

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

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

Report Date  
**September 21, 2007**

**Report No. 73638**

Issue Date  
**December 3, 2007**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

December 3, 2007

Board of Directors  
Grays Harbor Historical Seaport Authority  
Aberdeen, Washington

***Report on Accountability***

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.

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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Grays Harbor County  
September 21, 2007**

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# Audit Summary

## Grays Harbor Historical Seaport Authority Grays Harbor County September 21, 2007

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

This report contains the results of our independent accountability audit of the Grays Harbor Historical Seaport 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 January 1, 2004, through December 31, 2005.

### ***RESULTS***

In most areas, the Authority complied with state laws and regulations and its own policies and procedures. However, we noted certain issues that we communicated to Authority's management. We also identified one issue significant enough to report as a finding.

- The Grays Harbor Historical Seaport Authority does not have adequate internal controls over expenditures.

### ***RELATED REPORTS***

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

### ***CLOSING REMARKS***

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

# Description of the Authority

## **Grays Harbor Historical Seaport Authority Grays Harbor County September 21, 2007**

### ***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 ship Columbia Rediviva, 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.

Initial funding was provided from state grants, donations and membership fees. Before the launch of the Lady Washington, a funding shortfall necessitated a loan from the city of Aberdeen.

The Lady Washington provides tours in the Grays Harbor area, Puget Sound, the Columbia River and other points along the Pacific Coast.

Construction of the other tall ship, Columbia Rediviva, has yet to commence beyond the partial design stage. Also a permanent maritime museum has yet to be constructed. However, the Authority purchased a new ship, the Hawaiian Chieftain, in October 2005.

A nine-member, appointed Board of Directors administers the Authority. Board-member nominations are provided by the current Board of Directors to the Mayor of the city of Aberdeen for appointment.

The Authority operated on an annual budget of approximately \$900,000 in 2004 and \$1.4 million in 2005. It has a full-time Executive Director, a part-time bookkeeper and a small ship crew of volunteer and paid employees. 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.

### ***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 number of findings has ranged from three in the 1997-99 audit, to two in the 2000-02 audit, to one in the 2003 audit. Some of the areas of concern identified during prior audits continue to persist and are reported in the current audit, which includes one finding.

## ***APPOINTED OFFICIALS***

These officials served during the audit period:

Board of Directors:

Chuck Pollock (2004 and 2005)  
Roy Pearmain (2004 and 2005)  
Charles Shane (2005)  
Paul O'Brien (2004 and 2005)  
Carl Weber (2004 and 2005)  
Laura Rust (2005)  
Bill Hagara (2004 and 2005)  
Dee Harrington (2004 and 2005)  
David Cottrell (2004 and 2005)

## ***OTHER OFFICIALS***

Executive Director

Les Bolton

## ***ADDRESS***

Authority

P.O. Box 2019  
Aberdeen, WA 98520  
(360) 532-8611

# Audit Areas Examined

## Grays Harbor Historical Seaport Authority Grays Harbor County September 21, 2007

In keeping with general auditing practices, we do not examine every portion of the Grays Harbor Historical Seaport 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**

We evaluated the Authority's accountability and compliance with laws, regulations, contracts and grant agreements in the following areas:

- Cash receipting
- Education program
- Disbursements
- Payroll
- Open Public Meetings Act
- Safeguarding of assets

### **FINANCIAL AREAS**

Our opinion on the Authority's financial statements is provided in a separate report. That report includes the Authority's financial statements and other required financial information. We examined the financial activity and balances of the Authority including:

- Cash and cash equivalents
- Revenues
- Expenses
- Subsequent events
- Going concern
- Review of the financial statements and notes

# Schedule of Audit Findings and Responses

## Grays Harbor Historical Seaport Authority Grays Harbor County September 21, 2007

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

#### Description of Condition

During the prior audit, we identified several areas of concern regarding expenditures. These conditions persist:

#### Board-Approved Versus Actual Expenditures

Since prior audit recommendations were made in February 2005, our review of Board-approved expenditures included only fiscal year 2005. Our audit noted Board-approved expenditures could not be reconciled to payments made by the Authority. Of the \$1,453,874 in expenditures in 2005, only \$1,223,633 was approved by the Board prior to payment. We found:

- Board-approved payments are made only as funds are available. As a result, actual payments were less than what was approved and amounts not paid were rolled over into the following month's expenditures.
- The Authority is using a blanket auditing certification program; however, the approved items are handwritten and changes, such as paying payments on the availability of funds, are made to the list of payments. We were unable to determine whether changes were made before or after Board approval.
- The same employee prepares expenditures for Board approval, posts transactions and processes payments. No monitoring is done to ensure the accounting system reconciles with expenditures approved for payment or payments made.

