



COASTAL SHIPYARD COMPANY

Business Process Management (BPM) Audit Program

Version 2.0 — Updated & Expanded Edition

Document Type	BPM Audit Program — Updated Edition
Version	2.0 (supersedes v1.0)
Reporting Standards	GRI/GSSB, COSO (Internal Controls)
Ownership Structure	Private Partnership
Revenue Base	\$3.0M gross revenue (5-year reference)
Cost Base	\$2.7M total costs (5-year reference)
Employees / Mgrs	100 employees 10 managers
Jurisdiction	Federal Washington State City of Seattle
Customer Segments	Commercial Fishing, Charter & Tourism, Yacht & Luxury
Effective Date	2026

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SECTION 1: EXECUTIVE OVERVIEW & PROGRAM UPDATES

1.1 Purpose & Scope of Version 2.0

This updated BPM Audit Program builds upon Version 1.0 and incorporates new financial profile data, expanded market opportunity analysis, a refined competitive intelligence strategy, enhanced internal controls coverage, and updated regulatory references specific to Washington State and the City of Seattle. All previous audit domains remain active; new content is additive and integrative.

The audit program continues to align with GRI/GSSB reporting principles and now incorporates a COSO-informed internal controls framework tailored to a private marine services partnership of this scale.

1.2 Key Updates in This Version

Update Area	What Changed / Added
Financial Profile Integration	Company financial reference data incorporated: \$3M revenue, \$2.7M costs, \$1M LTD, \$10K monthly FCF target improvement focus.
Market Opportunity Analysis	New Section 4: Comparative segment analysis (Commercial Fishing, Charter & Tourism, Yacht & Luxury) to identify highest-margin growth paths.
Competitive Intelligence Strategy	Replaced continuous peer monitoring with periodic trend-based and sector comparative analysis (annual, not ongoing).
Internal Controls — Accounting	New Section 5: COSO-aligned high-level internal controls framework for accounting, cash, and financial reporting.
Internal Controls — Safety	New Section 6: Safety internal controls program with Washington State L&I and OSHA 29 CFR 1915 integration.
Internal Controls — Parts Inventory	New Section 7: Parts inventory internal controls with cycle count, valuation, and shrinkage testing.
WA State & Seattle Regulations	New regulatory appendix: WAC, RCW, Seattle Municipal Code, Puget Sound waterway-specific compliance requirements.
Ownership Context	Private partnership governance considerations integrated throughout (no public reporting obligations; fiduciary duty to partners).

1.3 Financial Reference Profile (Illustrative)

The following financial data represents the company's five-year reference baseline. These figures are used throughout the audit program to contextualize procedures and calibrate risk thresholds. They are illustrative reference points, not fixed audit standards.

Metric	Reference Figure	Audit Implication
Gross Revenue (5-yr)	\$3,000,000	Revenue completeness and billing accuracy testing anchored to this scale; unusual variances >10% warrant investigation.
Total Costs (5-yr)	\$2,700,000	Net margin of ~10% is thin; cost control and labor efficiency audits are high priority.
Net Margin (approx.)	~10%	Margin compression risk is elevated; any uncontrolled cost growth directly threatens partner distributions.

Metric	Reference Figure	Audit Implication
Long-Term Debt	\$1,000,000	Debt service capacity and covenant compliance should be reviewed annually; interest coverage ratio monitored.
Short-Term Debt	\$10,000	Minimal short-term obligations; positive indicator for liquidity management.
Monthly Free Cash Flow	~\$10,000	FCF improvement is a stated goal; audit should identify top 3–5 operational levers that directly affect FCF.
Annual FCF (est.)	~\$120,000	Relative to \$1M LTD, annual FCF coverage is adequate but leaves limited buffer; monitoring is essential.
Avg Annual Revenue	~\$600,000	Benchmark reference for revenue per employee (~\$6K/employee) and productivity gap analysis vs. sector norms.

1.4 Partnership Governance Considerations

As a private partnership, Coastal Shipyard is not subject to SEC reporting obligations or public company audit standards. However, the partnership structure creates specific governance and audit priorities:

- **Partner Distributions:** Audit procedures should confirm that distributions are made per the partnership agreement and do not impair debt service obligations.
- **Fiduciary Duty:** Managing partners owe a duty of care and loyalty to all partners; internal controls protect against conflicts of interest and self-dealing.
- **Capital Accounts:** Partner capital account balances should be maintained accurately and reconciled at least annually.
- **Tax Compliance:** Partnership tax returns (Form 1065, Schedule K-1) must be prepared accurately; Washington State excise tax (B&O) obligations apply.
- **Buy-Sell and Succession:** Audit program should flag whether a current buy-sell agreement and succession plan are in place and reviewed periodically.

