

# INTERNAL AUDIT REPORT

Operational Audit  
Accounts Receivable Management – Fishermen’s Terminal

January 2024 – December 2025

Issue Date: March 04, 2026  
Report No. 2026-01

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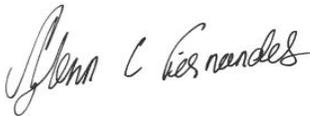
## Executive Summary

We completed an audit of Accounts Receivable Management – Fishermen’s Terminal, for the period January 2024, through December 2025. The audit was conducted to evaluate the accounts receivable processes, including segregation of duties, and to assess compliance with Port policies and procedures.

At the Port, the accounts receivables process is a collaborative effort between Fishermen’s Terminal and the Accounting and Financial Reporting Department (AFR). While we obtained AFR procedures for an understanding of the collection efforts, the scope of our audit focused on Fishermen’s Terminal.

Our review found that the accounts receivable processes at Fishermen’s Terminal need to be strengthened. We identified risks due to gaps in internal controls, which increase the likelihood of undetected misappropriation, and also increase the probability that delinquent accounts will continue to rise. To support our conclusions, we identified opportunities where internal controls could be enhanced or further developed. These opportunities are summarized below and discussed in greater detail beginning on page six of this report.

1. **(Medium)** Decisions related to delinquent accounts at Fishermen’s Terminal are based on informal discussions and undocumented commitments, rather than established criteria. This has contributed to a significant number of accounts remaining delinquent beyond 90 days.
2. **(Medium)** Continued weaknesses in Segregation of Duties (SOD) undermine effectiveness of key internal controls.
3. **(Low)** Credit risk assessment procedures are not performed before executing commercial and recreational moorage agreements with lessees (boat owners).



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### Responsible Management Team

Delmas Whitiker, Chief Operating Officer, Maritime  
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## Background

Fishermen’s Terminal was the first construction project for the Port of Seattle, with pile drivers hammering the supports for the Salmon Bay docks on February 15, 1913. When the terminal opened, it had more than 1,800 feet of moorage with space for 100 boats, a two-story warehouse, and ample space for repairing nets.

The terminal opened in 1914 and serves as the home port for Seattle’s commercial fishing fleet. Located in Salmon Bay between the Ballard and Magnolia neighborhoods, FT was originally conceived of as both a general cargo facility and a dedicated home port for the fishermen of the region who fished the Northwest and Alaskan waters, and later became the epicenter of the fishing and maritime industries.



Fishermen’s Terminal in 1914

Today, Fishermen’s Terminal serves more than 700 vessels and provides short-term and long-term freshwater mooring for both fishing and commercial vessels, as well as pleasure craft. The facility also includes 227,000 square feet of office, retail, restaurant, and warehouse space.



Fishermen’s Terminal Today

## **Audit Scope and Methodology**

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and The Institute of Internal Auditors’ Global Internal Audit Standards. These 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 the evidence obtained meets this requirement and supports our audit objectives.

We used a risk-based, judgmental approach to select items for testing. As a result, the findings reflect only the items tested and should not be interpreted as representative of, or extrapolated to, the entire population.

The period audited was January 2024, through December 2025 and included the following procedures:

### Governance, Compliance and Internal Control

- Obtained and reviewed Accounts Receivable (AR) related policies and procedures
- Interviewed management to understand AR related roles, responsibilities, and oversight
- Identified key AR responsibilities, including billing, cash receipt processing, adjustments, and reconciliations
- Assessed segregation of duties within the AR function
- Verified whether user access reviews, for the financial system, were performed

### Accounts Receivable Monitoring and Aging

- Walked through the AR process, including payment receipt, deposit, and posting to Accounts Receivable
- Obtained and analyzed AR aging reports for the audit period
- Reviewed collection and escalation procedures for delinquent accounts to evaluate consistency and effectiveness of collection efforts
- Verified management review and assess reasonableness of aging classifications

### Credits and Write-offs

- Selected a sample of credits to verify approvals and documentation
- Obtained AR aging reports, to verify that write-offs were processed in accordance with established policies

