadhead, they were excluded from the wharfage billing. When these items were reported as dunnage, they were included in the wharfage billing.
 - 2) Sea-Land did not report freight classified as deadhead (free passage) for all southbound voyages. Examples of these items are empty milk crates, pallets, cardboard, empty beer kegs, bread trays, kegs containing spoiled beer, and salvage items.
 - 3) Freight information was not reported to the Port by Sea-Land for freight added in Anchorage to containers destined for Kodiak or Dutch Harbor.

4) Reports submitted by Sea-Land for southbound voyages did not always use the same basis of weight. Sometimes the gross weight was used and other times the net weight was used.

b. Recommendation. The Port Director should require TOTE and Sea-Land to accurately report freight information in accordance with the provisions specified in the respective Preferential Use Agreements. In addition, the Port's verification procedures should be strengthened to detect and correct reporting errors and deficiencies.

c. Management Comments. Management concurred and stated, "The Port will initiate directives to: (1) require both carriers to report **all** shipping weight including dunnage and other categories and to eliminate the "deadhead" category; (2) require a change in the format of cargo movement reports submitted to the Port for billing purposes and in this new reporting format require descriptions of all items carried including a description of dunnage weight and any other(s); (3) negotiate changes to the Preferential Use Agreements which more clearly define the language that is vague; (4) clarify language defining transhipped cargo and for standardization also require all transhipped weight be reported northbound and southbound; (5) require both carriers to weigh northbound and southbound loads; (6) require carriers to provide weight tickets on specific voyages at the Port's request; (7) require carriers to provide reports on their in-house corrections of cargo shipments to all voyages for warranted billing adjustments; and (8) change language in Port tariff which is presently undergoing review for tariff changes."

d. Evaluation of Management Comments. Management comments were responsive to the audit finding and recommendation.

2. **Sea-Land's Detail Reports Were Confusing.**

- a. **Finding.** The Extended Stow Detail report submitted by Sea-Land for one voyage a month was confusing and difficult to interpret. For example, the southbound report contained weights in pounds, not short tons as on the northbound reports. The container weights were listed in a column titled "Haz Comment Column". The northbound report used rounding to a tenth of a ton whereas the southbound report used rounding to one hundredth of a pound. The Preferential Use Agreement states that monthly payment of charges shall be accompanied by a report in a form satisfactory to the Port Director summarizing all cargo loaded and discharged to and from Sea-Land's vessels.
- b. **Recommendation.** The Port Director should prescribe a report format that provides clear and understandable information of all cargo loaded and discharged to and from Sea-Land's vessels.
- c. **Management Comments.** Management concurred and stated, "The Port will require both carriers to provide manifests with detailed information in a new reporting format designed by the Port with assistance from Internal Auditor's Office. As part of the this new format, the carriers will be required to provide consistent weight type (pounds) per container, no independent rounding of shipping weights, etc. As provided by the PUA, the Port will require all summarized reports be accompanied by individual manifests for each voyage as back up."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Preferential Use Agreements Require Improvement.**

- a. **Finding.** Preferential Use Agreements with TOTE and Sea-Land require improvement. Specifically, the Agreements do not define cargo, dunnage and deadhead and their respective inclusion in determining wharfage charges. The Agreements also do not specify whether wharfage should be charged on net or gross weights and what rates should be charged for containers and trailers. The lack of definition of these items increases the difficulty in determining whether tonnage is properly reported by the carriers for billing purposes. Currently, wharfage is applied to the reported net cargo weight of the contents of trailers and containers. Wharfage is not computed nor collected on containers, trailers or vans. Using the current tariff rate of \$6 per trailer or container, we estimated \$445,000 in lost revenue for 1998 from wharfage rates not applied to empty containers, vans and trailers.

- b. **Recommendation.** Preferential Use Agreements should be amended to include a definition of cargo, clarification of whether wharfage is charged on net or gross container weights, definition of dunnage and deadhead and the applicable inclusion or exclusion of these weights in the wharfage charges, and charges for containers, vans and trailers, if any.

