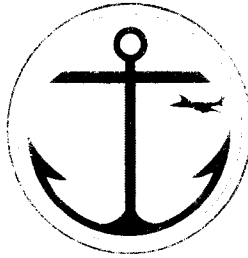


Municipality of Anchorage



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George F. Wuerch, Mayor

OFFICE OF THE INTERNAL AUDITOR

May 11, 2001

Internal Audit Report 2001-2 CSX Preferential Use Agreement Follow-up Port of Anchorage

Introduction. At the request of the Port Director, we performed a follow-up audit to the 1999 audit of the Preferential Use Agreements and the 2000 management assistance follow-up review. The 1999 audit and 2000 review noted numerous inaccuracies between the actual cargo weights and the weights that had been reported to the Port of Anchorage (Port) for billing purposes, particularly on the southbound voyages. They also noted that the Preferential Use Agreement did not clearly define what was billable cargo.

The 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." CSX provides monthly reports stating the total cargo tonnage that was loaded at the Port. Wharfage charges are based on freight information provided by CSX and rates per ton of cargo as specified in the Preferential Use Agreement. Per correspondence between the Port Commission and CSX, only pallets and wooden dunnage are exempt from wharfage.

Scope. The audit was limited to southbound CSX voyages. There were two objectives. The first objective was to determine whether the inaccuracies noted in the previous audit and management assistance review had been corrected by CSX. The second objective was to produce statistically valid data on the weight and contents of the containers on southbound CSX voyages for 1998 through 2000. 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.

Overall Evaluation. We found that the inaccuracies noted in the previous audit and review were still present. Our review of 14 ships and 1,779 containers revealed that CSX had under reported southbound cargo by an average of 100.30 tons per ship. This equates to \$200.61 per ship for a total of \$61,587.27 for the three years.

Overall Management Comments. Management stated, "The Port of Anchorage appreciates the thoroughness of this Port requested follow-up Internal Audit. This follow-up audit report should serve as an additional source document which will enable the Port to more effectively administer this Preferential Use Agreement (PUA) and serve as a guideline for the Port to recover additional, justified, current and future revenues from this PUA arrangement. The Port thanks the Internal Auditor's Office for the diligent research effort which was undertaken to provide the Port with professional advice and recommendations on specific deficiencies in the Port's administration of this PUA Contract."

FINDINGS AND RECOMMENDATIONS

1. Billable Weight Was Not Accurately Reported to the Port.

- a. **Finding.** Weight was not accurately reported by CSX for wharfage purposes. Reports submitted by CSX contained the following types of errors:
- **Misclassification.** We found a significant number of instances where contents that should have been charged wharfage were classified as dead head and were not reported to the Port.

- Lack of Consistency. There was no consistency in the way weights were reported to the Port, either between reports or within the reports. For example, the weights for shipments of recycled materials were sometimes reported as a billable cargo weight and sometimes listed as zero weight dead head.
 - Incomplete Information. Records did not always provide enough information to accurately reflect what was in the shipment. The most prevalent example of this was dunnage. Throughout the bills of lading, containers were listed simply as dunnage, but did not specify what the dunnage was.
 - Typographical Errors. The weights reported to the Port contained a large number of typographical errors.
- b. **Recommendation.** The Port should consider the possibility of using another methodology for wharfage. Two possible methods could be considered that would simplify the billing process, saving both the Port and CSX time and money. First, the average billable weight per ship calculated during this audit could be used as the basis for wharfage charges, rather than the actual weight. The average weight could be periodically recalculated through future audits. Second, the Port could charge a flat rate per container for wharfage.
- c. **Management Comments.** Management stated, "The Port and CSX have been involved in an on-going review of the PUA agreement between the parties to address all the deficiencies which identified in the original 1999 audit. These additional follow-up audit comments and recommendations should assist the Port and CSX in addressing these specific deficiencies and improving/updating certain basic conditions contained in the agreement which were developed in the early 1960s."