SECTION 2: REGULATORY & COMPLIANCE FRAMEWORK

2.1 Multi-Jurisdictional Compliance Overview

Coastal Shipyard operates under a layered regulatory framework spanning federal, Washington State, and City of Seattle requirements. Given the waterfront location on Puget Sound, environmental and maritime regulations are particularly dense and consequential. The following matrix maps key regulatory bodies to applicable requirements.

2.2 Federal Regulatory Requirements

Agency / Standard	Regulation	Shipyard Application
OSHA	29 CFR 1915 (Shipyard Employment)	Confined space entry, fall protection, LOTO, abrasive blasting, PPE, hazard communication for all MRO operations.
EPA	Clean Water Act / NPDES	Stormwater discharges; bilge water; vessel hull coating wastewater from pressure washing.
EPA	SPCC Rule (40 CFR 112)	Spill Prevention Control and Countermeasure Plan required for fuel storage at facility.
EPA	RCRA Hazardous Waste	Manifesting and disposal of antifouling paint waste, solvents, used oil, and batteries.
USCG	33 CFR (Ports and Waterways)	Facility security plan (if applicable); oil spill response; vessel movement near dock.
DOL	FLSA / ERISA	Wage and hour compliance; 401(k) plan fiduciary duties; benefits reporting (Form 5500).
IRS	Form 1065 / Schedule K-1	Partnership tax return; partner income allocations; payroll tax deposits and filings.
ACA	Employer Shared Responsibility	With 100 employees, ACA monitoring for full-time equivalent threshold is required.

2.3 Washington State Regulatory Requirements

Agency / Code	Regulation	Shipyard Application
WA Dept. of Labor & Industries (L&I)	WAC 296-800 (Safety & Health Core Rules)	WA-OSHA enforcement; employer safety program required; incident reporting to L&I within 8 hours for fatalities.
WA L&I	WAC 296-62 (General Occupational Health)	Hazardous substance exposure limits; lead paint (antifouling) handling; respiratory protection program.
WA L&I	Workers' Compensation (Title 51 RCW)	All employees must be covered under WA State workers' comp (L&I); accurate classification of marine trades workers.
WA Dept. of Ecology (Ecology)	WAC 173-303 (Dangerous Waste Regulations)	Washington's hazardous waste program (more stringent than federal RCRA in some provisions); waste disposal manifests.
WA Ecology	WAC 173-216 (State Waste Discharge Permit)	State-level NPDES equivalent; wastewater from hull cleaning, painting areas, and yard runoff.
WA Ecology	Puget Sound Partnership	Puget Sound water quality protection programs;

Agency / Code	Regulation	Shipyard Application
	/ PSEP	antifouling paint restrictions (copper limits in some waters).
WA Dept. of Revenue	RCW 82.04 (B&O Tax)	Washington State Business & Occupation tax on gross receipts; applies to all service revenue and parts sales.
WA Dept. of Revenue	RCW 82.08 (Sales Tax)	Sales tax on parts and materials sold to customers; use tax on parts consumed in repair without sales tax paid.
WA Employment Security Dept.	RCW 50 (Unemployment Insurance)	Accurate quarterly reporting of employee wages; unemployment tax rate management.
WA State Ferries / Port of Seattle	Facility & Waterway Use Permits	Lease or permit compliance for waterfront / dock access; port security requirements if applicable.

2.4 City of Seattle Regulatory Requirements

Agency / Code	Regulation	Shipyard Application
Seattle Public Utilities (SPU)	Stormwater Code (SMC 22.800)	On-site stormwater management; illicit discharge prohibition; best management practices for marine yards.
Seattle DCI	Seattle Building & Fire Code	Facility permits, fire suppression, hazardous materials storage limits within city limits.
Seattle Office of Labor Standards	SMC 14.19 (Minimum Wage)	Seattle minimum wage (\$20.76+/hr in 2026) applies; must be tracked separately from WA State minimum wage.
Seattle OLS	SMC 14.16 (Paid Sick & Safe Time)	Seattle PSST ordinance: accrual rates, permitted uses, documentation, and anti-retaliation requirements.
Seattle OLS	SMC 14.17 (Secure Scheduling)	If applicable: advance schedule notice, access to additional hours for part-time employees.
Seattle DPD / Port of Seattle	Shoreline Master Program (SMP)	Shoreline use permits for waterfront facilities; vegetation buffers; dock and haul-out area restrictions.
Seattle Fire Dept.	Hazardous Materials Use Permits	Permits for storage and use of flammable liquids, compressed gases, and hazardous chemicals above threshold quantities.

SECTION 3: COMPETITIVE INTELLIGENCE & TREND ANALYSIS STRATEGY

3.1 Philosophy: Periodic Insight, Not Continuous Monitoring

Coastal Shipyard has elected not to engage in continuous competitive monitoring. Instead, the company will conduct periodic sector-level comparative analyses and trend studies on an annual cycle. This approach is appropriate for a local, privately held partnership where strategic agility is more valuable than real-time peer tracking, and where management bandwidth is a finite resource.

