

# INTERNAL AUDIT REPORT

2008-10

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Preferential Use Agreements

Port of Anchorage

August 13, 2008

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# Municipality of Anchorage

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Mayor Mark Begich

## Office of the Internal Auditor

August 13, 2008

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2008-10, Preferential Use Agreements, Port of Anchorage**, for your review. A brief summary of the report is presented below.

In accordance with the 2008 Audit Plan, we have completed an audit of tonnage reports submitted by Horizon Lines of Alaska and Totem Ocean Trailer Express, Inc. as required by their respective Preferential Use Agreements. The objective of this audit was to determine the accuracy of the tonnage reports used to bill wharfage charges paid to the Port of Anchorage.

We found that reports submitted by Horizon Lines of Alaska and Totem Ocean Trailer Express, Inc. were not always accurate. Horizon Lines of Alaska did not pay wharfage on nonrevenue cargo and did not always accurately report the weight of U.S. Mail. Totem Ocean Trailer Express, Inc. did not include Alaskans for Litter Prevention and Recycling (ALPAR) shipments in their tonnage reports. In addition, wharfage was based on the shipper's declared weights on the original bill of lading for southbound cargo because there are no scales at the Port of Anchorage. We also found that Horizon Lines of Alaska did not use the reporting format prescribed by the Port to report tonnage.

We made five recommendations to the Port of Anchorage for corrective action. Management concurred with all five recommendations to improve the accuracy of tonnage reports.

Peter Raiskums, CIA, CFE  
Director, Internal Audit



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*Mayor Mark Begich*

**Office of the Internal Auditor**

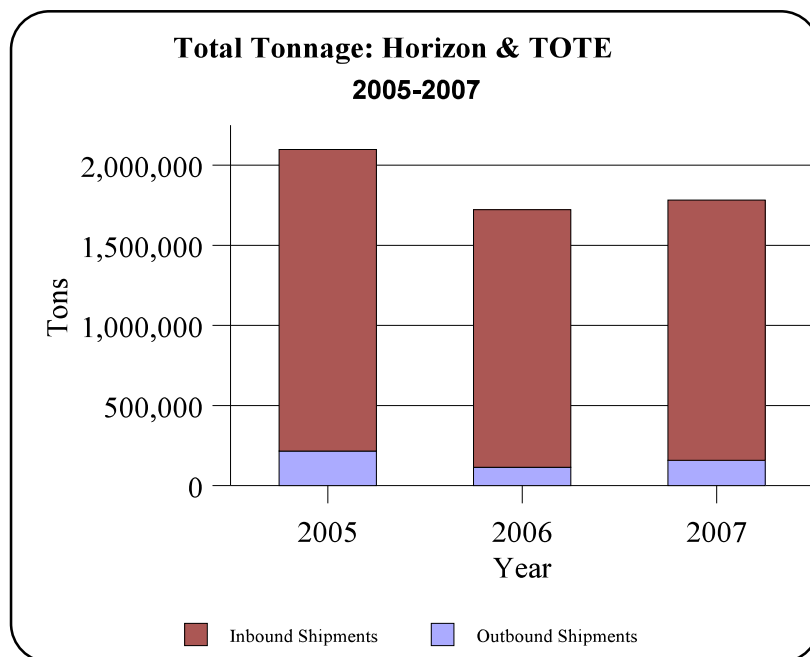
August 13, 2008

**Internal Audit Report 2008-10  
Preferential Use Agreements  
Port of Anchorage**

**Introduction.** According to the Port of Anchorage (Port) Terminal Tariff (Tariff), a charge (wharfage), is assessed against all cargo or freight that passes through the Port or is transferred between vessels, even if the wharf is not used. Wharfage is only the charge for the use of the Port and does not include additional charges such as handling or freight charges. The current wharfage rate is \$2.03 per ton. Preferential Use Agreements (PUA) were entered into between the Municipality of Anchorage (Municipality) and Sea-Land Service, Inc., currently Horizon Lines of Alaska (Horizon), on December 1, 1985, and Totem Ocean Trailer Express, Inc. (TOTE) on January 3, 1996. Both PUAs have been amended several times. As required by the PUAs, Horizon and TOTE