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

2. **CSX Under Reported Billable Weights.**

- a. **Finding.** We used statistical sampling to determine what the average difference was between the billable weight reported to the Port and the actual billable weight per the bills of lading. For the three-year period, 1998 through 2000, there was a total of 307 southbound voyages. Using a 95% confidence level and 5% sampling precision, we determined a sample size 14 ships. Due to the availability of documentation, we randomly chose the sample from 2000. We then reviewed the bill of lading for each of the 1,779 containers on the sampled ships, recording the weights and categorizing the contents. Finally, we summarized the data. When the pallets were excluded, CSX had under reported billable weight by an average of 100.30 tons (200,600 pounds) per ship. At \$2 per ton, this equates to \$200.61 per ship or \$61,587.27 for the three-year period. A summary of our results can be seen on Attachment A.
- b. **Recommendation.** We recommend that the Port meet with CSX to resolve the discrepancies in the reported weights.
- c. **Management Comments.** Management stated, "The Port and CSX have been involved in an on-going review of the PUA agreement between the parties to address weight reporting deficiency identified in the original 1999 audit. This follow-up audit has further clarified this particular deficiency for both parties and should assist in resolving the situation."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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Port of Anchorage
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Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on April 26, 2001.

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AUDIT TEST RESULTS

Ship Number	Date of Sailing	Cargo Weight	Pallet Weight	Bale Weight	Basket Weight	Shell Weight	Dunnage Weight	Other Weights	TOTAL WEIGHT	Billable Weight	Reported Weight	Difference over (under) reported	Number of Containers by Ship
KO421	02/01/00	7,920	1,708	460	119	0	790	452	11,449	9,741	7,229	(2,512)	89
TW432	02/21/00	12,980	1,315	1,363	503	251	439	692	17,543	16,228	10,965	(5,263)	108
KO425	03/20/00	8,479	2,717	1,850	694	454	901	974	16,069	13,352	6,632	(6,720)	145
TW437	04/10/00	10,801	1,305	1,508	657	97	731	581	15,680	14,375	9,290	(5,085)	121
AZ441	05/03/00	6,940	1,918	200	180	0	409	374	10,021	8,103	6,498	(1,605)	87
KO432	05/28/00	16,279	2,654	1,226	126	66	388	743	21,482	18,828	15,529	(3,299)	145
TW444	06/20/00	13,078	1,730	0	0	40	629	428	15,905	14,175	13,614	(561)	104
AZ448	07/17/00	18,781	3,546	1,970	704	269	648	1,864	27,782	24,236	27,939	3,703	179
KO439	08/08/00	12,495	2,028	875	488	88	493	903	17,370	15,342	16,310	968	115
TW451	09/03/00	22,345	2,126	1,303	200	0	1,562	1,270	28,806	26,680	29,341	2,661	192
AZ455	09/26/00	10,019	1,808	600	320	57	718	1,234	14,756	12,948	13,180	232	119
KO446	10/22/00	18,414	2,736	1,284	584	228	1,157	911	25,314	22,578	16,487	(6,091)	177
AZ460	11/15/00	5,749	2,569	220	345	171	125	834	10,013	7,444	5,098	(2,346)	85
TW461	12/11/01	8,702	2,146	0	79	261	299	1,468	12,955	10,809	8,642	(2,167)	113
TOTAL		172,982	30,306	12,859	4,999	1,982	9,289	12,728	245,145	214,839	186,754	(28,085)	1,779
AVERAGE		12,356	2,165	919	357	142	664	909	17,510	15,346	13,340	(2,006)	127

Note: All weights on this sheet are in Hundred weight.

Ship -

The identification number of the ship upon which the stated weights were found.

Date -

The day in which the ship left Anchorage heading south.

Cargo Weight -

The amount of weight in the container attributed to cargo.

Pallet Weight -

The amount of weight in the container attributed to pallets.

Bale Weight -

The amount of weight in the container attributed to bales.

Basket Weight -

The amount of weight in the container attributed to baskets.

Shell Weight -

The amount of weight in the container attributed to shells.

Dunnage Weight -

The amount of weight in the container that the bill of lading indicated as dunnage.

Other Weights -

The amount of weight in the container that did not fit into the above weight categories. Examples include empty kegs, tanks, cylinders, and totals for grouped weights that could not be split out.

Total Weight -

The sum of all the above weight classifications.

Billable Weight -

The amount of weight that is to be billable between the Port and CSX. In this instance, it is Total Weight less Pallet Weight.

Reported Weight -

The weight that the Port had indicated on their Stow Detail Report.

Difference -

The weight difference between the billable weight and the reported weight.

ATTACHMENT A

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