



Washington State Auditor's Office

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Accountability Audit Report

East Lewis County Public Development Authority

For the period January 1, 2012 through December 31, 2014

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Washington State Auditor's Office

October 24, 2016

Board of Commissioners
East Lewis County Public Development Authority
Centralia, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Authority operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Authority's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

In most areas we audited, Authority operations complied with applicable requirements and provided adequate safeguarding of public resources. The Authority also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Authority could make improvements.

We recommended the Authority monitor its financial condition to ensure its ability to meet future obligations. We also recommended the Authority strengthen internal controls.

These recommendations were included in our report as findings.

About the audit

This report contains the results of our independent accountability audit of the East Lewis County Public Development Authority from January 1, 2012 through December 31, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Authority's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Open public meetings
- Disbursements
- Financial condition
- Cash receipting

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The Authority's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.

Background

We communicated financial condition concerns to the Authority in the prior audit. We recommended the Authority create a formal comprehensive plan to monitor its financial health to ensure it can continue operations. A formal plan is important in monitoring financial condition because it establishes detailed benchmarks and guidelines to specifically target cash flow issues.

Description of Condition

The Authority's ending cash balances and outstanding debt as of year-end is as follows:

Fiscal Year	Cash Balance	Outstanding Debt
2012	\$68,183	\$531,165
2013	\$123,265	\$524,836
2014	\$112,887	\$499,691

As of December 31, 2015, the Authority's unaudited cash balance was \$250,423 and the outstanding debt was \$492,120.

Although the ending cash balance has increased, we noted expenditures exceeded revenues in 2014:

	2012	2013	2014
Revenues	\$ 201,526.00	\$ 98,705.00	\$ 157,876.00
Expenditures	\$ 178,921.00	\$ 43,622.00	\$ 168,254.00
Excess/ (Deficit)	\$ 22,605.00	\$ 55,083.00	\$ (10,378.00)

We also determined the Authority's sole tenant is not renewing its lease as of December 31, 2016 and planned future tenants are expected to provide significantly less monthly revenue.

We further analyzed the financial information for fiscal year 2015 and noted the Authority received \$304,678 as part of a grant from the Washington State Department of Commerce, which significantly increased the Authority's revenue and ending checking account balance. However, grants are not consistent flows of revenue and if the Authority had not received an extension of the grant, expenditures would have significantly exceeded revenues resulting in a negative ending balance in the Authority's checking account.

Currently, the Authority has no plan in place to ensure future annual revenues are adequate to cover its debt obligations.

Cause of Condition

Despite prior recommendations, the Authority has not implemented a formal, comprehensive plan to monitor financial condition.

Effect of Condition

Without a formal comprehensive plan to monitor financial condition and address cash flow issues the Authority will be unable to ensure that it can meet its financial obligations and continue as a going concern.

Recommendation

We recommend the Authority:

- Establish a formal, comprehensive plan that includes detailed financial benchmarks and guidelines to specifically target cash flow issues. This plan should include how the Authority will ensure it has sufficient revenues to make loan payments in the event that a new tenant is not found.
- Closely monitor and evaluate the Authority's financial activities to ensure the plan is being followed and the desired results achieved. The Board should revise the plan as needed to resolve its cash-flow issues and ensure the Authority's financial obligations are met.

Authority's Response

The Authority fully recognizes the nature of our financial position and has already taken steps to alleviate some of the cash flow issues. Two new tenants have taken up occupancy in the Packwood Business Park bringing in revenue of \$1,500/month; \$18,000 annually. We are also negotiating with Lewis County Commissioners to consolidate our loans at a lower interest rate which would reduce our annual costs by \$6,000 to \$7,000. We will continue to review and monitor our financial position at our regularly scheduled meetings and endeavor to recruit new tenants; we are currently negotiating with another prospect. We are also exploring the possibility of the sale of the railroad spur that serves Cardinal Glass and would use the proceeds to reduce our debt load.

