

Washington State Auditor's Office
Accountability Audit Report

Washington State Potato Commission

Report Date
May 19, 2014

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Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

June 30, 2014

Board of Commissioners
Washington State Potato Commission
Moses Lake, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your Commission 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 Washington State Potato Commission'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,

TROY KELLEY
STATE AUDITOR

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Audit Summary

Washington State Potato Commission May 19, 2014

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Washington State Potato Commission from July 1, 2011 through June 30, 2013.

We evaluated internal controls and performed audit procedures on the activities of the Commission. We also determined whether the Commission 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 expenses
- Investments

RESULTS

In most areas, the Commission 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 Commission did not place all funds in an approved public depository, as required by state law.

Related Reports

**Washington State Potato Commission
May 19, 2014**

FINANCIAL

Our opinion on the Commission's financial statements is provided in a separate report, which includes the Commission's financial statements.

Description of the Commission

Washington State Potato Commission May 19, 2014

ABOUT THE COMMISSION

The Washington State Potato Commission was established in 1956 by state law for promotion and marketing, product research, establishment of labeling requirements, standards and grades for potatoes, prevention and investigation of unfair trade practices and supporting grower relations. It is funded by assessments on potatoes grown in Washington except for those used for charity, livestock, feed or personal consumption.

The Commission is governed by a 15-member Board of Commissioners representing five regional districts. Two members are elected by the producers within each district and four members are appointed by the Board. The Director of the Department of Agriculture serves as an ex officio Commissioner.

The Commission has nine employees, including its five management staff. It had revenue of approximately \$3.5 million for both fiscal years 2012 and 2013.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:

Nelson Cox
Rex Calloway
Nick Johnson
Frank Martinez
Stacy Kniveton
Robert Halvorson
Jared Balcom
Ted Tschirky
Darrin Morrison

APPOINTED OFFICIALS

Board of Commissioners:

Ellie Charvet
Mike Dodds
Mike Madsen
Derek Davenport
Roger Hawley
Cameron Crump (Department of Agriculture)

Executive Director
Assistant Executive Director

Chris Voigt
Matt Harris

COMMISSION CONTACT INFORMATION

Address: Washington State Potato Commission
108 Interlake Road
Moses Lake, WA 98837

Phone: 509-765-8845

Website: www.potatoes.com

AUDIT HISTORY

We audit the Commission every two years. Including the current finding, we have issued two findings in the last 10 years. The fiscal year 2005 audit contained one finding related to inappropriate use of public funds. That finding has been resolved.

Schedule of Audit Findings and Responses

Washington State Potato Commission July 1, 2011 through June 30, 2013

- 1. The Commission did not place all funds in an approved public depository, as required by state law.**

Background

The state Public Deposit Protection Commission (PDPC) approves which financial institutions may legally hold state and local government deposits. The PDPC monitors collateral pledged to secure public deposits that exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). The Commission maintains a list of authorized public depositories that meet its requirements and makes that list available to state and local governments on its website.

Description of Condition

At the end of its 2012 fiscal year, the Commission had 16 certificates of deposit and money market accounts that were not held in authorized public depositories. These investments had a market value of \$3,213,935, which was 77 percent of the Commission's investment portfolio. Similarly, at the end of the 2013 fiscal year, the Commission had 21 unauthorized investments with market value of \$3,067,729, which was 64 percent of its investment portfolio.

Cause of Condition

The Commission used three different investment firms during the audit period to maximize investment earnings. None of these firms were qualified public depositories. In addition, the Commission placed investment funds in several local banks. Commission management was not aware of the qualified public depository requirements for safeguarding of public funds.

Effect of Condition

When a financial institution insured by the FDIC fails, each account is protected up to \$250,000. The Commission's investments were within FDIC limits or were covered through other means such as supplemental insurance purchased by the Commission's brokerage firm. However, by not using authorized public depositories, the Commission has increased its own responsibilities to ensure that its funds are protected against loss.

Recommendation

We recommend the Commission prepare a plan to move its investments to financial institutions approved by the PDPC in a timely and orderly manner. In addition, we recommend Commission management ensure it has a sufficient understanding of requirements associated with public depositories.

Commission's Response

The Washington State Potato Commission (WSPC) agrees with the State Auditor's finding that it did not place all funds in an approved public depository and that it was unaware of such regulations.

