

**Washington State Auditor's Office**  
**Accountability Audit Report**

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**Hurricane Ridge Public Development  
Authority  
Clallam County**

Report Date  
**January 19, 2006**

**Report No. 70840**

Issue Date  
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Washington \_\_\_\_\_  
***State Auditor***  
\_\_\_\_\_  
Brian Sonntag



**Washington State Auditor  
Brian Sonntag**

June 2, 2006

Board of Directors  
Hurricane Ridge Public Development Authority  
Port Angeles, Washington

***Report on Accountability for Public Resources***

Please find attached our report on the Hurricane Ridge Public Development Authority's accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

In addition to this work, we also audit the Authority's financial statements. The results of that audit will be included in a separately issued audit report.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Clallam County  
January 19, 2006**

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# Audit Summary

## Hurricane Ridge Public Development Authority Clallam County January 19, 2006

### ***ABOUT THE AUDIT***

This report contains the results of our independent accountability audit of the Hurricane Ridge Public Development Authority.

We performed audit procedures to determine whether the Authority complied with state laws and regulations and its own policies and procedures. We also examined Authority management's accountability for public resources. Our work focused on specific areas that have potential for abuse and misuse of public resources.

Areas examined during the audit were selected using financial transactions from November 1, 2000, through October 31, 2004.

### ***RESULTS***

During the audit, our first of the Authority, we found it did not comply with state laws and regulations and its own policies and procedures in several areas including receipting, expenditures, financial transactions and records and financial reporting.

These conditions are discussed in detail later in this report and in our report on the Authority's financial statements. Other issues noted during the audit were communicated to Authority management. We appreciate the Authority's commitment to resolving the issues.

### ***RELATED REPORTS***

Our opinion on the Authority's financial statements is provided in a separate report. In that report, we disclaim on the Authority's financial statements, which means the Authority did not retain documentation on revenues, expenditures and cash balances that would have enabled us to determine whether its financial statements were accurate and complete. We also are reporting two findings in that report, one regarding inadequate internal controls over financial transactions and another regarding noncompliance with financial reporting requirements.

### ***CLOSING REMARKS***

We thank Authority officials and personnel for their assistance and cooperation during the audit.

# Description of the Authority

## Hurricane Ridge Public Development Authority Clallam County January 19, 2006

### **BACKGROUND**

#### **Public Development Authorities**

In 1985, the Washington State Legislature gave local governments the authority to establish "public corporations, commissions or authorities." These entities have become known as public development authorities (PDA).

PDAs are created to administer federal grants or programs, to improve governmental efficiency and services and/or to promote economic development. They have been established in communities across the state to oversee everything from public markets to housing projects.

In general, laws that apply to the local governments creating a PDA also apply to the PDA. Additionally, the entities that create the PDA are not liable for its debts, should any occur. Any liabilities incurred are to be satisfied by the sale of assets and properties of the PDA.

State law specifically gives the State Auditor's Office the authority to audit PDAs.

### **ABOUT THE AUTHORITY**

In September 2000, through an inter-local agreement, Clallam County delegated its authority to the City of Port Angeles to create the Authority. The Authority was created to acquire and manage the National Park Service's Hurricane Ridge Lodge concession in Olympic National Park. The Authority's start-up funds came from a \$10,000 donation from the Hurricane Ridge Winter Sports Education Foundation in February 2001.

The City created the Authority based on an understanding that the National Park Service would request concession operation proposals from contractors by 2002; however, as of this date, the Park Service had not made this request.

The Authority's charter states its purpose is to:

. . . undertake, assist with and otherwise facilitate or provide concession operations at Hurricane Ridge within Olympic National Park, including, but not limited to: Public education programs, recreation and art programs, alpine skiing facilities and programs, Nordic skiing facilities and programs, food service, beverage service, equipment rental, sales of souvenirs and gifts, all designed to serve essential public services by providing enhanced recreational opportunities and educational programs for citizens of the local community and the traveling public, creating a significant tourist destination and attraction, enhancing opportunities for appreciation and enjoyment of the natural resources of Olympic National Park, development of other public recreational facilities and expanding and reinforcing the viability of the tourism industry and facilitating private investment which will build the City's tax base and create jobs, all of which are in the public interest. The Authority shall acquire and manage the Hurricane Ridge

Concession in Olympic National Park, secure financing, undertake renovation of facilities and enter into agreements with other entities in furtherance of its purposes.

The City ordinance creating the Authority states:

When authorized by resolution of the City Council, after a public hearing held with notice to the public corporation, the Mayor or City Council as provided in said resolution may intervene and exercise such control over the public corporation as is necessary and appropriate to correct any deficiency and/or to assure that the purposes of a program undertaken may be reasonably accomplished . . . .

