

# Schedule of Audit Findings and Responses

## Grays Harbor Historical Seaport Authority Grays Harbor County March 18, 2009

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

#### Description of Condition

##### Expenditures

The Authority spent approximately \$1.36 million in 2006 and \$1.3 million in 2007. 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 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 do not 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 revenues 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 that 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 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.

### **Cause of Condition**

Although the Authority recognizes the significance of the risks associated with these conditions, it has not resolved the issues noted during the past three audits due to insufficient staff resources and deeming other Authority functions to be higher priorities.

### **Effect of Condition**

These internal control weaknesses create the potential that the Authority's resources could be misappropriated, misused or lost without detection in a timely manner, if at all.

### **Recommendation**

We recommend the Authority establish and follow internal controls over expenditures and revenues, cash receipts, payroll and assets to ensure they are safeguarded.

### **Seaport's Response**

*In response to the Findings of the Audit of Grays Harbor Historical Seaport Authority for the years 2006 and 2007 the Authority would like to submit the following.*

*Much has changed at the Authority since 2006 when the Authority brought its second Tall ship into service. There have been many staffing changes and an effort to improve accountability with each change. Most notably, our 2005/2006 Marine Operations Manager is no longer with us, and in October of 2008 the Authority hired a new bookkeeper who is very familiar with, and fluent in the QuickBooks accounting system used by the Authority. After a four month training and transition period with the previous bookkeeper, our new bookkeeper has now taken full charge of all Authority financial transactions and has made major inroads into resolving many of the issues raised in this Audit.*

*Additionally, new Board leadership is committed to organizational change and establishing a new level of accountability. The following is an overview of steps that have or are being taken to address issues identified in this audit.*

## **Expenditures**

*The new Bookkeeper works closely with ships' Pursers to ensure appropriate receipts for all expenditures. At each Board meeting she provides all invoices related to each account with an audit sheet for approval by the Board. A copy of each audit sheet will be attached to the minutes of that meeting with the original attached to the file for those specific payables. Additionally, the bookkeeper has developed a form to ensure Board audit and approval of all internal fund transfers and all deposits. This too is included with the minutes.*

*The Authority now includes voucher numbers in the minutes and has ordered computer printed checks to further improve accountability. Reconciliation issues related to incorrect entries of the past have been resolved and the Authorities accounts are now reconciled.*

## **Supporting Documentation**

*Major improvements in documentation, accountability and records organization have been made as the new bookkeeper has taken over. Expenses are reviewed closely and any questionable invoices are referred to the Executive Director for review. RE: The "oversized sheets", the Hawaiian Chieftain's Captain's cabin has a large bed.*

## **Revolving Funds**

*To address the issue of Revolving Funds the Seaport Board at its April 7th meeting established a \$2,500 balance for the imprest accounts for each ship. These funds will be reimbursed as receipts for expenditures are reviewed and approved by the Board. The fund will be reimbursed for the exact amount spent so as to maintain the accounts at the \$2,500 level.*

## **Credit Cards**

*Credit Card receipting has been significantly improved since 2006/2007.*

## **Cash Receipting**

*The Board has authorized the Executive Director to audit all deposits. Deposit receipts are stapled to deposit slips as well as machine validation of the deposit slip. All incoming funds are counted and signed for prior to the bookkeeper receiving the funds. Any discrepancy is addressed at that time. Proper receipts accompany all deposit summaries.*

*Because there are a number of days when the Authority receives little or no income, a policy has been established that the Authority will make deposits at least twice each week, but at no time will it hold overnight more than \$500 cash or \$1,000 in checks or charge slips. Any revenues held overnight will be kept in a locked safe.*

*The Authority has changed our process for dealing with voided checks and has ordered computer printed checks to further reduce the potential for errors.*

*The accounts at Twin Star Credit Union have been closed and moved to Bank of the Pacific.*

## **Payroll**

*A significant part of the problem with the ships' crew contracts and pay rate documentation related to a specific employee who is no longer employed by the Authority. Crew contracts, performance reviews and pay records are now being consistently processed in accordance with Authority Policies.*

*Other issues related to payroll are being addressed by the Board in the following ways:*

1. *The Personnel Committee is reviewing all office and shop job descriptions and will present to the Board updated job descriptions with salary schedules for all Aberdeen based staff.*
2. *A new, additional step has been added to pay rate increases, that of formal approval by the Board, with documentation of the rate change and approval to be placed in the employee's file.*
3. *Aberdeen staff consistently use time cards.*

### **Safeguarding Assets**

*An asset tracking system is currently being developed. New assets are being logged in as they arrive. Staff is working with volunteers to begin an inventory process on a space by space basis.*

*We would like to thank the auditing staff for their professional manner and their willingness to help us develop workable solutions to the challenges of long distance operations, crew rotations, and minimal staffing. Their input is being incorporated into many of the organizational changes we are currently implementing.*

### **Auditor's Response**

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

### **Applicable Laws and Regulations**

**RCW 42.24.080 Municipal corporations and political subdivisions -- Claims against for contractual purposes -- Auditing and payment -- Forms -- Authentication and certification.**

All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision. Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision; and no claim shall be paid without such authentication and certification: PROVIDED, That the certificates as to claims of officers and employees of a county, city, district or other municipal corporation or political subdivision, for services rendered, shall be made by the person charged with the duty of preparing and submitting vouchers for the payment of services, and he or she shall certify that the claim is just, true and unpaid, which certificate shall be part of the voucher.

**RCW 43.09.200 Local government accounting -- Uniform system of accounting.**

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class. The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Volume I, Part 3, Chapter 1 of the Budgeting, Accounting and Reporting System (BARS) Manual, issued by the State Auditor's Office pursuant to RCW 43.09.230, states in part:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

The ultimate responsibility for good internal controls rest with management.

Volume I, Part 3, Chapter 3 of the Budgeting, Accounting and Reporting System (BARS) Manual, states in part:

The certification by the auditing officer in no manner relieves members of the governing body from the responsibility and liability for each voucher approved. It is the governing body's responsibility to ensure that the system of auditing and certifying vouchers is operating in a manner to provide the greatest possible protection for the governing members and the municipality.

RCW 39.58.010 Definitions, states in part:

In this chapter, unless the context otherwise requires:

(2) "Public depository" means a financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has been approved by the commission to hold public deposits, and which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability. Addition of the word "bank" denotes a bank, trust company, or national banking association and the word "thrift" denotes a savings association or savings bank;