

# Schedule of Audit Findings

## Grays Harbor Historical Seaport Authority Grays Harbor County January 1, 2003 through December 31, 2003

### 1. The Grays Harbor Historical Seaport Authority does not have adequate controls over expenditures.

#### Description of Condition

We identified several areas of concern regarding expenditures during the prior audit. We selected expenditures to review for adequate supporting documentation and for whether they were an allowable use of public funds. In addition, we performed a reconciliation of approved payments to actual expenditures. We identified the following areas of concern:

#### Board-approved versus actual expenditures

- Board-approved expenditures could not be reconciled to actual expenditures paid by the Authority. Of the Authority's \$749,352 in expenditures, only \$248,056 was approved by the Board prior to payment. This discrepancy is attributable in part to the following internal control weaknesses:
  - **\$501,296 or 67 percent of expenditures were paid prior to Board approval.**
  - The Board does not approve expenditures using a list of sequentially numbered transactions (i.e. voucher or check numbers) for tracking and accountability. This has resulted in expenditures being approved by the Board more than once: first as an account payable and then when a check is prepared.
  - Although the Board approves expenditures for payment, invoices are paid only as funds are available.
  - The Authority is using a blanket auditing certification program, however the certification is not consistently signed, the approved items are handwritten and changes are made to the listing. We were unable to determine whether changes were made before or after approval.
  - The same employee prepares the expenditures for Board approval, posts the transactions and prepares the expenditures for payment. There is no additional monitoring to ensure the accounting system reconciles with the expenditures approved for payment or the expenditures actually issued.

Without proper monitoring and board approval of Authority expenditures, management is at risk of incurring unauthorized or inappropriate expenditures.

#### Adequate supported/allowable expenditures

- No original invoice or receipt for \$880 in operating expenditures.
- Detailed documentation was not maintained by the Authority to support all credit card purchases as allowable and reasonable. In addition, the Authority does not pay the credit

card balance in full each month. Instead, payments are based on the funds available, which resulted in about \$120 in interest payments and about \$200 of late fees.

- The Authority purchased approximately \$100 worth of theater seats for employees and students who were involved in the Disney movie project.
- No documentation supported the business purpose for spending \$1,661 on meals for crew and staff. The Authority has no policy allowing payment of meal expenses for meetings during working hours.

When expenditures are not properly documented and supported, management can not ensure the appropriate use of public funds.

### **Travel expenditures**

The Authority adopted policies and procedures regarding employee travel reimbursements.

- The Seaport is not following its policies and procedures for travel related meal reimbursements nor supporting the business purpose of the expenditures. No documentation could be provided to support the business purpose of \$2,664 in travel expenditures.
- The Authority does not have an advance travel fund policy. During the audit we identified two instances in the amounts of \$500 and \$100 in which travel funds were provided prior to travel and no detailed receipts were submitted upon return to ensure proper reimbursement was provided.

Without effective policies and procedures, management can give no assurance of the proper handling and allowability of expenditures relating to travel activities.

### **Revolving funds**

- Replenishments to the voyage account revolving fund are not based on a reimbursement of actual expenditures. The fund is replenished based on need and available resources.
- Four expenditures totaling \$1,125 were listed in the accounting system as paid to a vendor which was different then the payee on the check.
- Checks from the voyage account were not issued in numerical order.

Management can not ensure the proper handling of revolving fund activities when basic cash handling procedures are not followed and monitoring is not being done as a compensating control.

### **Payroll**

We also looked at whether payroll expenditures were supported and authorized. We noted the following:

- Although in May 2003, the Authority adopted a salary schedule it did not include office and maintenance employees. The 2003 budget identified total approved payroll expenditures of \$171,036 and actual payroll expenditures of \$204,104.
- The Authority adopted policies, procedures and guidelines on paid leave accrual or use. However, the Authority is not following the policies, procedures and guideline adopted, and is not tracking leave.

Without documentation identifying the authorized and due compensation for all employees, management can not give assurance that payroll expenditures are a supported and allowable use of public funds.

## **Cause of Condition**

The Authority does not recognize the significance of the risks associated with the expenditure activities as described above and also communicated in the last two audits. Further for those risks already addressed in the Authority's policies, adherence to those policies is not being enforced.

## **Effect of Condition**

The internal control weaknesses described above create the potential that the Authority's resources could be misappropriated, misused or lost without detection in a timely manner. Adequate safeguarding and reporting of the Authority's assets cannot be ensured when sufficient accounting procedures and controls are not established.

## **Recommendations**

We recommend the following:

### **Board-approved versus actual expenditures**

The Authority should:

- Establish procedures to ensure expenditures are paid only after Board approval.
- Present Board members with a list of sequentially numbered expenditures (such as check numbers) for approval for and actual payment based on funds available.
- Ensure the accounting system reconciles to actual expenditures and Board-approved disbursements.

### **Adequate supported/allowable expenditures**

The Authority should:

- Ensure all expenditures, including credit card, travel and meal expenditures, are allowable and adequately supported with detailed documentation, including the business purpose.

### **Travel expenditures**

The Authority should:

- Establish policies for travel advances and ensure all travel policy and procedures are followed. Revolving funds
- Reimburse the revolving funds based on actual expenditures.
- Ensure all checks are used in sequential order and the accounting records accurately reflect the payee.

### **Payroll**

- Follow the personnel policy by establishing a salary schedule for office and maintenance personnel.

- Maintain documentation for each of its employees that details position title and compensation (hourly or monthly) to ensure the employees are paid properly based on the approved budget and salary schedule.
- Follow the adopted policy and procedures for paid leave and ensure paid leave balances are properly tracked.