The Authority held its organizational meeting on November 15, 2000. The Board of Directors appointed Bruce Skinner as Executive Director effective December 1, 2000, under a professional services contract with his consulting firm at \$2,800 per month for a total of \$56,000 over the contract period. The contract stated the Authority would use these services for no more than 20 months from the effective date of the contract. The consulting services were to be focused on the development of a concession proposal to be submitted to the Park Service.

When the 20-month period ended on August 31, 2002, the Board approved a second agreement with the Executive Director. This contract covered September 1, 2002, through April 30, 2004, and included the same services in the initial contract. The Executive Director also was to provide other administrative and executive services to the Authority including fundraising for \$1,000 per month for a total of \$20,000 for a 20-month period, "plus an amount equal to 10 percent of any additional monies that the Director brings to the "bottom line" through the sale of sponsorships (real or in-kind), increase in dollars from current fundraisers and monies raised from new events." However, this amount was not paid.

In June 2001, the Authority received a grant of \$97,800 from the Clallam County Rural Economic Opportunity Fund to acquire an operations center for the Hurricane Ridge ski area, to develop a report on developing public transportation to the ski area, to develop a plan to be awarded the concessions contract for the Hurricane Ridge Lodge and to install power, water and sewer to the operations center.

In October 2001, the Authority took over a separate National Park Service concession to operate the ski area at Hurricane Ridge from the Hurricane Ridge Winter Sports Club.

The Club was formed as a non-profit organization in October 1986 to promote winter sports activities at the Ridge. The Club operated the ski area at the Ridge under a Park Service concession permit. When it took over this concession, the Authority took responsibility for all ski area operations including employing staff, collecting lift and season pass fees and operating and maintaining ski lifts and other equipment.

The Authority also took over responsibility for:

- The Hurricane Ridge Ski School, which included employing ski school instructors and collecting school fees.
- The Hurricane Ridge Ski Team, which included employing the team coaches, collecting participation and race entry fees from team members, paying team travel costs and operating team training camps.
- Responsibility for an annual fundraiser each November, which included a ski movie and a ski swap.

The Authority derives most of its approximate \$200,000 annual revenue from grants, donations, ski area lift fees, ski school fees, ski team fees and fundraisers. However, due to the state of the Authority's financial records, we were unable to determine the revenues and expenditures in the areas listed above.

The Authority hired Curtis Shuck as General Manager and Head Coach of the Ski Team in October 2001. The Authority hired Craig Hofer as Mountain Manager with responsibility for on-site management of the ski area. The Authority also paid \$9,359.52 to Hofer's construction company for maintenance of ski area equipment.

In March 2003, the Authority took over an annual fundraiser called the Big Hurt that combines running, biking and kayaking. The Authority was responsible for collecting the entry fees and paying all associated costs of the event.

### **The Authority's Financial Position**

During the period under audit, the Authority did not prepare annual financial statements.

The Authority obtained a \$25,000 line-of-credit from a local bank in January 2003. As of October 2004, the amount owed on this line-of-credit was \$19,000. On October 25, 2004, the Hurricane Ridge Winter Sports Education Foundation loaned the Authority \$20,000. At its November 17, 2004, meeting the Board voted to request an additional \$52,743.21 from the Foundation to pay outstanding debts. Authority management calculated this amount based on its determination that it had \$10,641.88 available in cash and accounts receivable and it owed \$19,000 on its line-of-credit, \$5,500 to its Executive Director and \$38,885.09 to vendors.

In January 2005, the Board ratified a \$72,743.21 loan agreement between the Authority and the Foundation. The agreement required payment of interest only for 30 years, whereupon, the principal became due and payable. This loan incorporated the \$20,000 that the Foundation already had loaned to the Authority.

### **Role of the Authority's Board**

Board Members must be confirmed by the Port Angeles City Council. Three Board Members must be nominated by the Hurricane Ridge Winter Sports Club, one by the Superintendent of the Port Angeles School District, one by Clallam County Commissioners and two by the Mayor of Port Angeles.

The charter creating the Authority states that the Board is responsible for appointing employees to oversee the Authority's operations. Board Members also are responsible for reviewing and approving all Authority expenditures. The Board ultimately is responsible for ensuring the Authority carries out the programs it was created to do and for making sound financial decisions in the best interest of the public.

### **Roles of the Authority's management**

Board members appoint the Authority's administrators. Administrative officers are responsible for the day-to-day operations of the Authority. They are to establish and maintain an effective internal control system to ensure the Authority meets appropriate goals and objectives, safeguards public assets, follows laws and regulations and maintains and reports reliable financial information. The Authority's administrators also must make a full accounting of business activities to the public and to the Board.