The goal of competitive intelligence in this program is not to match competitors, but to identify where the company's existing operational capabilities can be most profitably deployed — particularly in underserved or higher-margin customer segments.

3.2 Annual Sector Comparative Analysis Framework

Analysis Type	Data Sources	Decision Output
Marine Services Sector Benchmarks	NMMA Industry Statistics, ACMS, IBISWorld Marine Repair (SIC 4493), BLS Occupational Data	Annual comparison of labor cost %, gross margin %, revenue per tech against sector medians. Flag gaps >5 percentage points.
Regional Market Sizing	WA Dept. of Fish & Wildlife vessel registrations, USCG vessel census, Port of Seattle data	Quantify addressable market by segment (commercial, recreational, charter) within 50-mile service radius.
Pricing Trend Analysis	Annual customer invoices, parts vendor pricing trends, fuel/material cost indices (BLS PPI)	Identify whether current billing rates are keeping pace with cost inflation; recommend rate adjustments if margin is compressing.
Customer Mix Revenue Analysis	Internal work order and invoice data segmented by customer type	Annually calculate revenue, margin, and labor hours by customer segment to identify highest and lowest performers.
Technology Adoption Trends	Marine trade publications (Professional BoatBuilder, WorkBoat), technology vendor landscape reviews	Identify technology investments peers are making that could improve Coastal Shipyard's productivity or service quality.

3.3 Trend Analysis Methodology

The following trend indicators should be tracked using internal data over a rolling 3-year window, reviewed annually as part of the Q4 audit cycle:

- Revenue per billable labor hour — directional trend indicates pricing power and demand strength.
- Gross margin by service type (repair vs. maintenance vs. parts vs. storage) — identifies which services are gaining or losing profitability.
- Customer count and average job value by segment — reveals whether the customer mix is shifting and whether average transaction values are growing.
- Materials cost as % of revenue — rising materials costs without corresponding price increases compress margins rapidly.
- Seasonal revenue distribution — identifies utilization peaks and gaps to optimize staffing and capacity planning.
- Parts inventory turnover — slow-moving inventory ties up cash; trend analysis helps right-size the parts stock.

SECTION 4: MARKET OPPORTUNITY & CUSTOMER SEGMENT ANALYSIS

4.1 Strategic Purpose

This section provides a structured framework for evaluating where Coastal Shipyard's existing operational capabilities — MRO expertise, parts supply, vessel storage, and waterfront access — can generate the greatest financial return. Three segments are analyzed: the current core (commercial fishing fleets) and two growth opportunities (charter & tourism operators, yacht & luxury vessel owners).

The analysis is designed to inform the annual strategic planning discussion for the partners and does not require ongoing competitive surveillance. It should be refreshed annually using internal invoice data and the periodic sector benchmarks described in Section 3.

4.2 Segment Comparative Analysis

Dimension	Commercial Fishing Fleets (Current Core)	Charter & Tourism Operators	Yacht & Luxury Vessel Owners
Customer Profile	Commercial operators; price-sensitive; volume-driven; long-term relationships	Small to mid-size fleet owners; seasonal; schedule-driven; tourism-dependent revenue	Individual or family owners; premium service expectations; discretionary spending
Typical Services Needed	Heavy MRO (engines, hull, gear), regulatory compliance haul-outs, parts supply	Seasonal prep & winterization, safety gear inspection, cosmetic work, compliance	Full detailing, custom upgrades, electronics, premium parts, concierge-style service
Average Job Value	Moderate to high (\$2K–\$20K+); variable by vessel size and repair scope	Moderate (\$1K–\$8K); peaks spring/fall; strong seasonal predictability	High to very high (\$5K–\$50K+); premium materials; lower price sensitivity
Margin Profile	Moderate gross margin; competitive pricing pressure; loyal base	Moderate to good margin; scheduling efficiency is key; repeat seasonal work	High gross margin potential; clients pay for expertise, availability, and quality
Revenue Predictability	High — contract-driven, recurring fleet maintenance schedules	Moderate — seasonally predictable; tourism industry dependent	Variable — project-based; can be lumpy; relationship-driven referrals
Labor Intensity	High — technical complexity; specialized trades required	Moderate — prep and inspection work is labor-light relative to deep repair	High — precision and quality expectations; skilled finishing trades needed
Parts Revenue Potential	High — engine parts, gear, navigation; volume buying opportunity	Moderate — safety gear, seasonal items, consumables	Very high — premium OEM parts, electronics, custom hardware at high margins
Storage Revenue Fit	Low — working vessels rarely in long-term storage	Moderate — off-season lay-up for charter fleet	High — yacht owners often store for 4–6 months; premium storage fees
Regulatory	High — USCG	Moderate — USCG	Low to Moderate —

