

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

PORT AUTHORITY
CRUISE SHIP COMPLIANCE

A U D I T R E P O R T

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MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

PORT AUTHORITY
CRUISE SHIP COMPLIANCE AUDIT

AUDIT REPORT

The Internal Audit Department conducted a compliance audit of the Cruise Line Operations, which is under the Port Authority, for the audit period November 1, 2001 through October 31, 2002. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards* issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

BACKGROUND:

Manatee County Port Authority entered into a facilities agreement with Regal Enterprises, Inc. on August 10, 1993 to permit the operation of a cruise ship out of Port Manatee. This agreement was replaced by a new facilities and operations agreement on November 16, 1995, which expires at the end of the regular cruise season in the Spring 2003. Specific charges and fees, as well as performance requirements, are outlined in the agreement and subsequent amendments. Port Authority management is responsible for invoicing Regal for the specified fees and charges and ensuring that the cruise company adheres to its agreements. Also, in January of 1997, the Port Authority entered into a lease agreement with Regal for office space. The lease was renewed in 2001 and is effective until January 31, 2004. Regal is required to pay a rental fee, along with applicable taxes, each month.

PURPOSE/OBJECTIVES:

The main audit objectives included, but were not limited to, the following:

To verify the accuracy, completeness, and timeliness of financial data relating to the fees, charges, and rent paid by Regal Enterprises.

To verify compliance with the facilities and operations agreement and the office lease agreement for Regal Enterprises.

SCOPE:

The audit scope consisted of reviewing the cruise ship agreements and the related financial accounts for the year ended October 31, 2002.

METHODOLOGY:

Substantive testing of individual financial accounts was performed, along with observations and discussions with management. Risk analysis was used to establish priorities of audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

No indications of irregularities, abuse, or illegal acts were discovered during the Cruise Ship compliance audit for the period ending October 31, 2002.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the compliance audit of the Cruise Line Operations for the year ended October 31, 2002, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. Internal control weaknesses involve matters relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions. In addition, because of the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. In this report, we did not note any matters involving internal control weaknesses.

MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:

A Management Action Plan will be given for each Area for Improvement. Management Action Plans are corrective actions with implementation dates developed in cooperation with the Port Authority's Management Team and the Internal Audit Department. The Management Team included David McDonald, Executive Director, and Ken Scarbrough, Senior Director of Business and Finance.

MANAGEMENT SUMMARY:

The Port Authority is staffed by dedicated, professional individuals who know their responsibilities under the Regal Enterprises Contract and have developed good internal controls to ensure its compliance. Based on the audit performed, it appears that the Port Authority staff has been accurately charging Regal Enterprises in compliance with their contract and the Port Authority Board approved Tariff for the fees, charges, and rent paid. We commend the Port Authority staff for a job well done.

The audit identified one area where improvement can be made. Although reportable, this area is considered relatively minor in relation to the overall Cruise Line Operations.

- The parking rates defined in the Tariff for the cruise passengers requires clarifications for those passengers that take more than one cruise at a time and require parking in excess of 12 nights. The parking rates in the Tariff are set for up to 12 nights, and does not state what rate should be charged for the excess nights. The Management Team through its Management Action Plan anticipates updating the Tariff regarding parking rates charged, and seeks Port Authority Board approval by March 1, 2003.

We would like to thank the Port Authority's management and staff for the cooperation and courtesy afforded to our auditors throughout the audit. We appreciate the efforts and timeliness in addressing the issues raised during the audit and aggressively seeking solutions to these matters. We look forward to Port's continued effort on monitoring controls and maintaining accountability over all of their operations.

AUDIT REPORT AUTHORIZATION:

This audit report has been reviewed and authorized by:

Richard J. Orienti, CIA, CFE
Director of Internal Audit

R. B. "Chips" Shore
Clerk of the Circuit Court and Comptroller

MEMORANDUM

TO: David McDonald, Executive Director,
FROM: Richard Orienti, Director of Internal Audit
DATE: February 13, 2003
RE: Verbally Discussed Audit Findings – Port Cruise Ship Compliance Audit

During the exit meeting for the Port Cruise Ship Compliance Audit, we informed you that some of the less significant audit findings discussed would not be included in our final audit report. For your convenience, we have enclosed a summary of these findings and our Management Action Plans. While less significant, these findings are important and will be revisited to verify corrective actions have been taken during our follow-up audit. This follow-up audit will be performed approximately six months from the release of the audit report.

If you have any questions, please telephone me at extension 4170.