## **AUDIT HISTORY**

This is the first audit of the Authority.

## **APPOINTED OFFICIALS**

These officials served during the audit period:

Board of Directors:

Mike Doherty (Clallam County)  
Jim Jones (Port Angeles School District)  
Gary Holmquist (Hurricane Ridge Winter Sports Club)  
Roger Oakes (Hurricane Ridge Winter Sports Club)  
Steve Oliver (Hurricane Ridge Winter Sports Club)  
Mike Quinn (City of Port Angeles)  
Glenn Wiggins (City of Port Angeles)

Executive Director  
General Manager  
Office Manager  
Mountain Manager  
Treasurer

Bruce Skinner  
Curtis Shuck  
Susan McCabe  
Craig Hofer  
Bill James

## **ADDRESS**

Authority

Suite 308  
115 East Railroad Ave.  
Port Angeles, WA 98362  
(360) 457-4519



# Audit Areas Examined

## Hurricane Ridge Public Development Authority Clallam County January 19, 2006

In keeping with general auditing practices, we do not examine every portion of the Hurricane Ridge Public Development Authority's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the Authority were examined during this audit period:

### ***ACCOUNTABILITY FOR PUBLIC RESOURCES***

We evaluated the Authority's accountability in the following areas:

- Cash receipting
- Safeguarding of assets
- Expenditures
- Payroll

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Deposit and investment of public funds
- Required financial schedules
- Insurance and bonding
- Budgeting requirements
- Ethics/conflict of interest laws
- Open Public Meetings Act
- Contracts and agreements
- Legal and supported payments
- Certification and approval of expenditures
- Travel expenses
- Public records retention

### ***FINANCIAL AREAS***

Our opinion on the Authority's financial statements is provided in a separate report.

# Schedule of Audit Findings

## Hurricane Ridge Public Development Authority Clallam County January 19, 2006

### 1. The Authority did not have adequate internal controls over revenue collection to prevent or detect misappropriation of public assets.

#### Description of Condition

Each year, the Authority receives approximately \$200,000 in payments for activities including ski area season and day passes, ski bus fees, ski school fees, ski team tournament fees, ski camp fees, race entry fees, ski swap sales, credit card sales and fundraisers.

During our audit, we found:

- The Authority did not use official, pre-numbered, pre-printed receipts.
- The method of payment (check, cash or credit card) was not noted on the receipt. Documenting this information allows management to monitor cash receipting activities.
- Money collected was not reconciled to supporting records. For example, collections from ski area activities were not reconciled to the cash register tape.
- Supporting documentation was not consistently maintained, reconciled and monitored.
- All copies of voided receipts were not retained.

#### Cause of Condition

Authority management had not developed cash-receipting procedures.

#### Effect of Condition

The Authority's assets are not adequately safeguarded. Internal control weaknesses increase the risk of the Authority's resources being misappropriated, lost or misused without detection.

#### Recommendation

We recommend the Authority:

- Give all customers or donors a receipt when payment is made.
- Use official, pre-printed, pre-numbered receipts. The receipts should always be used in numeric order and all receipts should be retained for management review.
- Record the type of payment on the receipt.
- Make intact daily deposits and properly record them in financial records.

- Create an accounting system in which someone other than the person compiling the daily receipts reconciles the total daily deposit with the cash register tapes and other receipts. This reconciliation should be monitored by an employee independent of cash receipting duties.
- Retain all records, including copies of voided receipts, to help determine whether all funds have been received.

### **Authority's Response**

*The Authority will implement new or modified policies and procedures to insure adequate internal controls for the prevention of misappropriation of public assets.*

### **Auditor's Remarks**

We thank the Authority for its response. We will review the new policies and procedures during our next audit.

### **Applicable Laws and Regulations**

RCW 43.09.200 states in part:

The state auditor shall formulate and 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 accounts shall show the receipt, use and disposition of all public property.

# Schedule of Audit Findings

## Hurricane Ridge Public Development Authority Clallam County January 19, 2006

### 2. The Authority did not have adequate controls over expenditures to ensure accountability over public funds and compliance with state laws and Authority policies.

