

INTERNAL AUDIT REPORT

2017-11

Preferential Use Agreements

Port of Anchorage

October 12, 2017

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

October 12, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-11, Preferential Use Agreements, Port of Anchorage**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed an audit of the Preferential Use Agreements. The objective of this audit was to determine the accuracy of reports submitted by TOTE Maritime Alaska and Matson Navigation Company of Alaska, LLC for the purpose of billing for wharfage charges. To accomplish the audit objective, we reviewed tonnage reports submitted between January 2016 through May 2017 by TOTE Maritime Alaska and Matson Navigation Company of Alaska, LLC. We also selected and reviewed TOTE Maritime Alaska's dunnage report and compared the information to the support provided to determine if the cargo qualified as dunnage under the Terminal Tariff. We were not able to verify Matson Navigation Company of Alaska, LLC's reported dunnage since Matson Navigation Company of Alaska, LLC did not provide the supporting document without us signing a non-disclosure agreement. We did not sign the non-disclosure agreement since it could have impaired our ability to report potential findings accurately.

Our audit revealed that reports submitted by Matson Navigation Company of Alaska, LLC and TOTE Maritime Alaska, for purposes of billing wharfage charges, were not always accurate. Specifically, Matson Navigation Company of Alaska, LLC did not pay wharfage on nonrevenue cargo. In addition, TOTE Maritime Alaska did not report Alaskans for Litter Prevention and Recycling loads and company business cargo on its tonnage reports submitted to the Port of Anchorage.

There were two findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

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Internal Audit Report 2017-11 Preferential Use Agreements Port of Anchorage

Introduction. According to the Port of Anchorage (Port) Terminal Tariff (Tariff), a charge (wharfage), is “. . . assessed against any freight, cargo or goods 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 only the charge for the use of the Port and does not include additional charges such as handling or freight charges. Wharfage is not assessed on some items (dunnage). Dunnage includes items such as bags, baskets, bins, pallets, and bales of cardboard, etc. A Preferential Use Agreement (PUA) between the Municipality of Anchorage (Municipality) and Totem Ocean Trailer Express, Inc. (TOTE), currently TOTE Maritime Alaska, was entered into on January 3, 1996. This PUA has been amended several times. A PUA between the Municipality and Matson Navigation Company of Alaska, LLC. (Matson) was entered into on May 1, 2016. As required by both PUAs, TOTE and Matson submit reports to the Port for cargo they transport through the Port so that the wharfage charge can be calculated.

Objective and Scope. The objective of this audit was to determine the accuracy of reports submitted by TOTE and Matson for the purpose of billing for wharfage charges. To accomplish the audit objective, we reviewed tonnage reports submitted between January 2016 through May 2017 by TOTE and Matson. We also selected and reviewed TOTE’s dunnage report and compared the information to the support provided to determine if the cargo qualified as dunnage under the Tariff. We were not able to verify Matson’s reported dunnage since Matson did not provide the supporting document without us signing a non-disclosure agreement. We did not sign the non-disclosure agreement since it could impair our ability to report potential findings accurately.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. 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. The audit was performed during the period of June through August 2017. The audit was requested by the Administration.

Overall Evaluation. Reports submitted by Matson and TOTE, for purposes of billing wharfage charges, were not always accurate. Specifically, Matson did not pay wharfage on nonrevenue cargo. In addition, TOTE did not report Alaskans for Litter Prevention and Recycling (ALPAR) loads and company business cargo on its tonnage reports submitted to the Port.

FINDINGS AND RECOMMENDATIONS

1. Matson Did Not Pay Wharfage for Nonrevenue Cargo.

- a. Finding.** Matson did not pay wharfage on nonrevenue cargo. According to Matson, nonrevenue cargo includes items such as supplies for company business and employee relocation shipments. Nonrevenue cargo also includes arbitrage cargo, which is defined as cargo that Matson does not charge its customers to transport. Between January 2016 and May 2017, we identified 32 “company business cargo” containers with cargo weight totaling 218 tons and 142 of 145 outbound voyages with “arbitrage cargo.” Due to the labor intensive nature of the data, we did not calculate the weight of the “arbitrage cargo.” However, as an example, one outbound voyage in 2016 had 11 “arbitrage cargo” containers totaling 77 tons. Although Matson classified this company business and arbitrage containers as nonrevenue, the PUA makes no distinction between nonrevenue and revenue cargo, and the cargo did not meet the criteria to be classified as dunnage. A similar finding was reported in previous Internal Audit Report 2008-10.

- b. **Recommendation.** The Port Director should require Matson to report each ton of cargo for wharfage billing purposes.

- c. **Management Comments.** Management stated, “We concur with the finding. To correct the situation, the Port will initiate directives to:
 - “1. Require both carriers to report all cargo tonnage including dunnage, non-revenue, recyclables and other categories;

 - “2. Negotiate changes to the Preferential User Agreements (PUA) to more clearly define the definitions of each cargo type and establish clear operating and reporting parameters for Non-revenue cargo.

 - “3. Require reporting of all cargo, to include explanations of ‘company business cargo’, arbitrage, dunnage, and non-revenue cargo.”

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

2. **TOTE Did Not Always Report Each Ton of Cargo.**

- a. **Finding.** TOTE did not report ALPAR loads and company business cargo on its tonnage reports submitted to the Port. As a result, TOTE did not pay wharfage on the cargo. For example, between February 2017 and May 2017, TOTE transported 3,194 tons of ALPAR loads that were not included in TOTE’s tonnage reports submitted to the Port. Per TOTE’s staff, they did not report ALPAR loads in their tonnage report because TOTE did not collect revenue for transporting ALPAR loads. However, the PUA makes no distinction between nonrevenue and revenue cargo, and the cargo did not meet the criteria to be classified as dunnage. A similar finding was reported in previous Internal Audit Report 2008-10.

- b. **Recommendation.** The Port Director should require TOTE to report each ton of cargo for wharfage billing purposes.

- c. **Management Comments.** Management stated, “We concur with the finding. To correct the situation, the Port will:
 - “1. Draft an amendment to the current PUA to clarify the treatment of ALPAR loads that will allow non-paying tons. ALPAR loads that generate no revenue to TOTE will be reported on the monthly cargo report, but excluded from TOTE's annual revenue tonnage calculation.”

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

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on August 31, 2017.

Audit Staff:
Scott Lee