Auditor's Remarks

We appreciate the Authority's response and recognize the Authority's dedication to monitoring and improving the Authority's financial condition.

We will follow up on this issue during the next audit.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-002 The Authority should establish internal controls to avoid the risk of misappropriation and ensure compliance with state law.

Background

The Authority receipted \$201,526 in 2012, \$98,705 in 2013 and \$157,876 in 2014. It operates using volunteers and has not adopted any operational policies and procedures to ensure there are internal controls to safeguard public funds or compliance with state law.

Description of Condition

Internal controls

The Authority does not have formal policies that establish controls over cash receipting and receivables, expenditures and commitments, contracts and the provisions of goods or services and the safekeeping of all public assets at risk of misappropriation, misuse, or loss.

During our review of cash receipting we noted one of the Authority's volunteers operates as the secretary and is responsible for collecting payments, preparing deposits and taking money to the bank, with no oversight.

We also noted:

- Payments are received at a volunteer's personal business address and are not adequately safeguarded.
- Cash received is not deposited in a timely manner.
- Cash is receipted in the general ledger after it has been deposited and reported in the bank statements.

Additionally, the Authority does not have internal controls in place to ensure all pertinent financial documentation is maintained, such as cash receipts or amortization schedules to support loan payments.

Annual Report Filing

State law requires local government agencies to prepare, certify and file financial reports with our Office within 150 days after the close of each fiscal year. The Authority has not yet filed its financial reports with our Office for 2013 and 2014.

Cause of Condition

The Authority does not have a physical location and relies on volunteers to manage its operations. They do not have adequate segregation of duties and formal policies have not been established.

Effect of Condition

Internal Controls

The Authority does not have adequate internal controls to safeguard public resources. Without adequate internal controls, public funds and assets are at risk for misappropriation, misuse or loss that would not be detected by management in a timely manner, if at all.

Annual Report Filing

Delays in the availability of complete annual financial reports prevent offices, the public, loan agencies and other interested parties from obtaining timely information. It also hinders transparency to citizens and the efforts of the State's Auditor's Office to compile statistical and financial information for use by the State Legislature and others.

Recommendation

We recommend the Authority:

- Create formal policies that establish controls over cash receipting and receivables including adequate segregation of duties, expenditures and commitments, contracts and the provisions of goods or services, retention of financial documents and the safekeeping of all public assets.
- Ensure cash is receipted into the general ledger, safeguarded and deposited in a timely manner.
- Ensure payments are not mailed to a volunteer's personal address.
- Ensure that all financial documentation is retained.

We also recommend the Authority ensure its annual financial reporting package is completed and submitted in a timely manner.

Authority's Response

*Under the first section "The Authority should establish internal controls
" we offer the following input. The question we struggle with....is existing internal*

controls for the PDA consistent with its level of business activity and sound business practices?

Regarding level of activity. For the past 6 years, the PDA has had a single tenant, making one monthly lease payment for deposit (12 per year). Operating expenses result in an average of 2 to 3 checks per month (about 30 per year). so, on average, we make one deposit per month and write 2 to 3 checks per month. As explained to the Auditor's, our financials are prepared by an independent accountant, who has authority to access our financial bank records (not to alter or make deposits/withdrawals---only to obtain information). She uses this direct bank access in preparation of financials. Because of our extremely low level of number of deposits and number of checks-any deviation is easy to identify and would show up quickly on financials.

Then, since our beginnings, all checks must have two authorized signatures --and our bank cooperates by insuring this two signature requirement is met. Further, we only pay from invoices. In addition, financials are presented, in detail, at Board meetings so that all members are able to review all transactions.

Deposits are made within 24 hours of receipt and invoices are paid twice each month (as needed). For a 100% volunteer organization, and as described, we maintain multiple checks and balances to insure transparency of each activity.

When construction projects are occurring, this can increase deposits/payments, on average, by one additional transaction each month (we have had 2 projects in the past 6 years).

