



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Washington Blueberry Commission

For the period January 1, 2017 through December 31, 2020

Published May 16, 2022

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**Office of the Washington State Auditor
Pat McCarthy**

May 16, 2022

Board of Commissioners
Washington Blueberry Commission
Eltopia, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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 Commission operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Commission's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Commission operations did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the Commission did not provide adequate controls over safeguarding of public resources in most of the areas we examined.

As referenced above, we identified areas where the Commission could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Washington Blueberry Commission from January 1, 2017 through December 31, 2020.

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.

This audit was conducted under the authority of RCW 15.65.490, which requires the Office of the Washington State Auditor to examine the financial affairs of the Commission at least once every five years. Our audit involved obtaining evidence about the Commission's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2020, 2019, 2018 and 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – general disbursements, travel expenditures and electronic funds transfers
- Procurement – personal services
- Compliance with State laws, Department of Enterprise Services, research contracts and administrative services agreements
- Open public meetings – compliance with minutes, meetings and executive sessions requirements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Washington Blueberry Commission January 1, 2017 through December 31, 2020

2020-001 The Commission did not have adequate internal controls to ensure expenditures were allowable and supported, and it did not comply with laws related to research and administrative contracts.

Background

The Washington Blueberry Commission (Commission) promotes the general welfare of the state by maintaining existing markets or creating new or larger local, domestic and foreign markets, increasing production efficiency, ensuring a fair regulatory environment, or by increasing per capita consumption of blueberries in Washington. This includes providing funding for research in the production, processing, irrigation, transportation, handling and marketing of blueberries.

As a state agency, the Commission receives its authority to contract for goods, services and information technology from the Department of Enterprise Services (DES). DES delegates certain authorities to agencies and sets limits on how much they can spend when procuring goods and services. DES must approve procurement activities that exceed approved limits. State agencies must also conduct routine procurement risk assessments and submit them to DES. DES uses this information to establish agency-delegated authorities.

The Commission does not have any employees and contracts with a management company to manage its finances and day-to-day operations. The management company has two employees—a director and an accountant. The Commission holds regular board meetings and reviews expenditures, research contracts and procurement purchases.

In fiscal years 2017 through 2020, the Commission's total expenditures were \$488,461, \$725,687, \$690,839 and \$749,805, respectively. In the last audit, we recommended in a management letter that the Commission improve its documentation of disbursements and how it awarded contracts.

Description of Condition

The Commission did not have adequate internal controls to ensure expenditures were allowable and supported, and it did not comply with laws related to research and administrative contracts. Specifically, we found the Commission did not:

- Establish an effective review process to ensure expenditures were allowable and supported by documentation
- Establish written policies and procedures describing its processes for expending Commission funds and managing contracts
- Comply with state records retention requirements regarding documentation to support purchases
- Comply with DES's risk assessment requirements
- Comply with state law for awarding research projects

Cause of Condition

The Commission did not perform an adequate level of review and did not have adequate oversight of the management company to ensure expenditures were allowable. The Commission also did not ensure the management company complied with state procurement requirements and obtained DES approval when contract values exceeded the Commission's delegated authority.

Effect of Condition

Disbursements

During the audit, we requested supporting documentation for three disbursements the Commission paid in 2017 that totaled \$101,482. The Management Company said it could not locate supporting documentation for these payments. After inquiring further with management, we learned the Commission did not have supporting documentation for any payments it made in 2017, which totaled \$488,461. Furthermore, the Commission did not have support for payments made in 2018, 2019, and 2020 totaling \$1,836.

In addition to not having supporting documentation to demonstrate how it spent public funds, the Commission did not comply with state records retention requirements.

Administrative Contracts

The Commission has contracted with the same management company for more than 10 years for administrative services. While state law does not require the Commission to obtain competitive bids based on a dollar threshold, as best practice, it should have its own purchasing policy. The Commission did not have a purchasing policy in place to determine the procurement method for administrative

services. From 2017 through 2020, the Commission paid \$65,000, \$66,000, \$70,000 and \$80,000 for administrative services, respectively.

We requested copies of all contracts and amendments between the Commission and the management company for 2017 to 2020. We found the Commission overpaid \$1,000 for administrative services in 2018. For 2019 and 2020, the Commission did not provide contract amendments. As a result, we could not determine if the amounts the Commission paid to the management company were correct.