Dimension	Commercial Fishing Fleets (Current Core)	Charter & Tourism Operators	Yacht & Luxury Vessel Owners
Complexity	commercial vessel compliance, WA Fish & Wildlife	recreational/charter regs, Coast Guard documentation	recreational vessel standards; registration only for most
Growth Opportunity	Stable — protect and retain; limited new entrants in commercial fishing	Growing — Seattle tourism recovering; new charter operators emerging	Strong — Puget Sound yacht ownership growing; underserved premium MRO market
Competitive Intensity	Moderate — few specialty commercial yards in Seattle area	Moderate — general marinas compete; few offer full MRO	Low to Moderate — premium marine service is underserved in Seattle metro
Fit with Current Ops	STRONG — core competency; existing relationships; deep expertise	GOOD — scheduling and prep work fits existing labor capacity	MODERATE-STRONG — requires quality upgrade investment but skills transfer well

4.3 Strategic Opportunity Assessment

Strategic Action	Priority Segment	FCF Impact	Recommended Audit Procedure
Introduce premium storage pricing tier	Yacht & Luxury	HIGH	Annually: Compare current storage rate/ft to marina market rates in Puget Sound; calculate revenue uplift from 10% rate increase on luxury segment.
Launch seasonal prep packages (bundled pricing)	Charter & Tourism	MEDIUM-HIGH	Annually: Review whether bundled service offerings exist; calculate margin on package vs. à la carte; assess customer uptake.
Develop dedicated customer intake process for recreational/yacht clients	Yacht & Luxury	MEDIUM	Semi-annually: Assess whether scheduling, intake, and communication processes meet expectations of premium clients (survey).
Expand parts sales margin to yacht segment (OEM + premium brands)	Yacht & Luxury	HIGH	Annually: Segment parts revenue by customer type; compare parts gross margin % by segment; identify top 10 high-margin SKUs.
Protect commercial fishing base with service agreements	Commercial Fishing	MEDIUM	Annually: Review whether any fleet clients are on formal service contracts; calculate revenue at risk from top 5 commercial customers.
Analyze labor capacity for charter seasonal peaks	Charter & Tourism	MEDIUM	Quarterly (Q1/Q3): Model technician utilization against spring and fall prep demand; identify overtime risk and capacity gaps.
Evaluate winter utilization strategy	All Segments	MEDIUM-HIGH	Annually: Analyze monthly revenue distribution; calculate cost of under-utilization in Nov–Feb; assess indoor storage capacity expansion ROI.

4.4 FCF Improvement Lever Summary

Based on the financial profile and segment analysis, the following levers are most likely to improve monthly free cash flow from the current ~\$10,000 baseline:

#	FCF Lever	Est. Potential	Audit Validation Approach
1	Increase storage revenue via yacht/luxury premium pricing	+\$1,500– \$4,000/mo	Compare current vs. market storage rates; calculate impact of rate adjustment on occupied slips/spaces.
2	Expand parts gross margin in yacht/luxury segment	+\$1,000– \$3,000/mo	Segment parts sales data; analyze margin by customer type; identify pricing gaps on premium SKUs.
3	Reduce labor idle time via charter seasonal package bundling	+\$500–\$2,000/mo	Review tech utilization rates in off-peak months; model impact of pre-booked charter prep contracts.
4	Improve accounts receivable collections (commercial fleet billing)	+\$500–\$1,500/mo FCF	Review AR aging; test invoice-to-payment cycle time for top 10 commercial fleet customers.
5	Reduce parts inventory carrying cost (right-size slow-moving stock)	+\$200–\$800/mo	Run inventory turnover analysis; identify SKUs with >90-day on-hand; evaluate return/liquidation options.

SECTION 5: INTERNAL CONTROLS — ACCOUNTING & FINANCIAL REPORTING

5.1 Framework: COSO-Informed High-Level Controls

The following internal controls framework is designed for a private partnership of Coastal Shipyard's size and complexity. It is informed by the COSO Internal Control — Integrated Framework (2013) adapted for a small-to-mid-size privately held marine services company. Controls are organized into five domains: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring.

COSO Note

Full COSO compliance is not required for a private partnership. This framework adopts COSO principles proportionally — focusing on controls that address the most significant financial risks given the company's \$3M revenue scale, thin margins, and partnership ownership structure.