## Schedule of Observations and Recommendations

### 1) Rating: Medium

**Decisions related to delinquent accounts at Fishermen’s Terminal are based on informal discussions and undocumented commitments, rather than established criteria. This has contributed to a significant number of accounts remaining delinquent beyond 90 days.**

The outstanding balance of accounts receivable at Fishermen’s Terminal (FT) was \$599,857 on December 31, 2023, and increased to \$1,588,723 as of December 31, 2025. Notably, on June 30, 2024, the accounts receivable balance was \$556,569 and more than tripled to \$1,742,931 six months later, on December 31, 2024. This increase coincided with a period during which the Port experienced a cyber-attack in August 2024, that disrupted the ability to generate and distribute invoices. During this time, the Port directed tenants to continue making payments consistent with their prior billing amounts and communicated that late fees would not be assessed until a specified date. Despite this guidance, some tenants did not remit payments, which contributed to the significant increase in outstanding accounts receivable balances.

As of December 31, 2025, 55% of the accounts receivable balance is aged beyond 90 days, including \$717,367 or 45% in the 180 days past due category. Refer to the table below for a detail breakdown.

|              | Days Past Due |          |          |           |           | Total       |
|--------------|---------------|----------|----------|-----------|-----------|-------------|
|              | 0–30          | 31–60    | 61–90    | 91–180    | Over 180  |             |
| Litigation   | \$396,010     |          |          |           | \$136,671 | \$532,681   |
| Collections  | \$768         | \$1,184  | \$189    | \$236     | \$21,658  | \$24,035    |
| Dispute      | \$574         | \$861    | \$237    | \$524     | \$2,166   | \$4,361     |
| Pending/open | \$148,693     | \$87,376 | \$80,740 | \$153,966 | \$556,872 | \$1,027,646 |
| Total        | \$546,044     | \$89,421 | \$81,166 | \$154,725 | \$717,367 | \$1,588,723 |

According to Accounting Policy AC-15a (Write-Off of Uncollectible Receivables), “The Accounting & Financial Reporting (AFR) Department, Accounts Receivable operations has written procedures in place to ensure that past due receivables are administered promptly and in a manner that is cost-effective for the overall collection program.” Port of Seattle Accounts Receivable Procedures state, “Collection efforts begin at 30 days” and “dunning letters are system generated 25 days from due date. Collectors will send second letter at 30-59 days from date of invoices, final demand letter 60-89 days from date of invoice. Accounts or items sent to collection agency may be transferred 30 days from date of notice or at the discretion of the collector. If debtor does not respond to payment demand, the account will be placed for collections with a third-party collector.” If the account remains uncollectible after 180 days, after attempting all standard account collection procedures, the account may be written off, subject to authorization.

While FT performs early-stage customer outreach and engages in follow-up discussions regarding outstanding balances, formal documentation of escalation criteria and related decision-making is not consistently established in a standardized procedure aligned with AFR policy. Although AFR policy outlines criteria for referral to third-party collections, in practice, escalation decisions often involve collaboration between FT and AFR rather than referral once criteria are met. Customer discussions and payment arrangements are not consistently documented in a standardized format or governed by clearly defined escalation thresholds.

Based on discussions with AFR, decisions regarding whether and how collection actions are executed are frequently influenced by operational considerations. This has resulted in deviations from the standard collection process outlined in policy.

For example, we were informed of an instance in which a customer account was assigned to a third-party collection agency. An FT employee subsequently contacted the agency to request that the account be returned to the Port. The collection agency appropriately contacted AFR to confirm the request, and AFR instructed the agency to retain the account. While AFR ultimately maintained authority over the decision, this instance highlights the need for clearer communication protocols, defined escalation procedures, and well-established boundaries between operational and financial oversight roles.

**Recommendations:**

FT should formalize written standard operating procedures (SOPs) for accounts receivable monitoring and escalation, that align with AFR policy. The SOPs should define clear escalation thresholds, require standardized documentation of customer communications and payment arrangements, and clarify roles between FT and AFR. Any deviation from established escalation criteria should require documented secondary managerial approval.