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

#### Supporting Documentation for Expenditures

During our review of expenditures, we found:

- No original invoices or receipts for \$6,153 in operating expenditures. We could not determine for what the money was spent.
- The Authority prepaid \$10,095 for computer software and spar logs.

When expenditures are not properly documented and supported, management cannot ensure appropriate uses of public funds. Additionally, when funds are prepaid, the Authority is not in compliance with state law (RCW 42.24.080).



## **Revolving Funds**

- Replenishments to the voyage account revolving fund are not reimbursed based on actual expenditures. The fund is replenished based on requests from the ship crew and available resources.

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

## **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.

## **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 if at all.

## **Recommendation**

We recommend the Authority:

- Establish procedures to ensure expenditures are paid only after Board approval.
- Ensure expenditures approved are based on actual payments being made.
- Ensure adequate controls are in place to reconcile the accounting system to actual expenditures and Board-approved disbursements.
- Ensure all expenditures are allowable and supported by detailed documentation.
- Ensure compliance with state law regarding prepayment of expenditures.
- Reimburse revolving funds based on actual expenditures.

## **Authority's Response**

*Grays Harbor Historical Seaport Authority recognizes the need and benefit of strengthening its accounting procedures and is committed to doing so. The logistics involved in changing our accounting software combined with staff turnover created some significant challenges during the period of this audit.*

*In response to the recommendations of the Audit Report for Grays Harbor Historical Seaport Authority for the fiscal years 2004 and 2005, I would like to offer the following responses on behalf of the Seaport Board.*

## **Disbursements**

*Mr. Fred Thurman, former Finance Director for the City of Aberdeen, is the new Board Treasurer. He will be working closely with the GHSA bookkeeper to provide oversight and will ensure all check amounts and voided checks are reported accurately.*

**Cash receipting**

*GHHSA is now in the process of transferring all of its banking to Bank of the Pacific, a local financial institution approved by the State treasurer.*

*The GHHSA Board is developing a written policy to specify when promotional passes and complementary tickets may be issued.*

*GHHSA has developed a chain of custody form for transferring funds within the organization. Independent reconciliation will be performed by the Board Treasurer.*

**Payroll**

*As part of the 2008 Budget development process the board will approve a salary schedule for all office and maintenance staff.*

**Open public meetings act**

*The purpose of each executive session is now being recorded in the minutes.*

*A listing of approved vouchers is now included in Board Minutes.*

**Board-approved versus actual expenditures**

*The Board now approves both the general expenditure and the actual voucher whether to pay in full or for partial payment.*

**Supporting documentation for expenditures**

*GHHSA continues to work closely with staff to ensure original receipts for all expenditures.*

*GHHSA purchased logs in a log deck that remained in that log deck until it was accessible. The log belonged to GHHSA even though it was stored in a log deck.*

**Revolving funds**

*GHHSA is working with Bank of the Pacific to move vessel purchases from a debit card system to a charge card system to resolve this issue.*

**After the fact approval of expenditures**

*GHHSA has changed its paydays to ensure a regularly scheduled board meeting just prior to payday. Additionally, vessel expenditures are moving from imprest accounts and debit cards to charge cards.*

**Auditor's Remarks**

*We appreciate the steps the Authority is taking to resolve the issues. We will review the condition 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, states:

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, states:

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.

# Status of Prior Audit Findings

## Grays Harbor Historical Seaport Authority Grays Harbor County September 21, 2007

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

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

Report No. 68101, dated March 18, 2005

### Background

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 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.
- The Authority did not have adequate supporting documentation for several expenditures.
- The Authority did not have an advanced travel policy and did not obtain adequate documentation to support travel expenditures.
- The Authority did not have adequate controls over revolving funds and reimbursements were not based on the actual funds expended.
- Payroll expenditures were not adequately supported and the Authority was not following its policies for tracking leave.

For our follow-up work regarding Board approval of expenditures and adequate supporting documentation, including travel, we noted certain issues still exist. Therefore, we are repeating our finding.

For our follow-up work regarding the advance travel policy, we noted the Authority no longer provides advance travel payments. This issue has been resolved.

For our follow-up work regarding payroll, we noted payroll expenditures appeared reasonable based on budgeted figures; however, the Authority still has not adopted salary schedules for office and maintenance employees. This issue will be communicated to management.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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**T**he 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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. 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 program to coordinate audit efficiency and to ensure high-quality audits.

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