5.2 Accounting Internal Controls Summary

COSO Domain	Key Control	Control Description	Audit Procedure / Test
Control Environment	Partner Oversight & Tone	At least one partner reviews monthly financial statements and approves all disbursements above \$5,000.	Confirm monthly P&L reviews are documented; verify partner approval on large disbursements.
Control Environment	Segregation of Duties	The person who records transactions does not also authorize payments or have custody of cash/checks.	Review org chart and access rights; verify no single employee controls all three functions.
Control Environment	Code of Conduct / Ethics Policy	Written policy covering conflicts of interest, related-party transactions, and gift/expense rules.	Confirm policy exists, is signed by all employees, and is updated annually.
Risk Assessment	Annual Risk Review	Partners annually identify top 5 financial risks (revenue concentration, margin compression, key-person, debt service, regulatory).	Review risk register or document results of annual partner risk discussion.
Risk Assessment	Revenue Concentration Risk	Assess dependence on top 3–5 commercial fishing customers as % of total revenue.	Calculate % of revenue from top 5 customers; flag if any single customer exceeds 20% of gross revenue.
Control Activities	Bank Reconciliations	All bank accounts reconciled monthly by bookkeeper; reviewed and approved by a partner or manager.	Inspect 3 months of reconciliations; confirm preparer ≠ reviewer; check for unreconciled items >30 days.
Control Activities	Invoice & Revenue Controls	All invoices generated from work order system; sequential numbering; no	Test sequence of invoice numbers for gaps; verify all work orders resulted in invoices.

COSO Domain	Key Control	Control Description	Audit Procedure / Test
		manual invoices without approval.	
Control Activities	Accounts Payable Authorization	All vendor invoices matched to PO or work order before payment; two signatures required above \$2,500.	Test a sample of 15 AP disbursements for authorization and supporting documentation.
Control Activities	Payroll Controls	Payroll processed by third party (or dedicated staff); approved by HR manager; partner spot-checks quarterly.	Verify payroll processing is segregated from HR record-keeping; confirm partner review evidence.
Control Activities	Partner Draw / Distribution Policy	Partner distributions governed by partnership agreement; approved by all partners; documented.	Review partnership agreement; confirm all distributions in the period match approved amounts.
Control Activities	WA B&O Tax Remittance	Washington State B&O tax calculated and remitted quarterly; sales tax collected on parts sales.	Review quarterly B&O filings; confirm sales tax collected matches taxable parts revenue.
Information & Comm.	Monthly Financial Reporting	Monthly P&L, balance sheet, and cash flow statement prepared and distributed to all partners within 15 days of month-end.	Inspect monthly report distribution log; verify timeliness and completeness.
Information & Comm.	Debt Covenant Monitoring	LTD covenants (if any) monitored quarterly; lender reporting obligations met on schedule.	Review loan agreement for covenants; confirm compliance calculations are performed and documented.
Monitoring	Annual External CPA Review	Annual financial statements prepared or reviewed by an external CPA; partnership tax return filed by CPA.	Confirm engagement letter, review report, and tax return are on file for current and prior year.
Monitoring	Internal Audit / Self-Assessment	This BPM audit program executed annually; findings reported to partners; corrective actions tracked.	Confirm prior year audit findings have been addressed; review open items log.

SECTION 6: INTERNAL CONTROLS — SAFETY MANAGEMENT

6.1 Safety Controls Framework

Coastal Shipyard operates in one of OSHA's highest-hazard industry classifications (Shipyard Employment, 29 CFR 1915). The Seattle waterfront environment adds complexity with tide-affected work surfaces, marine weather, and proximity to Puget Sound. Safety internal controls protect employees, reduce workers' compensation costs (WA L&I), minimize regulatory penalties, and preserve the company's reputation and operational continuity.

WA L&I Note	Washington State operates its own OSHA-approved occupational safety plan (WISHA). Employers must comply with both WAC 296 (WA safety rules) and federal 29 CFR 1915. Where WA rules are more stringent, WA rules apply. L&I retains jurisdiction over workplace safety inspections and workers' comp for all WA employees.
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6.2 Safety Internal Controls Summary

Ref	Audit Objective	Procedure / Test Steps	Reg / Std Ref	Freq	Owner	Evidence
SA F-01	Written Safety Program	Confirm a comprehensive Accident Prevention Program (APP) exists per WAC 296-800-140. Verify it covers all major hazards present at the facility.	WAC 296-800-140 / 29 CFR 1915	Annual	Safety Officer	Written APP document, signature page
SA F-02	Safety Committee / Meetings	Verify a joint employer-employee safety committee meets monthly (required for employers with 11+ employees in WA). Review meeting minutes and corrective action tracking.	WAC 296-800-130	Monthly	Safety Officer / HR	Meeting minutes, attendance log
SA F-03	Hazard Identification & Inspections	Confirm quarterly safety inspections of the yard, dock, haul-out area, paint bay, and fuel storage are conducted and documented. Review for open corrective actions.	WAC 296-800-120	Quarterly	Safety Officer / Ops	Inspection checklists, corrective action log
SA F-04	OSHA 300 Log & Incident Reporting	Review OSHA 300/300A logs for completeness and accuracy. Confirm recordable injuries are correctly classified. Verify L&I incident reports filed within required timeframes.	29 CFR 1904 / WAC 296-27	Annual (log); Immediate (incidents)	HR / Safety Officer	OSHA 300, 300A, 301; L&I reports
SA F-05	Confined Space Entry Program	Confirm written confined space program exists per 29 CFR 1915.12. Verify permits are issued for each entry into vessel holds, bilges, and tanks. Review rescue procedures.	29 CFR 1915.12 / WAC 296-841	Semi-annual	Safety Officer / Ops	Confined space program, entry permits, training records