**Management Response/Action Plan:**

FT Management will create and establish recommended SOPs to be operationalized within 6 months.

In reference to the employee who called collections, there will be overall retraining to all FT staff of acceptable steps in these processes.

**DUE DATE: 02/15/2027**

**2) Rating: Medium**

**Continued weaknesses in Segregation of Duties (SOD) undermine effectiveness of key internal controls.**

Weaknesses in SOD continue to exist in key business processes. The concept of SOD is having more than one person required to complete a task. As an internal control, its primary objective is to prevent fraud and errors.

In a prior audit (March 2023), management’s response stated “the program is informal and needs to be strengthened. This has resulted in underbilling and a sizable accounts receivables balance.” The response also states, “Commercial Fishing will work to create a structure that will accomplish a separation of duties to ensure integrity in the revenue management function.” However, we continue to observe weaknesses in SOD. Below are some examples:

1. Five individuals at FT have system administrator roles within the Marina Vessel Management System (MVMS), that allow modification of customer data without documented secondary reviews. Such privileged access should be limited to only those with a business need.
2. Employees who support moorage utilization also assist with collections and billing adjustments. Having these responsibilities combined makes it more challenging to optimize both revenue growth and risk management.

**Recommendations:**

1. Assign moorage promotion, billing adjustments, and collection activities at FT to separate individuals or teams, to reduce conflicts of interest. If segregation is not feasible, implement additional compensating controls such as managerial secondary reviews or periodic independent oversight.
2. Regularly review access rights to ensure only authorized staff can modify customer or financial data.

**Management Response/Action Plan:**

Currently if any adjustments are made, MVMS was built to save ALL changes with (who, what and when), therefore the concern of audit item #1 about “data without documented secondary review” is inaccurate. There is visibility of changes. IN MVMS 2.0 there are changes that will be made on authorizations for staff (this was affected during cyber attack and was put on hold until 2.0 work on system began).

Item #2, due to the nature of our business and small team the assisting with collections and billing is not assisting, it is review of changes (but they do not actually do the changes), so that it does not sit with one person (which was the issue in the last audit), therefore putting less risk of having only one person doing this work. This step has been considered a high level of customer service for the team because they are able to understand dynamics of our customers and adjust and manage as needed. There will be more periodic independent oversight as suggested.

**DUE DATE: 06/15/2026**

**3) Rating: Low**

**Credit risk assessment procedures are not performed before executing commercial and recreational moorage agreements with lessees (boat owners).**

Evaluating the lessee’s ability to pay, increases the chance that the Port could recover money if an account becomes uncollectible. These steps could include proof of insurance, security deposit, first and last month’s rent, and collateral evaluation.

**Recommendations:**

Management should assess which due diligence steps could be implemented within existing resources to reduce financial exposure.

**Management Response/Action Plan:**

FT tariff #6 required proof of required certain maritime insurance, proof of current registration, and seaworthiness or proof of Coast Guard Inspection. There will be a re-set and re-training with FT business staff on ensuring these are annually updated.

**DUE DATE: 02/15/2027**

## Appendix A: Risk Ratings

Observations identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for an observation to be rated High, Medium, or Low. Low rated observations will be evaluated and may or may not be reflected in the final report.

| Rating        | Financial/<br>Operational<br>Impact | Internal<br>Controls                                | Compliance   | Public   | Commission/<br>Management            |
|---------------|-------------------------------------|---|--|--|--------------------------------------|
| <b>High</b>   | Significant                         | Missing or partial controls                         | Non-compliance with Laws, Port Policies, Contracts     | High probability for external audit issues and / or negative public perception     | Requires immediate attention         |
| <b>Medium</b> | Moderate                            | Partial controls<br><br>Not functioning effectively | Partial compliance with Laws, Port Policies, Contracts | Moderate probability for external audit issues and / or negative public perception | Requires attention                   |
| <b>Low</b>    | Minimal                             | Functioning as intended but could be enhanced       | Mostly complies with Laws, Port Policies, Contracts    | Low probability for external audit issues and/or negative public perception        | Does not require immediate attention |