

Washington State Auditor's Office
Accountability Audit Report

**Grays Harbor Historical Seaport
Authority**
Grays Harbor County

Report Date
December 16, 2010

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 31, 2011

Board of Directors
Grays Harbor Historical Seaport Authority
Aberdeen, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your Authority to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Grays Harbor Historical Seaport Authority's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Grays Harbor County
December 16, 2010**

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Audit Summary

Grays Harbor Historical Seaport Authority Grays Harbor County December 16, 2010

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Grays Harbor Historical Seaport Authority from January 1, 2008 through December 31, 2009.

We evaluated internal controls and performed audit procedures on the activities of the Authority. We also determined whether the Authority complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- General revenue
- Cash receipting
- Disbursements
- Small and attractive assets such as computers
- Payroll
- Financial condition
- Open Public Meetings Act
- Contracts and agreements
- Conflict of interest

RESULTS

In most areas, the Authority complied with state laws and regulations and its own policies and procedures.

However, we identified a condition significant enough to report as a finding:

- The Authority had insufficient funds to cover operating expenses and its financial position continues to decline.

We also noted certain matters that we communicated to Authority management. We appreciate the Authority's commitment to resolving those matters.

Description of the Authority

Grays Harbor Historical Seaport Authority Grays Harbor County December 16, 2010

ABOUT THE AUTHORITY

The Grays Harbor Historical Seaport Authority was created as a public corporation by the city of Aberdeen under the provisions of state law (RCW 35.21.730-755) on October 20, 1986. The Authority began operations in 1987 with the purpose of building and operating a full-scale reproduction of the brig Lady Washington and the Hawaiian Chieftain. In addition, the Authority's goal was to build and operate a maritime museum to promote tourism and economic development in the Grays Harbor area and to provide educational programs for schools and communities. The Authority provides a range of services including Lady Washington and Hawaiian Chieftain passages, tours and charters, student educational training programs, longboat programs and merchandise sales.

An appointed, nine-member Board of Directors administers the Authority. The Mayor of Aberdeen appoints Board Members based on current Board input. The Authority has a full-time Executive Director and bookkeeper, two part-time office employees and a small ship crew of volunteer and paid employees.

The Authority operated on an annual budget of approximately \$1.3 million in 2008 and \$1.1 million in 2009. Current funding is provided primarily from ship tours, sails and education programs. Before the launch of the Lady Washington, a funding shortfall necessitated a loan from the city of Aberdeen, which has since been paid in full.

APPOINTED OFFICIALS

These officials served during the audit period:

Board of Directors:

Alex Klueh
April Fox (July 2009 - December 2009)
Barbara Smith (through May 2009)
Bonnie Arel (effective July 2009)
David Cottrell
Dee Harrington
Dennis Crowley (effective August 2009)
Fred Thurman (through March 2009)
Laurie Rust
Paul O'Brien
Roy Permain (through September 2009)
Tony Holekakis (through March 2009)

APPOINTED OFFICIALS

Executive Director

Les Bolton

AUTHORITY CONTACT INFORMATION

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Aberdeen, WA 98520

Phone: (360) 532-8611

Website: www.historicalseaport.org

AUDIT HISTORY

Typically, we audit the Authority every two years. The past five audits of the Authority have reported several findings. During that period, the Authority received two findings in the 2000-2002 audit and one finding each in the 2003, 2005, and 2006-2007 audits. Some of the areas of concern identified during prior audits continue to persist and are reported in the current audit. The current audit also contains a finding relating to the Authority's financial condition.

Schedule of Audit Findings and Responses

Grays Harbor Historical Seaport Authority Grays Harbor County December 16, 2010

- 1. The Authority had insufficient funds to cover operating expenses and its financial position continues to decline.**

Description of Condition

During prior audits, we noted concerns regarding the Authority's financial condition. These concerns continue. The Authority's ending cash balance is as follows:

<u>Fiscal Year</u>	<u>General Fund Ending Balance</u>
2006	\$ 53,180
2007	\$ 75,303
2008	\$ 99,128
2009	(\$ 24,090)

We also found the Authority:

- Had an ending cash balance of negative \$5,898 as of December 7, 2010.
- Opened a \$75,000 line of credit for operating expenses on December 28, 2009. As of September 30, 2010, the Authority had withdrawn the total amount.