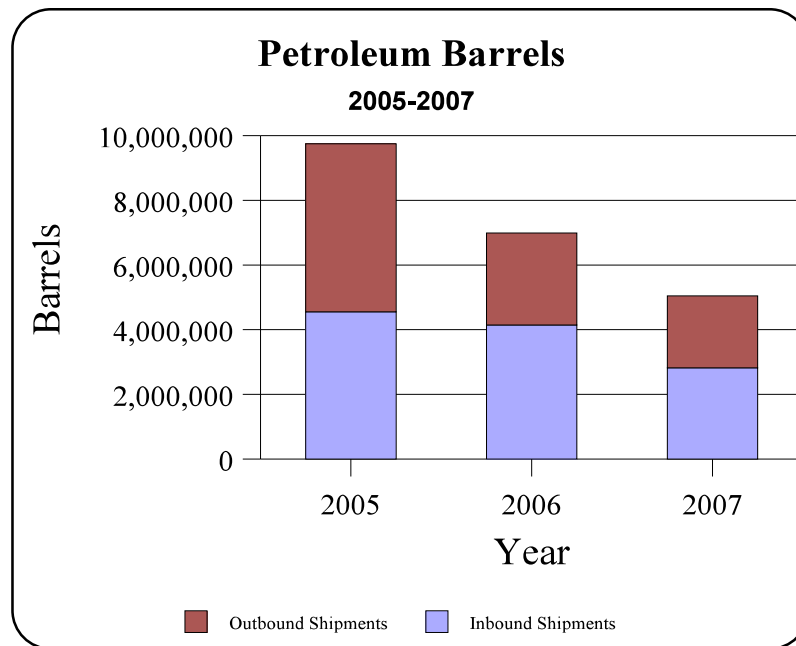
*Community, Security, Prosperity*

submit tonnage reports to the Port for cargos they transport through the Port so that the wharfage charge can be calculated. The following graph shows Horizon's and TOTE's tonnage from 2005 - 2007.



The Port also charges wharfage to petroleum carriers who export and import petroleum products over the Port's docks and through the Port's valve yard. The following graph shows petroleum barrels from 2005 -2007 as reported by the following carriers: Anchorage Fuel and Service, Chevron, Petro-

Star, Flint Hill Resources, and Tesoro. As shown in the following graph, petroleum passing through the Port has declined. One reason for this decline was that Flint Hill Resources constructed a rail rack off Port premises to unload its petroleum products.



**Objective and Scope.** The objective of this audit was to determine the accuracy of reports submitted by Horizon, TOTE, and the petroleum companies for the purpose of billing for wharfage charges. To accomplish the audit objective, we selected and reviewed tonnage reports for 14 Horizon voyages and four TOTE voyages. We were not able to review some of TOTE's tonnage reports because TOTE was unable to readily provide the supporting documents in a format requested for auditing purposes. We also reviewed petroleum reports and determined they were certified by an independent third party and we did not perform any further audit tests.

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 audit was performed during the period of February 2008 through April 2008. The audit was requested by the Port Administration.

**Overall Evaluation.** Reports submitted by Horizon and TOTE, for purposes of billing wharfage charges, were not always accurate. Horizon did not pay wharfage on nonrevenue cargo and did not always accurately report the weight of U.S. mail on its tonnage reports. TOTE did not report Alaskans for Litter Prevention and Recycling loads in their tonnage reports. In addition, wharfage was based on the shipper's declared weights documented on the original bill of lading for southbound cargo because there were no scales at the Port. Finally, Horizon did not use the reporting format prescribed by the Port to report tonnage.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Horizon Did Not Pay Wharfage for Nonrevenue Cargo.**

- a. Finding.** Horizon did not pay wharfage on nonrevenue cargo. According to Horizon, 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 Horizon does not charge its customers to transport. From our audit tests, we identified eight "arbitrage cargo" containers with cargo weights totaling about 25 tons and nine "company business cargo" containers with cargo weights totaling about 40 tons. Although Horizon classified these containers as nonrevenue, the PUA makes no distinction between nonrevenue and revenue cargo. The PUA simply states, "For each ton of cargo, HORIZON shall pay the sum of \$2.03 per ton. All references to tons shall mean tons of 2,000 pounds each."
- b. Recommendation.** The Port Director should require Horizon 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) Require a change in the format of cargo movement reports submitted to the Port for wharfage billing. This reporting format will be simplified and will consist of the following: Each trailer/container number, cargo description including a description of dunnage, non-revenue, recycle and any others;
- (3) Negotiate changes to the Preferential User Agreements (PUA) to more clearly define the definitions of each cargo type, eliminate free northbound dunnage, non-revenue and other non-paying categories. Negotiate PUA change to southbound cargo movement that will only allow a percentage (10-15%) of total cargo to be designated as free-on-board dunnage, non-revenue and other non-paying items;
- (4) Require all exceptions and changes be reduced to a written amended agreement.”