Ref	Audit Objective	Procedure / Test Steps	Reg / Std Ref	Freq	Owner	Evidence
SA F-06	Fall Protection Program	Inspect working surfaces above 4 feet (marine standard) for guardrails, safety nets, or personal fall arrest systems. Verify employees are trained in fall protection equipment use.	29 CFR 1915.73 / WAC 296-880	Quarterly	Safety Officer	Fall protection plan, inspection records, training certs
SA F-07	Lockout/Tagout (LOTO) Program	Confirm written LOTO program per 29 CFR 1910.147 and 1915. Verify machine-specific energy control procedures exist for major equipment. Test employee knowledge via observation.	29 CFR 1910.147 / WAC 296-803	Annual	Safety Officer	LOTO procedures, training records, audit log
SA F-08	Hazard Communication (HazCom / GHS)	Verify Safety Data Sheets (SDS) are current and accessible for all chemicals on-site (paints, solvents, fuels, cleaning agents). Confirm GHS labeling on all containers.	29 CFR 1910.1200 / WAC 296-901	Semi-annual	Ops Manager	SDS binder/system, chemical inventory, labels inspection
SA F-09	PPE Assessment & Provision	Confirm a written PPE hazard assessment exists. Verify PPE is provided at no cost to employees. Inspect condition of PPE in use. Confirm hearing protection program for noisy operations.	29 CFR 1915.152 / WAC 296-800-160	Annual	Safety Officer	PPE assessment, purchase records, training docs
SA F-10	Workers' Compensation & L&I Classification	Verify all employees are enrolled in WA State workers' comp. Confirm employee risk classification codes are accurate for marine trades. Review experience modifier trend.	RCW Title 51 / WAC 296-17	Annual	HR Manager	L&I account statement, risk class codes, mod rate history
SA F-11	Emergency Response Plan	Confirm a written Emergency Action Plan (EAP) covers: fire, fuel spill, vessel sinking at dock, man overboard, medical emergency, and severe weather. Drill conducted at least annually.	29 CFR 1910.38 / WAC 296-800-310	Annual (drill)	Safety Officer / GM	Written EAP, drill record, employee training sign-off
SA F-12	Marine/Waterfront Specific Hazards	Assess controls for tide-affected work surfaces, gangway safety, dock lighting, cold water immersion risk, and marine weather monitoring protocols.	29 CFR 1915 / USCG / Port of Seattle	Semi-annual	Yard Supervisor / Safety	Marine hazard assessment, gangway inspection logs, weather protocols

SECTION 7: INTERNAL CONTROLS — PARTS INVENTORY MANAGEMENT

7.1 Parts Inventory Control Objectives

Parts inventory represents one of the most significant balance sheet assets and operational risk areas for a marine MRO operation. Effective inventory controls protect against shrinkage, overbuying, obsolescence, and billing errors. For a company of Coastal Shipyard's scale, the right balance is between tight controls and administrative practicality.

7.2 Parts Inventory Internal Controls Summary

Ref	Audit Objective	Procedure / Test Steps	Reg / Std Ref	Freq	Owner	Evidence
INV-01	Inventory Valuation & Accounting	Confirm inventory is valued using a consistent method (FIFO or average cost). Verify inventory is recorded on the balance sheet and reconciled to the general ledger at least semi-annually.	GAAP (for partnership financials)	Semi-annual	Controller / Parts Mgr	GL inventory account, valuation report, reconciliation
INV-02	Physical Inventory Count (Annual)	Conduct a full physical count of all parts inventory at least once per year. Compare count to system or manual records. Investigate variances >\$100 or >5% by category.	Internal policy / GAAP	Annual	Parts Manager / Controller	Count sheets, variance report, sign-off by manager
INV-03	Cycle Counting Program	For high-value or high-velocity parts (engines, electronics, drives), implement monthly cycle counts on a rotating basis. Document counts and reconcile discrepancies promptly.	Internal policy	Monthly (high-value)	Parts Manager	Cycle count log, reconciliation records
INV-04	Parts Receiving Controls	Verify all received parts are matched to a purchase order before acceptance. Count quantities, inspect for damage, and record receipt in inventory system before payment is approved.	Internal policy	Each receipt	Parts Manager / Receiving	PO-receiving match records, receiver documents
INV-05	Issuing & Job Costing Controls	Confirm all parts issued to work orders are recorded at the time of issue. Verify no parts leave inventory without a corresponding work order or customer invoice.	Internal policy	Daily / ongoing	Parts Manager / Techs	Work order parts lists, issue records, job cost reports
INV-06	Shrinkage & Theft Prevention	Assess physical security of parts storage areas (locked cages, limited access).	Internal policy	Quarterly	Ops Manager	Access logs, adjustment history,

