

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

PORT AUTHORITY
BILLING AND ACCOUNTS RECEIVABLE AUDIT
JUNE 30, 2004

A U D I T R E P O R T

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A U D I T R E P O R T

The Internal Audit Department conducted a limited scope audit of the Port Authority's Billing and Accounts Receivable balances for the audit period July 1, 2003 through June 30, 2004. 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 (also referred to as Port Manatee) has revenues primarily consisting of vessel charges that include dockage, wharfage, linehandling, and water and electrical charges; tenant leases; and other tariff related charges. The Port's Finance Section is responsible for the billing of all Port activity as well as the collection and monitoring of customer accounts.

PURPOSE/OBJECTIVES:

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

To determine whether the internal controls are adequate for all the billing and accounts receivable activities.

To determine whether adequate procedures exist for the reporting and collection of the billing activities and accounts receivable function.

To determine whether the billing and collection of charges are complete and timely.

SCOPE:

The audit scope consisted of reviewing the billing and accounts receivable activity for the twelve months ending June 30, 2004. The audit was limited to the billing of leases and vessels arriving at the Port and their subsequent collection. The audit concentrated on the timeliness of invoicing these charges as well as the timeliness in their collection. The audit did not verify lease or invoiced amounts to contracts and/or tariffs.

While testwork was performed as of June 30, 2004, the accounts receivable analysis included in this report was derived from August 31, 2004 balances for both Port Manatee and Port of Tampa to provide a more timely look at current operations.

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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 Billing and Accounts Receivable audit for the period ending June 30, 2004.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the Billing and Accounts Receivable Audit for the year ended June 30, 2004, 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 Bob Armstrong, Director of Business and Finance.

MANAGEMENT SUMMARY:

Port Manatee is staffed by dedicated, professional individuals who have continuously strived to improve collections and monitoring procedures over their billings and accounts receivable throughout the years. Based on the audit performed, it appears that Port Manatee has implemented adequate internal controls over billing activities and has been appropriately charging for port services. We commend the Port staff for a job well done.

Port Manatee is also part of a very competitive industry with a limited customer base. As a result, customer service is given primary emphasis at the Port. With its main competitor less than 41 miles away, the Port does not always utilize tariff rules that can assist to strengthen the timeliness of billing invoices and the collection of accounts. Instead, individualized customer negotiations appear to be the preferred tactic employed by the Port. As a result of these management practices, the audit identified two areas where improvements can be made.

- The Port Authority's management appears to be assuming a somewhat higher investment in accounts receivable and a higher risk of loss than may be necessary. In this report, an accounts receivable analysis was performed that includes a comparison of collection practices at Port Manatee's major competitor, the Port of Tampa. It appears that Port Manatee can strengthen collection efforts by utilizing current tariff rules and adopting new collection practices, while still remaining competitive. The Management Team through the management action plan will consider strengthening internal controls over accounts receivable that may include adding penalties and cutting off service for delinquent accounts, beginning collection efforts after accounts exceed 30 days, and implementing and reviewing a financial application process for new customers. **(See Area for Improvement #1 on page 4)**
- Tariff Rule 195 requires a vessel to report cargo activity upon its arrival and departure in the form of a document submitted to the Port. These reports are used to bill Port's customers. A review of the Port's vessel activity report with the billing of these customers revealed that cargo reports are not always submitted timely, resulting in delays in generating invoices to these customers. The Management Team through the management action plan will enforce compliance with this tariff by developing procedures that will strengthen the receipt of these reports from all vessels prior to their departure. **(See Area for Improvement #2 on page 6)**

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

AREA FOR IMPROVEMENT #1

Timeliness of Collections of Accounts Receivable:

Port Manatee management's efforts have improved to reduce outstanding accounts receivable balances through enhanced collections and monitoring procedures while maintaining a generous collection policy. We recognize that there is a balance between the amount of risk that Port Manatee is willing to accept by having a lenient policy and the perceived losses that may result from a stricter policy. As a result, management is assuming a somewhat higher investment in accounts receivable and a higher risk of loss than may be necessary. While Port Manatee's past record of charge-offs of uncollectible amounts appears low, except for Regal Cruise Lines, it appears Port Manatee could strengthen its collection policy without being more restrictive than their primary competitor, the Port of Tampa. As a comparison:

Past due status:

Port Manatee's tariff does not consider an account delinquent and does not begin more stringent collection efforts until the unpaid invoice from account reaches 60 days from the date of the invoice.

Port of Tampa considers an account delinquent and begins collection efforts 30 days after invoicing.

