

# 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.