At no time were Washington State Potato Commission funds at risk due to non-compliance of Public Deposit Protection Commission (PDPC) regulations. The WSPC has an internal policy that states all funds must be secured by insurance or have the backing of the U.S. government. All Potato Commission investments are insured by FDIC, (\$250,000 limit), or SIPC (\$500,000 limit), or supplemental insurance provided by brokerage firms (\$1,000,000,000), or have the backing of the U.S. Government.

The cost of complying with the Auditor's recommendation and PDPC regulations will be great. To maintain the current level of protection and comply with the PDPC regulations, the Potato Commission will have to open approximately 20 new financial accounts. Through telephone surveys we found that approximately 80% of the financial institutions on the approved PDPC list require signers to open and close the accounts in person. The average distance from Moses Lake to the nearest branch of the 64 institutions on the list is a 318 mile round trip. The cost of sending the Executive Director and Assistant Executive Director to open and close 20 individual accounts could cost approximately \$37,696 per year in staff time and travel costs. The expected revenue from these investments is expected to yield only \$12,900. This result is a net loss of \$24,796.

It also increases the risk of employee injury due to excessive travel miles in a wide variety of seasonal road conditions. The WSPC intends to comply with the Auditor's recommendation and current state law, but is very disappointed that compliance will be expensive, cause great inefficiencies, and add little to no additional protection for our invested funds.

The WSPC will work with the Washington State Department of Agriculture, to explore legislative changes that would allow agriculture commodity commissions the opportunity to utilize a stronger method of protection than the PDPC currently offers and avoids the costs and inefficiencies the current law creates for small agricultural commissions.

Auditor's Remarks

We appreciated the assistance provided by management and staff during our audit and we look forward to reviewing the status of this issue during our next audit of the Commission.

Applicable Laws and Regulations

RCW 39.58.080 – Deposit of public funds in public depository required – Deposits in institutions located outside the state, states in part:

(1) Except for funds deposited pursuant to a fiscal agency contract with the state fiscal agent or its correspondent bank, funds deposited pursuant to a custodial bank contract with the state's custodial bank, and funds deposited pursuant to a local government multistate joint self-insurance program as provided in RCW 48.62.081, no public funds shall be deposited in demand or investment deposits except in a public depository located in this state or as otherwise expressly permitted by statute: PROVIDED, That the commission, or the chair upon delegation by the commission, upon good cause shown, may authorize, for such time and upon such terms and conditions as the commission or chair deem appropriate, a treasurer to maintain a demand deposit account with a banking institution located outside the state of Washington solely for the purpose of transmitting money received to public depositaries in the state of Washington for deposit.

RCW 39.59.020 – Authorized investments – Bonds, warrants, and other investments, states in part:

In addition to any other investment authority granted by law and notwithstanding any provision of law to the contrary, the state of Washington and local governments in the state of Washington are authorized to invest their funds and money in their custody or possession, eligible for investments, in: (4) Any investments authorized by law for the treasurer of the state of Washington or any local government of the state of Washington other than a metropolitan municipal corporation but, except as provided in chapter 39.58 RCW, such investments shall not include certificates of deposit of banks or bank branches not located in the state of Washington.

WAC 389-12-020 – Definitions, states in part:

(3) "Investment deposits" means time deposits, savings deposits, and money market deposit accounts of public funds available for investment as defined in Regulation D, Title 12 Code of Federal Regulations (C.F.R.) Part 204. "Investment deposits" also means certificates of deposit issued in accordance with the following conditions:

- (a) The funds are initially invested in an authorized Washington state public depositary;
- (b) The public depositary arranges for the investment of the funds in certificates of deposit issued by one or more federally insured banks or savings and loan associations wherever located, for the depositor;
- (c) The full amount of the deposit, principal and interest, of each such certificate of deposit is insured by an agency of the federal government;
- (d) The public depositary acts as custodian for the depositor with respect to all such certificates of deposit issued for the depositor; and
- (e) At the same time that funds are invested and the corresponding certificates of deposit are issued, the public depositary receives an amount on deposit from other federally regulated financial institutions wherever located equal to or greater than the amount of funds initially invested by the depositor.

All such investment deposits invested in accordance with conditions (a) through (e) of this subsection shall not be subject to any additional security or collateral requirement.



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.

We work 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 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 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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