RJO/MDB

Enclosures

cc: Ken Scarbrough, Senior Director of Business and Finance

Manatee County Clerk of the Circuit Court
Internal Audit Department

Cruise Ship Compliance Audit
Verbally Discussed Audit Findings

1. The lease agreement with Regal Enterprises Corp. (hereafter referred to as Regal) requires that Regal pay for cleaning and solid waste disposal. In 1988, Regal verbally agreed to pay the Port for half of the office cleaning in their rental facility. The audit found that Regal is paying more than the 50 percent of the current cleaning services that the Port pays, resulting in an over billing of \$1,500. In addition, the rates charged for solid waste disposal do not agree to the current solid waste fees, which resulted in an under billing of \$53.46 for the period 12 months period ending October 31, 2002.

Management Action Plan: Management believes that the cleaning charge is a fair rate and will continue to charge that amount. Management will adjust the solid waste disposal charge to reflect the current rates and will implement procedures to review the solid waste disposal fee annually when the new rates are approved.

2. The Tariff allows for a \$15 fee to be charged for water hookups. Clarification is needed as to when to apply this fee. The audit found that water hookup fees are applied inconsistently and are not always supported by adequate documentation. There appears to be confusion as to whether the fee should be charged when the water hose is already hooked up to the meter.

Management Action Plan: Management believes that the water hookup charge is an additional charge for obtaining water service. Management will train their employees on this when completing water tickets sales. Management will clarify the language in the Tariff and anticipates presenting the Tariff changes to the Port Authority Board by March 1, 2003.

3. The Port's billing system contained an incorrect formula for calculating water rates when the usage was less than 275 metric tons. According to the Tariff, if usage is less than 275 metric tons, then quantities used are to be converted to regular tons and billed at the regular ton rate. The error resulted in Regal's under billing of \$29 for the period 12 months period ending October 31, 2002.

Management Action Plan: Management has already corrected the billing formula as of January 28, 2003.

Manatee County Clerk of the Circuit Court
Internal Audit Department

Cruise Ship Compliance Audit
Verbally Discussed Audit Findings

Continued

4. Water usage is accounted for using two internal independent sources. The water sales tickets are generated from information from the security guard. The audit found a discrepancy on a water billing that resulted from a transposition error on the water sales ticket. This error could have been avoided if the water sale ticket was compared to the internal Port documents prior to the input into the billing system.

Management Action Plan: Management has already implemented improved controls as of January 28, 2003 by having the data entry employee compare the water sales ticket to Port's internal documents.

5. Parking ticket packets occasionally contain blank tickets that are not pre-numbered. It is normally the responsibility of the Port Finance Coordinator to go through them and remove any blank tickets. The audit found that the Parking Attendant sometimes removes the blank tickets. If the Parking Attendant has access to blank tickets, he/she potentially has the ability to collect parking fees and not remit the money to the Port. This missing money will not show up in the reconciliation process since the reconciliation is based on the pre-number tickets.

Management Action Plan: Management has already implemented procedures as of January 28, 2003 to ensure that blank tickets are not included in the parking ticket package given to the Parking Attendants.

6. Port has a current insurance certificate on file for Regal. The audit found that while procedures are in effect regarding the renewal of insurance certificates, no one appears responsible for ensuring that the coverage indicated on the certificate matches the requirements specified in Regal's agreements.

Management Action Plan: Management has already designated a person responsible for the review of insurance coverage as of January 28, 2003.



Manatee County

Clerk of the Circuit Court and Comptroller

R.B. "Chips" Shore

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MEMORANDUM

TO: David McDonald, Director of the Port Authority

FROM: R. B. "Chips" Shore, Clerk of the Circuit Court, County Comptroller and Auditor

DATE: February 6, 2003

RE: Port Authority Cruise Ship Compliance Audit

Enclosed is the Internal Audit Report for the Port Authority Cruise Ship Compliance Audit as of October 31, 2002. Our Internal Audit Department will perform a follow-up audit of on the one areas of improvement included in this report in approximately six months to verify implementation of Management's Action Plan.

I wish to thank you and your staff for their courteous and professional cooperation with our Internal Auditors throughout the audit. If you have any further questions regarding this report, please feel free to contact Richard Orienti at extension 4170.

RBS/RJO

Enclosures

cc: Port Authority Commission



Manatee County

Clerk of the Circuit Court and Comptroller

R.B. "Chips" Shore

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MEMORANDUM

TO: City Desk Editor, Bradenton Herald
City Desk Editor, Manatee AM
Islander Bystander
Sid Thomas, Editor
WHNZ, Newsroom
Longboat Key Observer (Attn: Shay Sullivan)

FROM: R. B. "Chips" Shore, Clerk of the Circuit Court, County Comptroller and Auditor

DATE: February 7, 2003

RE: Announcement of the Release of an Internal Audit Report

My office is releasing today the Internal Audit Report for the Port Authority Cruise Ship Compliance Audit, which was performed as of October 31, 2002. Copies may be obtained by contacting the Internal Audit Department at (941) 741-4017. Copies of the report can either be mailed or picked up at the County Courthouse room 158.