Assessment of penalty charges:

Port Manatee's tariff includes the ability to charge interest as a penalty for delinquent accounts; however, Port Manatee currently does not charge customers penalties for delinquent accounts.

Port of Tampa automatically charges interest as a penalty on all delinquent accounts whose charges remain unpaid beyond 30 days from the date of invoicing.

Cut-off of port services for delinquent customers:

Port Manatee allows delinquent customers to continue to use port services while accounts remain delinquent. While the Port Director has the authority to suspend services, this option is not often utilized.

Port of Tampa reports that they cut off port services to customers whose accounts are delinquent between 61 and 90 days.

Strengthening the application process for new customers:

Port Manatee's application process could be strengthened by reviewing independent rating services for financial information and credit worthiness of potential Port customers.

Port of Tampa requires a formal application process to conduct business for new customers, which normally includes but is not limited to a review from a financial rating service and check of credit references.

AREA FOR IMPROVEMENT #1Continued

Accounts Receivable as of 8/31/04:

	<u>Port Manatee</u>	<u>Port of Tampa</u>
Total Revenue	\$ 9,900,000	\$28,900,000
<u>Accounts Receivable Balances</u>		
Less than 30 days	\$ 1,002,828	\$1,903,679
31 - 60 days	\$ 263,309	\$ 422,058
61 - 90 days	\$ 89,049	\$ 75,843
91 days and over	\$ 117,675	\$ 114,685

Accounts Receivable Ratio Analysis as of 8/31/04:

A/R Turnover ratio: (Revenues / Average Accounts Receivable)

This ratio shows the yearly revenues derived from operations divided by the average accounts receivable. A higher turnover rate generally is more advantageous and indicates less investment in accounts receivable because customers are paying more quickly.

Port Manatee:	6.56
Port of Tampa:	11.35

Past due Accounts Receivable as a percentage of yearly revenue generated from operations:

	<u>Port Manatee</u>	<u>Port of Tampa</u>
31 - 60 days	2.66%	1.46%
61 - 90 days	.90%	.26%
91 days and over	1.19%	.40%

Management Action Plan:

Management has been in the process of and will consider further strengthening of internal controls over accounts receivable without unduly jeopardizing future business. Management will evaluate adding penalties for delinquent accounts, cutting off service for severely delinquent accounts, beginning more stringent collection efforts after accounts exceed 30 days, and implementing and reviewing a financial application process for new customers to reduce the risk exposure over accounts receivable balances. Management will compare these options to current operations and finalize a decision within six months.

AREA FOR IMPROVEMENT #2

Subject: Compliance with Tariff Rule 195

Tariff Rule 195 requires that each vessel report to the Port any cargo that will be discharged upon its arrival and any cargo that is loaded into the vessel before its departure. The report may be a copy of the ship's manifest, a bill of lading or other statement signed by appropriate personnel. The report, once obtained, is used by Port to bill the customer.

A review of the Port's vessel activity report compared to the billing of these customers revealed a need to strengthen compliance by obtaining the appropriate documentation before the vessel leaves the Port or within a reasonable period of time after the vessel's departure. Testing discovered that the average time for the receipt of this documentation was 17 days (approximately 11 business days) for the twelve months tested, ending June 30, 2004. While the Port estimates and accrues these charges if not received by the end of the month, the customer is still not billed until the documentation is received. Therefore, a customer can delay the receipt of an invoice by merely not providing the necessary documentation to the Port.

Management Action Plan:

Management has been working to enforce compliance with this tariff and has issued a letter to all customers informing them that the tariff will be enforced. Management is also in the process of developing new procedures that should strengthen the receipt of this report from all vessels prior to their departure. Management will have the procedures completed and implemented by September 30, 2004.



Manatee County

Clerk of the Circuit Court and Comptroller

R.B. "Chips" Shore

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MEMORANDUM

TO: David McDonald, Executive Director of the Port Authority

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

DATE: September 24, 2004

RE: Port Authority Billing and Accounts Receivable Audit

Enclosed is the Internal Audit Report for the Port Authority Billing and Accounts Receivable Audit as of June 30, 2004. Our Internal Audit Department will perform a follow-up audit in approximately six months to verify implementation of Management's Action Plans.

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

"Pride in Service with a Vision to the Future"
Clerk of Circuit and County Court - Clerk of Board of County Commissioners - County
Comptroller, Auditor and Recorder



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: September 24, 2004

RE: Announcement of the Release of an Internal Audit Report

My office is releasing today the Internal Audit Report for the Port Authority Billing and Accounts Receivable Audit, which was performed as of June 30, 2004. 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.