

Schedule of Audit Findings and Responses

Port of Longview Cowlitz County January 1, 2012 through December 31, 2012

1. The Port's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.

Background

Port management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls financial reporting that could affect the Port's ability to produce reliable financial statements.

Description of Condition

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

- Port employees responsible for financial statement preparation did not research and consider the accounting and financial reporting of applicable government accounting standards to ensure the Port's financial reporting is accurate and complete under generally accepted accounting principles (GAAP).
- Although the Port has a review process for the prepared financial statements, the review is not effective or sufficiently detailed to ensure the financial statements are accurate and complete.

Cause of Condition

Port management has not dedicated and prioritized the necessary staff time or resources, including training for staff, to ensure its financial reporting was accurate and complete.

Effect of Condition

Inaccurate financial reports limit access to financial information used by Port officials, the public, state and federal agencies and other interested parties.

We found the following errors in the Port's original financial statements that management did not detect:

- Port staff did not research and consider the accounting and financial reporting of applicable accounting standards, such as Government Accounting Standards Board (GASB) Statement No. 49, related to environmental liabilities. The Port chose not to implement this GASB within its statements.
- The Port did not fully implement GASB Statement No. 63, relating to the presentation of net position when preparing the financial statements.

In addition, our audit noted several errors in the financial statements that were individually not significant but when taken together impair the understandability of the financial report.

With the exception of the first item noted, these errors were subsequently corrected.

Recommendation

We recommend the Port:

- Use the current accounting and reporting guidance provided in the *Budget, Accounting and Reporting Systems* (BARS) manual when preparing its financial statements.
- Pursue additional technical guidance when evaluating the applicability of new government accounting standards.
- Provide adequate training for staff for financial accounting and reporting to ensure compliance with reporting requirements.
- Establish a technical review process of the financial statements by a person knowledgeable of GAAP and reporting requirements to ensure accurate preparation and reporting of the District's financial statements.

District's Response

For more than 25 years, the Port of Longview has successfully achieved glowing annual audits affirming strong internal controls and reliable accounting practices. Based on more than two decades of successful reporting, the Port was assured that the State Auditor's Office found our internal controls thorough and reliable. The Port maintains that it met the standard of "reasonable assurance regarding the reliability of internal controls".

The finding outlined in the 2012 audit is a result of the Port's current litigation over historically contaminated property. The Port has identified two sites that require environmental characterization and remediation, however, the extent of contamination has not yet been determined, nor have there been orders issued from Department of Ecology or any other agency on either of these sites. As a result of pending litigation, Port counsel has advised management to delay implementation of GASB Statement No. 49 at this time.

The Port has made the changes to labeling on the Statement of Net Position and is in full compliance of GASB Statement No. 63.

It is our intent to initially review with Commissioners and staff the findings and recommendations of the audit. Following that review and discussion our intent is and action will be to follow the recommendations of the audit and implement them into our procedures.

We will seek and secure guidance from the State Auditor's Office and others as necessary to ensure full compliance of standard and acceptable financial reporting. In addition, the Port will contract with an independent CPA firm to review the Port's annual financial report prior to submitting to the State Auditor's office.

Auditor's Remarks

We appreciate the Port's commitment to resolve this finding and thank the Port for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulation

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

(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.

Budget Accounting and Reporting System (BARS) manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

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.