- c. **Management Comments.** Management concurred and stated, "Many of the items referred to in this section with respect to the PUAs, will likely require negotiation for inclusion in the PUAs. The parties will agree to a rewrite of the PUA agreements to include definition of "cargo" and clarify that "wharfage" is charged on net container weight as stated in Port of Anchorage Terminal Tariff and renewed agreements will include a clarification of "dunnage" and other items in the PUA definitions with an appropriate rate adjustment if applicable. The Port intends to effect changes to the PUA agreements to include all van and trailer charges and include language stating that any areas or item not specifically covered under the PUA will revert back to the

Port's Tariff conditions. With respect to the \$445,000 reported by this audit in "lost revenue" on "empty containers" in 1998, the empty container provision in the Port's Terminal Tariff wharfage rates is not presently contained/defined in the PUA wharfage schedules. This will be rectified during the next negotiation in 2000 as discussed earlier. The Port will require the carriers to provide a Monthly Correction Report after all containers and other applicable PUA cargoes are weighed."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Monthly Verification Procedures of Tonnage Not Effective.**

- a. **Finding.** The procedures followed by Port personnel for the monthly verification of tonnage reported by TOTE and Sea-Land were not effective. Specifically:
- 1) Differences between the reported tonnage and the supporting documentation (i.e., bill of lading) identified as a result of their verification procedures were not researched.
 - 2) The test performed for northbound voyages did not include a review and comparison to weigh station scale tickets. These tickets are the source documents for the reported northbound tonnage.
 - 3) The manifests used for sample selection were not reconciled to summary reports provided by TOTE and Sea-Land and used to bill wharfage charges.
 - 4) Prior to this audit, Port personnel did not have a clear understanding of monthly freight reports submitted by Sea-Land.

- b. Recommendation.** The Port should revise their verification procedures to include an understanding of the submitted reports. All differences between the reported tonnage and the bills of lading or other supporting documentation should be researched. Weigh station scale tickets should be requested to support the reported tonnage, specifically for the northbound voyages. The detailed report of freight carried should be reconciled to the summary amount reported to the Port.
 - c. Management Comments.** Management concurred and stated, “The Port will coordinate and require carriers to: (1) revise Summary Reports in a Port designed format for standardization; (2) require carriers to change reporting methods and format of manifests to a Port designed and standardized format; (3) require a manifest for each voyage accompany Summary Report; (4) ensure reported weights are verified by comparison with bills of lading and/or weight tickets; and (5) require Monthly Correction Reports on all voyages for possible billing adjustments. Port personnel will reconcile selected voyages to the Summary Report and the Monthly Correction Report will be checked against vessel manifests. Billing adjustments will be made as necessary.”
 - d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
- 5. Wharfage Based on Shipper’s Declared Weight Rather Than Actual for Southbound Cargo.**
- a. Finding.** Wharfage was based on the shipper’s declared weights documented on the original bill of lading for southbound cargo because there are no scales at the Port. Our review of the differences between actual scale weights and shipper’s declared weights for selected northbound voyages (which are weighed in Tacoma) revealed

differences ranging from several hundred pounds to several thousand pounds per container or trailer.

- b. **Recommendation.** The Port should consider the feasibility and benefits of purchasing scales for the Port or request that Sea-Land and TOTE weigh southbound shipments upon arrival and report the results to the Port.

- c. **Management Comments.** Management concurred and stated, "The Port has previously considered obtaining and locating scales at the Port. At present, under existing Port access roadway and container lot traffic patterns, there is not a location within the Port for the scales which would not have a significant adverse impact to vessel on/off load operations of one or both carriers. Establishing cargo scales at the Port continues to be an item in the Port's long range planning. As an interim measure, the Port will require carriers to weigh all northbound and southbound shipments in Tacoma prior to submitting certified manifests."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Management Summary. Management stated, "The Port will initiate audit correction reporting for this audit in accordance with Municipal Policy and Procedure 4-1 and Anchorage Municipal Code & Regulations 3.20.120."

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on June 24, 1999.

Audit Staff:
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