

# Schedule of Audit Findings and Responses

## Port of Othello Adams County January 1, 2012 through December 31, 2012

### 1. The Port needs to implement internal controls to ensure complete and accurate financial reporting.

#### Background

It is the responsibility of Port management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified a significant deficiency in controls that affect the Port's ability to produce reliable financial statements and reports.

#### Description of Condition

We identified the following deficiencies in internal controls, that when taken together, represent a significant deficiency:

- The Port's process for financial statement preparation, including the Schedule of Expenditures of Federal Awards (SEFA) does not ensure its financial reporting is complete, accurate and in accordance with the *Budgeting Accounting and Reporting System (BARS)* Manual.
- Procedures are not in place to ensure monthly reconciliations are performed of its accounting system to the bank statements.
- An independent review is not performed for many of the journal entries performed in 2012 or for the financial statements, including the SEFA, to ensure they are accurate and complete
- Port staff lacked the technical knowledge and experience to ensure the financial statements and supplemental schedules are prepared correctly.

#### Cause of Condition

The Port has not dedicated sufficient resources to design and implement internal control processes that ensure its financial reporting is accurate and complete

#### Effect of Condition

During our audit we identified the following errors, which were not detected by the Port nor corrected in its financial statements:

- Revenues and expenditures were not reconciled to bank deposits and withdrawals. Bank deposits were larger than revenues by \$1,432,931, or 29 percent. Bank withdrawals were larger than expenditures by \$1,327,146, or 30 percent.
- \$2,742,742 of non-operating expenditures was misclassified as operating expenditures.
- The Risk Management disclosure was not updated from the prior year reporting.
- A total of \$106,807 in construction expenditures was not included in its Construction-In-Progress disclosure.
- Supporting documentation could not be provided for a journal entry totaling \$26,733.

## Recommendation

We recommend the Port ensure adequate resources and training are provided to staff to ensure financial information and reporting are accurate and complete. We also recommend the Port establish and follow effective internal controls to ensure:

- The Port's financial reporting and SEFA preparation processes are complete, accurate, and in accordance with the BARS Manual.
- Monthly bank activity reconciliations are performed timely, documented and retained according to state retention requirements.
- An independent review is performed for all journal entries to ensure they are accurate and properly supported.
- Someone knowledgeable of the BARS Manual and independent of financial statement preparation processes performs a thorough review of the financial statements and supporting schedules to ensure they are accurate, complete, and presented in accordance with requirements.

## Port's Response

*The Port of Othello had a complete personnel turnover in 2012. The Director was hired in July and took over in October, and the assistant was hired in October. Due to the turnover, along with negative responses from previous administration to provide information and training, the Port has dealt with a legacy system that had to be de-coded, learned independently and understood through the lens of many different resources. The Port has and will continue to develop and maintain systems and procedures to eliminate inaccuracies, confusion and lack of controls in the future.*

*The State Auditor's Office identified the following concerns during their audit of the Port of Othello. Each concern is restated and the Port's response follows:*

1. The Port did not reconcile revenues and expenditures to bank deposits and withdrawals. Bank deposits were larger than revenues by \$1,432,931, or 29 percent. Bank withdrawals were larger than expenditures by \$1,327,146, or 30 percent.

**Port's Response**

The Port's bars numbers did not match the bars manual when the new staff came in. If the Port is given enough time, they believe they would find that the revenue and expense were posted to the same account in error and netting to zero. The Port has put into place new systems and procedures. The Port personnel will be directed to attend SAO training in preparation for the 2013 Financial Statements which will include a reconciliation of bank deposits and withdrawals as a comparison to information provided on the current financial statements. This information will be reviewed by a professional prior to submission.

2. The Port misclassified \$2,742,742 of non-operating expenditures as operating expenditures.

**Port's Response**

When asked if there was a deviation from the BARS manual, the administration pointed out the temporary reclassification of non-operating expenditures in the operating expenditures for the sake of easily locating the information on a daily basis. It was explained that the numbers would be reclassified at the end of the year for end of year analysis.

3. The Port did not update the Risk Management disclosure from the prior year.

**Port's Response**

Port personnel will be directed to contact the appropriate organization prior to submitting the Notes to the Financial Statements to obtain the most recent disclosure note.

4. The Port did not include \$106,807 in construction expenditures in its Construction in Progress disclosure.

**Port's Response**

Port personnel will be directed to attend SAO training in preparation for the 2013 Financial Statements; and the statements will be reviewed by a professional prior to submission.

5. The Port did not have supporting documentation for a journal entry totaling \$26,733.

**Port's Response**

The amount represents a reversal for cash basis adjustment purposes of various 12/31/11 liability accounts that were already audited in the last audit. The complete backup is in the auditor's 12/31/11 work papers from that audit.

Port personnel will be directed to create a file containing journal entries for the each year. Staff will be required to include supporting documentation for all entries.

## **Auditor's Remarks**

We thank the Port for its cooperation and assistance during the audit and look forward to reviewing the Port's corrective action during the next audit.

## **Applicable Laws and Regulations**

Statement on Auditing Standards (SAS) No. 115, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

RCW 43.09.200 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.

*Budget Accounting and Reporting System (BARS) Manual – Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section C. Internal Control,* 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.