In "Description of Condition-Internal Controls", a number of statements are made that could apply easily to many organizations. However, for the PDA, which operates entirely with volunteers-has no offices -no employees- and a very minimal level of number of monthly deposits/checks for expenses---the combination of checks and balances in-place-- plus multiple people review for every transaction-as well as deposit/invoices being made/paid in a timely fashion.

Under "Annual Report Filing"-our accountant appears to have filed information to cover through 2014 and has made multiple attempts to convey that to Auditors. I will attach documentation for four separate attempts to complete that requirement. Also, I understand that the 2015 filing is not yet due.

We do operate with established procedures and maintain levels of internal controls (per previous explanations). We look forward to exploring potential additional options that could raise the level of confidence even higher.

Under "Effect of Condition-Internal Controls. As discussed in previous sections, we seem to have multiple in-place procedures to safeguard and monitor organizational finances. For an all-volunteer effort with no office and no paid staff- we are/and will be searching for ways in which we could perform at an even higher level of safety. Certainly, if we dedicated serious operating funds to hire administrative staff and/or consultants to monitor and oversee existing procedural layers---no doubt we could add security. However, given the margin of positive earnings and cash-flow-such additional layering would clearly increase the risk of default for the PDA.

"Annual Report Filing" was discussed previously.

Under "Recommendations", given our input, we do commit to a thorough and active review to try and identify options that might improve financial procedures and safeguards. Deposits are made, however, within 24 hours of receipt. As to an operating address for mail, this, historically, has come to the business (not personal) address of the PDA treasurer.

Without hiring staff and establishing an office, we struggle with where checks for deposit could be sent. That, again, can/should be explored.

Finally, we do appreciate the time, interest, and suggestions made by the Auditors in our review and look forward to further and more detailed discussion.

Auditor's Remarks

We appreciate Authority's management for their dedication to strengthening internal controls. We recognize the Authority operates on a limited budget with help from volunteers. However, management is responsible to ensure policies are established and effective controls are in place to safeguard public resources.

We will follow up on these issues during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, states, in part:

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.

Volume 1, Part 3, Chapter 1 of the *2015 Budgeting Accounting and Reporting System* (BARS) manual (3.1.3.10 - 3.1.3.30) issued by the State Auditor's Office pursuant to RCW 43.09.230, states, in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

RCW 43.09.230 Local government accounting – Annual reports – Comparative Statistics, states:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government, to which power has been delegated by the state to create a public debt, showing the purpose for which each item of the debt was created, and the provisions made for the payment thereof; (3) a classified statement of all receipts and expenditures by any public institution; and (4) a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement; together with such other information as may be required by the state auditor.

The reports shall be certified as to their correctness by the state auditor, the state auditor's deputies, or other person legally authorized to make such certification.

Their substance shall be published in an annual volume of comparative statistics at the expense of the state as a public document.

INFORMATION ABOUT THE AUTHORITY

The East Lewis County Public Development Authority was established May 20, 1996 to undertake, assist, facilitate, promote, and provide for small business and light industrial development. This community-based organization promotes business and industry at the east end of Lewis County. It operates the Packwood Business Park, which provides companies a good location, available workforce and competitive pricing in a rural setting.

An elected, five-member Board of Commissioners governs the Authority. The Authority had revenues of approximately \$200,000 in 2012, \$98,000 in 2013 and \$157,000 in 2014. The Authority currently does not have any paid employees. However, the Authority has hired a contractor to provide accounting services. The remaining services are provided on a volunteer basis.

Contact information related to this report	
Address:	East Lewis County Public Development Authority 1111 Big Hanaford Road Centralia, WA 98531
Contact:	Gerri Maize, Treasurer

Information current as of report publish date.

Audit history

You can find current and past audit reports for the East Lewis County Public Development Authority at <http://portal.sao.wa.gov/ReportSearch>.

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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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