## **Authority's Response**

### **Board-approved versus actual expenditures**

*For many years the Seaport Board has approved a line item Annual Budget that includes payroll and numerous other expenditures. It has also authorized the Executive Director discretionary spending of up to \$1,000.*

*Of the \$501,296 approved "after the fact" \$376,850 (75%) was payroll expenditures, \$52,245 (10.4%) was boatyard/shipwright expense (This industry operates on a "no cash – no splash" basis. Failure to pay when the work is done would result in the ship being held in the boatyard accruing costs until full payment is made).*

*This new issue is not a reflection of change in Seaport business practices, rather a long standing practice that the Auditor has just brought to the attention of the Seaport.*

**Board Action:** *At the February 1, 2005 meeting of the GHHSA Board of Directors, the Seaport Board took action to change established paydays for GHHSA personnel. As of the first pay period of March 2005, paydays will be the 10<sup>th</sup> and the 25<sup>th</sup> day of the month (a change from the 5<sup>th</sup> and the 20<sup>th</sup>). Office petty cash will be increased to \$500. GHHSA is looking at ways to address the boatyard payment issue.*

*GHHSA Board and Staff now recognize that, despite previous understandings, the Executive Director is not authorized to purchase items without prior Board approval unless it is from petty cash, an impressed account or a charge card.*

### **Adequate supported/allowable expenditures**

*GHHSA continues to work on strengthening expenditure receipting controls. A major challenge is charge card slips where inexperienced crew take the charge card slip but forget to attach the actual itemized receipt. GHHSA is working to improve this.*

*GHHSA did buy theatre seats for the youth crew from the Miller Jr. High School program that helped build some of the set dressing for Disney's **Pirates of the Caribbean**. Disney's marketing team told us that it could provide the students passes, but at the last minute provided fewer passes than was needed. Since the students did work on the projects that GHHSA was paid for, the Executive Director felt that the expenditure was reasonable. GHHSA does acknowledge the inadequate documentation.*

*On the third Wednesday of each month GHHSA staff and volunteers have a luncheon meeting in the GHHSA Board Room. These are working meetings, staff is required to attend and participate. These meal expenditures are authorized under GHHSA Personnel Policy 14.20.C.2.c and d. Meals for ship's crew are sometimes taken ashore due to below decks work that make cooking and eating areas unusable, or for special working meetings as noted above. GHHSA will more clearly identify these unique circumstances.*

### **Travel expenditures**

*GHHSA staff has taken steps to improve reporting and monitoring of travel expenses. GHHSA recognized problems with travel advances and has ceased the practice.*

### **Revolving funds**

*Unlike most public agencies, GHHSa has no tax base and therefore must rely on program fees and other sources of earned income to keep operating. At times cash reserves do not allow full reimbursement of the revolving account.*

*The four expenditures totaling \$1,125 were to reimburse employees for valid GHHSa receipted expenses. This was an error and GHHSa has alerted staff to this problem.*

*Three checks were issued out of order aboard the Tall Ship **Lady Washington** due to a new group of checks being used out of order. As soon as the problem was recognized the proper checks were used.*

### **Payroll**

*The GHHSa Board is currently reviewing the GHHSa Salary Schedule for revision. GHHSa is working to improve tracking of paid leave accrual.*

### **Auditor's Remarks**

We appreciate the Authority's cooperation during the course of the audit and their response to the issues identified in the finding. The status of the areas identified as concern will be reviewed during the next scheduled audit.

### **Applicable Laws and Regulations**

RCW 42.24.080 states:

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 42.24.090 states:

Municipal corporations and political subdivisions -- Reimbursement claims by officers and employees.

No claim for reimbursement of any expenditures by officers or employees of any municipal corporation or political subdivision of the state for transportation,

lodging, meals or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts unless the same shall be presented in a detailed account: PROVIDED, That, unless otherwise authorized by law, the legislative body of any municipal corporation or political subdivision of the state may prescribe by ordinance or resolution the amounts to be paid officers or employees thereof as reimbursement for the use of their personal automobiles or other transportation equipment in connection with officially assigned duties and other travel for approved public purposes, or as reimbursement to such officers or employees in lieu of actual expenses incurred for lodging, meals or other purposes. The rates for such reimbursements may be computed on a mileage, hourly, per diem, monthly, or other basis as the respective legislative bodies shall determine to be proper in each instance: PROVIDED, That in lieu of such reimbursements, payments for the use of personal automobiles for official travel may be established if the legislative body determines that these payments would be less costly to the municipal corporation or political subdivision of the state than providing automobiles for official travel. All claims authorized under this section shall be duly certified by the officer or employee submitting such claims on forms and in the manner prescribed by the state auditor.

RCW 42.24.120 states:

Advancements for travel expenses -- Municipal corporation or political subdivision officers and employees.

Whenever it becomes necessary for an elected or appointed official or employee of the municipal corporation or political subdivision to travel and incur expenses, the legislative body of such municipal corporation or political subdivision may provide, in the manner that local legislation is an officially enacted, reasonable allowance to such officers and employees in advance of expenditure. Such advance shall be made under appropriate rules and regulations to be prescribed by the state auditor.

RCW 43.09.200 states:

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.

To indicate governing body approval for payment of claim vouchers and payroll, the following should be entered into the minutes:

The following vouchers/warrants are approved for payment:

Voucher (warrant) numbers: \_\_\_\_\_ through \_\_\_\_\_ total \_\_\_\_\_  
Payroll warrant numbers: \_\_\_\_\_ through \_\_\_\_\_ total \_\_\_\_\_