Based on projections of revenue and expenditures through the end of the fiscal year, the Authority states its 2010 ending cash balance will be at \$0.

Cause of Condition

The Authority forecasted revenue to be more than what it actually received. When revenue fell short of projections, the Authority did not act in a timely manner to cut costs.

Effect of Condition

The Authority is borrowing money to pay operating expenses. Repayment of debt obligations will have an effect on the Authority's future cash flow. As a result, the Authority may not be able to maintain current services at present levels without continued strain on its financial position.

Recommendation

We recommend the Authority establish a formal written plan to address its financial condition and to ensure it maintains a required minimum fund balance to cover monthly operation expenses. In addition, the Authority should monitor and evaluate the

Authority's financial condition to ensure the plan is followed and the desired results are achieved. The plan should be revised as needed to resolve financial issues.

Authority's Response

Grays Harbor Historical Seaport Authority is a municipal non-profit organization that receives no operating support from local or state sources. For the past 20 years the organization has operated on a "fee for services" model. Providing education programs for schools, home school groups and the general public in coastal communities in Washington, Oregon and California has been a dependable primary source of operating revenues for the Authority. The recent economic downturn has had a significant negative impact on school budgets and disposable income for the general public resulting in a significant decrease in revenues for the Authority.

To address the immediate impact of this decrease in revenues the Authority has made a number of changes that are having a positive impact in the short-term.

- 1. Reviewed all expenses and made reductions where possible, including staff reductions.*
- 2. Shifted to online bookings for public sailing programs, reduced staff and increased sales.*
- 3. Expanded program offerings to include shorter, less expensive weeknight sails targeting a younger demographic, tours aloft and "fire a cannon" opportunities.*

The Authority is also taking step to address the issue in the longer term.

- 1. The Authority has been in discussions with the Magic Cabinet Foundation regarding the issue of sustainability. The Magic Cabinet Foundation has committed to providing \$125K in 2011 and \$100K each year in 2012, 2013 and 2014. These funds are to pay for donor development software, a senior development officer (a fund raising specialist) for the Authority, and to provide scholarships for students in economically depressed school districts to participate the Authority's shipboard education program.*
- 2. The Authority Board has declared 174 acres of currently unused property at the Seaport Learning Center site as surplus. The Authority is currently looking for a buyer for this property. The property is valued at \$450K. The majority of the funds from this sale will be used to establish an operating reserve fund equal to three months operating expenses.*
- 3. As the Authority completes the purchase of the Seaport Landing site in South Aberdeen, the balance of the Seaport Learning Center site will be leased out or sold, providing additional income. These 40 acres, including buildings, is currently valued at \$720K.*

Although Grays Harbor Historical Seaport Authority has been negatively impacted by the global economic downturn, the Authority is taking steps to bolster its financial position and we are confident that this finding will not be repeated at our next audit.

Thank you for the opportunity to respond to this audit.

Auditor's Remarks

We appreciate the steps the Seaport is taking to resolve the issues. We will review the conditions during our next audit.

Status of Prior Audit Findings

Grays Harbor Historical Seaport Authority Grays Harbor County December 16, 2010

The status of findings contained in the prior years' audit reports of the Grays Harbor Historical Seaport Authority is provided below:

1. The Authority does not have adequate internal controls over financial operations.

Report No. 1001250, dated March 18, 2009

Background

Expenditures

The Authority spent approximately \$1.36 million and \$1.3 million in 2006 and 2007, respectively. During the prior audit, we identified several areas of concern regarding expenditures. We noted these conditions persist:

Board-approved Versus Actual Expenditures

We reviewed Board-approved expenditures from October through December 2007, since the prior audit reviewed expenditures through September 2007. The current audit again noted that the Board did not approve all expenditures. We could not reconcile approved amounts for November and December because check numbers were not documented in the Board meeting minutes. The inability to reconcile the Board approved amounts to actual amounts paid are a result of the following:

- The Board approved \$58,669 in expenditures for October 2007. However, only \$37,689 in expenditures was actually paid due to having insufficient funds to pay the entire Board approved amount. The Authority is using a blanket auditing certification program to approve expenditures. The Authority makes handwritten changes to these certifications when they don't have sufficient funds to pay all expenditures. We were unable to determine whether changes were made before or after Board approval.
- The Authority does not monitor to ensure the accounting system reconciles with the expenditures approved for payment or the payments made.