#### Description of Condition

The Authority's internal controls over the payment process are weak. We noted the following problem areas:

#### Payments for Goods and Services

- The Board did not appoint an auditing officer to examine all expenditures.
- The Board did not approve all expenditures.
- Checks were not always issued in numeric order. We noted more than one check sequence was in use at one time. Voided checks were not always recorded as voids in the check register. Checks identified as void were not always retained to validate their cancellation. Unless all checks can be properly accounted for and recorded, the Authority cannot ensure public resources were used for allowable purposes.
- Two signatures were required only on checks exceeding \$500. Requests for payment were not always signed, did not provide adequate explanation for the purpose of the request and were often signed by the same person signing the check. In many cases, this was the General Manager. Often the General Manager would be the only signer of both the check request and the check since most checks were under \$500. We also noted 29 instances in which only one signature appeared on checks that exceeded \$500.
- Expenditures were not always supported by original documentation. We noted expenditures that lacked original supporting documentation or other sufficiently detailed documentation to allow us to determine if they were appropriate.
- The Authority did not have credit cards; however, it made a \$19,562.24 payment to a credit card company for the Executive Director's personal credit card without adequate supporting documentation.
- The Authority conducted a raffle on March 22, 2003, for a chance to win a round trip for two to Hawaii. The prize included roundtrip airfare and five nights of lodging. In July 2003, the Authority paid \$2,358 on the Executive Director's personal credit card to reimburse him for the cost of the airfare. No documentation was available to support this charge, other than the check request form.
- The Authority paid \$790.16 for tires for the Mountain Manager's personal vehicle.

- Payments were made to cash with inadequate documentation. On September 9, 2003, two checks were issued to cash: one for \$300 and the other for \$350. Documentation showed the \$350 check was for "prize money". On October 15, 2003, a check for cash in the amount of \$750 was noted as "money to workers". Other payments made to cash without adequate support were made on August 3, 2004, for \$946.24 and on August 27, 2004, for \$200.
- The Authority paid \$319.63 to the Mountain Manager in February and March 2002 for cell phone charges without documentation to show how they related to Authority business.
- The Authority paid \$17,041.55 in 2002 to a non-employee for reimbursement of summer ski camp costs without documentation to show what was actually paid for.
- The Authority paid the Whistler Blackcomb Resort \$4,038.97 on October 31, 2004. No documentation was available to show what was paid for or the public purpose.

#### Payroll

The Authority's payroll for the years under audit was \$10,800 in 2001, \$54,715 in 2002, \$61,147 in 2003 and \$62,218 in 2004. The number of employees ranged from nine in 2001 to 49 in 2004. We found:

- The Board did not establish a formal hiring process for the Authority. Employees were hired by either the Authority's Board or staff. For example, it appeared:  
  
The Board did not approve pay rates or salaries for employees. Rates were based on a variety of factors and approved by various Authority staff. We could not find documentation of the authorized compensation rate for each employee and, therefore, could not verify if all employees were compensated appropriately.
- The Board did not approve payroll expenditures.
- The General Manager signed his own timesheets and his own paychecks.

#### Travel

Due to the state of the Authority's financial records, we were unable to determine the Authority's total travel expenditures for the years under audit. We found:

- The Board did not establish a travel policy for the Authority.
- We could not determine if all travel expenditures were for an appropriate public purpose due to lack of documentation for many of these expenditures.
- Employees did not certify the accuracy of their travel reimbursements.
- Travel reimbursements were not approved by the employee's supervisor or by the Board for employees that reported directly to the Board.
- The Authority did not have a policy requiring that detailed receipts accompany travel reimbursement requests. In most cases, original detailed receipts were not obtained.
- Travel reimbursement request forms were not used.
- The Authority did not have a written policy on meal expenditures and reimbursements.

- The Authority paid \$221.65 for alcoholic beverages.
- Payments were made to employees in advance of travel, although the Authority does not have an advance travel policy or account. We noted \$1,425 in payments that appeared to be made in advance of travel.

## **Cause of Condition**

The Authority did not recognize the significance of the risks associated with the expenditure activities described above.

## **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.

## **Recommendation**

### Payments for goods and services

We recommend the Authority:

- Establish procedures to ensure the Board approves expenditures before they are paid.
- Present Board Members with a list of sequentially numbered expenditures (such as check numbers) for approval for payment based on funds available.
- Ensure all expenditures, including credit card, travel and meal expenditures, are allowable and adequately supported with detailed documentation including the business purpose.
- Establish policies for travel advances and ensure all travel policies and procedures are followed.

### Payroll

We recommend the Authority:

- Establish procedures to ensure employees are paid based on Board-approved salary schedules.
- Establish procedures to ensure employees are paid only after Board approval.
- Maintain documentation for each employee that details position title and compensation (hourly or monthly) to ensure employees are paid based on the approved salary schedule. The Authority should document the approved compensation rate in each employee's payroll file.

## Authority's Response

*The Authority will implement new or modified policies or procedures to ensure proper accountability over public funds and compliance with state laws and Authority policies.*

## Auditor's Remarks

We thank the Authority for its response. We will review the new policies and procedures during our next 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 \_\_\_\_\_