Ref	Audit Objective	Procedure / Test Steps	Reg / Std Ref	Freq	Owner	Evidence
		Review whether access is limited to authorized personnel. Check for unexplained inventory adjustments.				security inspection
INV-07	Slow-Moving & Obsolete Parts Review	Annually identify parts with no movement in 12+ months. Calculate carrying cost. Evaluate options: return to vendor, liquidate, or write down. Flag high-value slow-movers for partner review.	GAAP / Internal policy	Annual	Parts Manager / Controller	Inventory aging report, disposition records, write-down approval
INV-08	Vendor Pricing & Purchase Controls	Verify that vendor price lists are current and that purchases are made at agreed contract prices. Test a sample of 10 invoices against vendor price lists or agreements.	Internal policy	Semi-annual	Parts Manager / Controller	Vendor agreements, price lists, sample invoices
INV-09	Parts Billing to Customers (Mark-up Controls)	Confirm that a consistent and approved parts mark-up policy exists. Test 15 customer invoices to verify parts were billed at the correct mark-up over cost.	Internal policy	Quarterly	Controller	Mark-up policy, customer invoices, cost records
INV-10	Hazardous Parts & Materials Segregation	Confirm that hazardous inventory items (fuels, solvents, paints, batteries) are stored separately per EPA and WA Ecology requirements and are tracked on the hazardous materials inventory.	WAC 173-303 / EPA RCRA	Quarterly	Ops Manager / EH&S	Hazmat inventory list, storage inspection, SDS file
INV-11	Warranty & Core Return Tracking	Verify that warranty claims on defective parts are tracked and submitted to vendors. Confirm that core returns (engines, alternators, starters) are returned for credit and credited to job costs.	Internal policy	Monthly	Parts Manager	Warranty claim log, core return log, vendor credits
INV-12	Inventory Insurance Adequacy	Confirm that the company's property insurance policy covers parts inventory at current replacement value. Review coverage limits annually against current inventory valuation.	Partnership risk mgmt	Annual	GM / Controller	Insurance policy, inventory valuation report

SECTION 8: ENHANCED FINANCIAL & OPERATIONAL AUDIT PROCEDURES

8.1 Debt Service & Partnership Liquidity Procedures

Given the \$1M long-term debt position and \$10K monthly FCF baseline, the following procedures supplement the financial audit domain from Version 1.0 with specific focus on debt management and liquidity:

Ref	Audit Objective	Procedure / Test Steps	Reg / Std Ref	Freq	Owner	Evidence
FIN -A1	Debt service coverage assessment	Calculate annual debt service (principal + interest) against annual FCF (~\$120K). Assess coverage ratio. Flag if coverage ratio falls below 1.2x, requiring partner review.	Loan covenants / Partner agreement	Annual	Controller	Loan amortization schedule, P&L, FCF calculation
FIN -A2	LTD covenant compliance review	Review loan agreement for any financial covenants (minimum cash balance, leverage ratio, cross-default clauses). Confirm compliance calculations are performed and documented quarterly.	Loan agreement	Quarterly	Controller / Partner	Loan agreement, compliance cert, bank statements
FIN -A3	Monthly FCF trend monitoring	Prepare rolling 12-month FCF trend chart. Identify months where FCF is negative or below \$5,000. Investigate root cause (revenue dip, cost spike, AR delay). Report to partners.	Partner agreement / Internal	Monthly	Controller	Monthly P&L, FCF worksheet, trend chart
FIN -A4	Partner capital account maintenance	Confirm partner capital accounts are maintained in the general ledger. Reconcile to partnership agreement allocation percentages. Verify all distributions are properly recorded against capital accounts.	Partnership agreement / IRS Form 1065	Annual	Controller / CPA	Capital account ledger, K-1s, distribution records
FIN -A5	WA B&O and sales tax compliance	Confirm quarterly B&O tax returns are filed on time with WA Dept. of Revenue. Verify sales tax is collected on all taxable parts sales. Test use tax accruals on self-consumed parts.	RCW 82.04, 82.08	Quarterly	Controller	B&O returns, sales tax reports, DOR correspondence

8.2 Revenue Quality & Customer Mix Procedures

These procedures support the market opportunity analysis and FCF improvement goals from Section 4:

Ref	Audit Objective	Procedure / Test Steps	Reg / Std Ref	Freq	Owner	Evidence
RE V-01	Revenue segmentation by customer type	Extract and classify all revenue by customer segment (commercial fishing, charter/tourism, yacht/luxury, other recreational, parts-only). Calculate % of total and gross margin per segment.	GRI 201-1 / Internal	Annual	Controller / Ops Mgr	Invoice data, work order classification, P&L by segment
RE V-02	Customer concentration risk assessment	Calculate revenue contribution of top 10 customers. Flag any customer representing >15% of annual revenue. Assess whether commercial fishing fleet concentration poses revenue risk.	Internal / Partner agreement	Annual	GM / Controller	Customer revenue report, ranked client list
RE V-03	Parts mark-up realization by segment	Compare average parts mark-up % realized for commercial vs. recreational vs. luxury customers. Identify whether pricing discipline is consistent and whether premium segment is being underpriced.	Internal pricing policy	Semi-annual	Controller / Parts Mgr	Segmented invoice analysis, mark-up report
RE V-04	Storage revenue rate analysis	Calculate revenue per occupied slip/space. Compare current rates to published marina rates in the Seattle/Puget Sound area. Assess pricing gap and model revenue impact of rate adjustment.	Internal / market data	Annual	GM / Controller	Storage contracts, rate survey, revenue model
RE V-05	Seasonal revenue distribution analysis	Prepare monthly revenue chart over trailing 24 months. Calculate low-season revenue as % of peak. Assess whether capacity, staffing, and marketing strategies address seasonal gaps.	Internal	Annual	GM / Ops Mgr	Monthly revenue report, staffing records, utilization data

SECTION 9: UPDATED KPI DASHBOARD

The following KPI framework updates and expands the dashboard from Version 1.0, incorporating the financial reference profile, segment analysis, and internal controls priorities of this version.

Domain	KPI	Frequency	Reference / Target	Data Source
Financial	Net Profit Margin %	Monthly	Improve from ~10% baseline	P&L Statement
Financial	Monthly Free Cash Flow	Monthly	>\$10K; trend improving	Cash Flow Statement
Financial	Debt Service Coverage Ratio	Quarterly	>1.2x	FCF vs. loan schedule
Financial	Revenue per Billable Labor Hour	Monthly	>\$95/hr (sector benchmark)	Work orders + payroll
Financial	Gross Margin by Service Line	Quarterly	Track trend per segment	P&L by segment
Financial	AR Days Outstanding	Monthly	<30 days	AR Aging Report
Financial	WA B&O Tax Filing Timeliness	Quarterly	Filed on time — no penalties	DOR filing records
Market / Rev	Revenue % — Commercial Fishing	Annual	Track; reduce concentration	Invoice segmentation
Market / Rev	Revenue % — Yacht & Luxury	Annual	Target: grow to 20%+	Invoice segmentation
Market / Rev	Revenue % — Charter & Tourism	Annual	Target: grow to 15%+	Invoice segmentation
Market / Rev	Storage Revenue per Sq Ft / Slip	Annual	At or above Puget Sound avg	Storage contracts + market data
Market / Rev	Top Customer Revenue Concentration	Annual	No single client >15%	Customer revenue report
Operations	Work Order Completion Rate On-Time	Weekly	>90%	Work order system
Operations	Labor Utilization Rate	Monthly	>75%	Time sheets
Operations	Parts Inventory Turnover	Quarterly	>4x per year	Inventory records
Operations	Parts Inventory Accuracy (cycle count)	Monthly	>98%	Cycle count vs. records
Operations	Customer Callback / Re-Work Rate	Monthly	<3%	Work order callbacks
Int. Controls	Bank Reconciliation Timeliness	Monthly	Completed by 10th of month	Rec. completion log
Int. Controls	Safety Incident Rate (TRIR)	Quarterly	<2.0 (BLS marine avg)	OSHA 300 log

Domain	KPI	Frequency	Reference / Target	Data Source
Int. Controls	Open Audit Findings Closure Rate	Quarterly	>80% closed within 90 days	Findings tracker
People Care	Voluntary Turnover Rate	Annual	<15%	HR/Payroll records
People Care	401(k) Participation Rate	Annual	>80%	Plan administrator
People Care	Training Hours per Employee	Annual	>20 hours	Training records
Environmental	Permit Exceedances	Quarterly	Zero	Monitoring reports
Environmental	Hazardous Waste Generated	Annual	Year-over-year reduction	Waste manifests

SECTION 10: DOCUMENT CONTROL & APPROVALS

10.1 Document History

Ver.	Date	Author	Summary of Changes
1.0	2026	Management	Initial BPM Audit Program — 6 domains, GRI/GSSB aligned
2.0	2026	Management	Added financial profile, market opportunity analysis (3 segments), FCF improvement levers, internal controls (accounting, safety, parts), WA State & Seattle regulatory matrix, expanded KPI dashboard

10.2 Approval Signatures

Role	Name	Signature	Date
Managing Partner			
Partner (Finance)			
Partner (Operations)			
HR Manager			
Internal Audit Lead			

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Aligned with GRI/GSSB Standards | COSO Internal Controls | OSHA 29 CFR 1915 | WAC 296 | Seattle SMC | WA RCW