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

## 2. **Horizon Did Not Always Accurately Report U.S. Mail.**

a. **Finding.** Horizon did not always accurately report the weight of U.S. mail on its tonnage reports. We identified 11 instances where the weight reported on the freight bill was adjusted down when reported on the tonnage reports. For example, one freight bill listed 10,000 pounds for the weight of U.S. mail, but only 2,000 pounds were reported on the tonnage report. As a result of these adjustments, U.S. mail was under reported by 44 tons in the 11 instances we identified.

- b. Recommendation.** The Port Director should require Horizon 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 new PUA will clarify the exceptions that the Port will allow as non-paying tons. The Port will initiate directives to require by PUA that both carriers provide cargo manifests with simplified details that include a cargo description that is easily recognized; that classify cargo as either dunnage, non-revenue, recyclable or other; and that is formatted to provide a description of cargo labeled with these categories.”
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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

- a. Finding.** TOTE did not report Alaskans for Litter Prevention and Recycling (ALPAR) loads in their tonnage reports to the Port. As a result, TOTE did not pay wharfage on 249 tons of ALPAR loads in their tonnage reports for two south bound voyages. Per TOTE’s staff, they did not report the ALPAR loads in their tonnage reports because TOTE does not collect revenue for transporting ALPAR loads. However, the PUA makes no distinction between nonrevenue and revenue cargo. The PUA simply states, “For each ton of cargo, TOTE shall pay the sum of \$2.03 per ton. All references to tons shall mean tons of 2,000 pounds each.”
- 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) Require both carriers to report all cargo tonnage including dunnage, non-revenue, recycle and other categories.
- (2) Require a change in the format of cargo movement reports submitted to the Port.
- (3) Clearly define vague language and cargo, eliminate free northbound dunnage, non-revenue and other non-paying categories.
- (4) Negotiate PUA change to southbound cargo movement as stated in Finding 1.
- (5) Require all exceptions to be stated in new PUA agreement.”

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

4. **Wharfage Based on Shipper’s Declared Weight Rather Than Actual Weight 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 were no scales at the Port. In some cases, the weight listed on the bill of lading was set with a default-fixed rate regardless of the actual weight of the cargo and there was little or no evidence to show the relevance between the default rate and the actual weight. As a result, there was no assurance that southbound tonnage reports were accurate.

b. **Recommendation.** The Port Director should consider the feasibility and benefits of installing scales at the Port or request that Horizon and TOTE to weigh southbound shipments and report the result to the Port.

- c. **Management Comments.** Management stated, “We concur with the finding. Adding scales to the Port’s infrastructure is a matter under consideration, but not decided. To correct the situation immediately, the Port will require carriers to weigh all northbound and southbound cargo shipments in Tacoma prior to submitting certified reports.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Horizon Did Not Use the Port’s Requested Tonnage Report Format.**

- a. **Finding.** Horizon did not use the reporting format prescribed by the Port to report tonnage. The PUA between Horizon and the Port of Anchorage states that, “The monthly payment of charges . . . shall be accompanied by a report in a form satisfactory to the Port Director . . .” The requested format requires both Horizon and TOTE to report tonnage by commodity types, instead of separating tonnage between revenue cargo and nonrevenue cargo.
- b. **Recommendation.** The Port Director should request Horizon to report its tonnage using the Port’s requested tonnage report format.
- c. **Management Comments.** Management stated, “We concur with the finding. To correct the situation, the Port will:
  - (1) Require the reporting of all cargo tonnage including dunnage, non-revenue, recyclables and other categories.
  - (2) Require a change in the reporting format of all cargo movements submitted to the Port. The reporting format will be simplified and consist of the following categories on northbound and southbound movements:

container number, cargo description including a description of dunnage, non-revenue, recyclables and any others; weight in pounds or short tons; number of loaded cargo containers and number of empty containers.

- (3) Negotiate changes to the new Preferential Use Agreements (PUA) require any exceptions agreed upon be reduced to writing.”

- 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.

Audit Staff:  
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