Supporting Documentation

During our review, we found:

- The Authority does not have documentation, such as invoices to support expenditures of \$3,899 in 2006 and \$13,950 in 2007.

- Receipts and invoices did not reconcile to expenditures of \$23,912 in 2006 and \$3,632 in 2007.
- Questionable payments totaling \$386 in 2006 and \$2,288 in 2007. These included expenditures for bed sheets that are larger than the beds on the boats; catering; and a check made out to a crew member who was supposed to cash the check and place the money in the petty cash box. Because the Authority does not count the money in the petty cash boxes before replenishing them, we could not determine if the money was put in the box.

Revolving Funds

During our review of revolving funds we found:

- The voyage account revolving is not reimbursed based on actual expenditures. The fund is replenished based on requests from the ship crew and available resources. We noted \$12,000 in transfers to the account that were not supported by documentation in 2006.

Credit Cards

During our review of credit card payments, we found:

- The Authority paid finance charges of \$353 in 2006 and \$662 in 2007, along with late or other fees totaling \$92 in 2006 and 2007.
- The Authority was missing credit card statements for March and September 2007, but had credit card expenditures of \$989.93 and \$2,635.86 for those months.
- Lack of adequate documentation to support credit card payments totaling \$3,696 in 2006 and \$2,610 in 2007. We found no documentation for travel-related payments totaling \$1,132 in 2006 and \$342 in 2007. We also noted credit card charges totaling \$222 in 2006 and \$32 in 2007 made by employees who were not authorized to use the Authority's credit cards. Due to a lack of supporting documentation we could not determine if there were more occurrences of unauthorized personnel using the credit cards.

Cash Receipting

The Authority had operating revenue of \$1,124,537 in 2006 and \$1,147,689 in 2007. We noted in the prior audit the Authority did not have adequate internal controls over cash-receipting. We noted the following issues persist:

- The bookkeeper receipts cash, prepares deposits and takes deposits to the bank with no independent review. Without this review, the Authority cannot detect irregularities in a timely manner, if at all.
- Several deposit slips were not validated.
- Several differences in the amount of cash receipted and the amount deposited. Specifically, one deposit from the Lady Washington was \$15 short and another

one was \$182 short. We found that deposits were more than what was recorded as received on two occasions totaling \$100 and \$10.

- Deposits are not always made on a daily basis, as required by state law (RCW.43.09.40).
- The customer name and method of payment often are missing from receipts.
- Out of the 104 voided checks in 2006 and 2007, 27 were not entered into the system as voided and no other explanation was given as to the missing check numbers. We also noted nine returned voided checks totaling \$1,249 that were paid.
- The Authority opened a checking account which had an ending balance of \$46,662 as of December 31, 2006, and a \$5,000 Certificate of Deposit at a credit union in 2004. The State Treasurer's Office does not allow public entities to have accounts at credit unions. We noted the Authority had not closed these accounts since the prior audit.

Payroll

The Authority had \$487,317 in payroll in 2006 and \$494,810 in 2007. We noted in the prior audit the Authority did not have adequate internal controls over payroll expenditures. We noted the following issues persist:

- The Authority has not adopted salary schedules for office and maintenance employees. No contract or other documentation is in place to support their pay.
- The Executive Director gives employees raises without Board approval. Of the employee salaries we looked at, \$194,303 were paid with no contract.
- Contracts for 21 of the 29 crew members we examined were incomplete in their support for payroll expenditures. Total payroll expenditures for these employees were \$141,468.
- We examined the payroll records for 70 individuals hired during the period under audit. Of those, we found inadequate documentation, such as contracts or time sheets, to support the pay of nine crew members and 11 operations and maintenance employees. Total expenditures were \$27,869 for crew members and \$83,444 for office staff.

Safeguarding Assets

We noted in the prior audit the Authority did not have adequate internal controls over tracking and monitoring property and equipment. The following issues persist:

- The Authority does not have policies and procedures for tracking and monitoring property and equipment.
- The Authority does not have an inventory list and has not performed an inventory of its property and equipment.

Status

The Authority has improved or corrected all areas noted in the finding, except safeguarding of assets. The Authority does not have an asset policy. It has begun creating a small and attractive asset listing; however, it is not complete. We have communicated these concerns to management.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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