Suspension of Delegated Authority for Goods and Services

The Commission's lack of internal controls over its procurement processes have led to noncompliance for many years. In June 2014, DES rescinded the Commission's delegated authority to procure goods and services because it did not complete its required risk assessment. The Commission completed the next required risk assessment in 2016, and DES authorized a delegated authority with specific conditions that the Commission was required to meet.

In November 2020, DES determined the Commission failed to comply the required conditions and, once again, suspended its delegated authority. DES concluded that the Commission violated state procurement law 14 times between 2015 and 2020.

Research Projects

The Commission funds research projects related to blueberry production. A State rule (WAC 16-550-006) requires the Commission to use Washington State University's (WSU) facilities for all research projects, unless the Commission determined other agencies have better facilities prior to awarding them research projects. A State law (RCW 15.65.320) also requires the Commission to enter into agreements with WSU unless adequate facilities for a particular project are not available or another research agency has better facilities.

The Commission did not have documentation to show it evaluated WSU's facilities to determine if they were inadequate for research projects, which is required both by state law and the Commission's own rule. We contacted WSU staff and found the Commission did not inquire with WSU to determine if its facilities were sufficient for the research projects before awarding them to other agencies. From 2017 through 2020, the Commission paid a total of \$1,282,394 for research projects.

We also found:

- For research project contracts, researchers are required to submit an annual report at the end of the fiscal year. The Commission did not have

documentation showing that it obtained annual reports from researchers for one project in 2018 and one project in 2020. Without this support, there is no evidence showing the benefit the Commission received from the research contract.

Recommendations

We recommend the Commission:

- Establish written policies and procedures over its disbursement processes.
- Improve oversight of its contracted management company to ensure disbursements have adequate support, it spends public funds only for allowable purposes, and that it meets state records retention requirements.
- Comply with DES procurement requirements.
- Ensure documentation is retained to demonstrate compliance with state law and its own rule for evaluating WSU facilities for awarding research projects.

Commission's Response

The State Auditor's Office (SAO) conducted a review of the WBC activities from 2017 and 2020 and raised 7 issues by our count. The WBC does not take exception with three of the issues but feel that additional context is needed. The remaining four issues are either factually inaccurate or are not presented with appropriate context.

Regarding not retaining records to support financial transactions in 2017: this was not so much a case of not retaining records as required, but rather was the result of an act of nature when the basement used for record storage flooded and those records were lost. This was an accident and was not due to a willful or intentional act. We have long since taken steps to ensure that WBC documents are more securely stored, and destruction of documents by flooding will not happen in the future.

In the case of not providing the financial documentation for \$1,836 dollars over a three year period, it should be made clear that receipts were provided but the SAO took exception that the receipts were not itemized. Two individuals traveling for WBC business did not or were not able to obtain itemized receipts for some of their travel receipts. We provided all requested receipts for this travel to the SAO, so no documents are missing. In one case, it was an overseas trip where itemized receipts are not provided by businesses.

In the case of overpayment of a management contract by \$1,000, the WBC does not take issue with the result but notes the overpayment has been repaid. The WBC has hired an outside accounting firm to perform a quarterly review of the Commission's finances. This decision was made prior to this audit. The WBC recognizes that the size of its budget has increased significantly in the past few years and understands there is need for additional oversight.

The SAO takes issue with the claims that the WBC does not have a purchasing policy regarding administrative contracts, despite the SAO has stating that having a purchasing policy is not a requirement by the state. However, the WBC currently has a purchasing policy and did have a purchasing policy for administrative contracts during 2017 through 2020. Part of this policy was that administrative contracts are to be rebid every five years competitively. The WBC had a purchasing policy for administrative contracts during the time covered by the audit, and therefore it is inappropriate to mention this issue in the audit report.

The SAO states that the WBC did not provide contract amendments for 2019 and 2020. On two separate occasions, the WBC provided the SAO with contract amendment #3 to Contract K2350. This document was developed under the direction of DES for the WSDA representative to the WBC. In Section 2, it clearly states the amounts of the contracts in 2019 and 2020.

The DES did not rescind the WBC's delegation of authority in 2014. This is an inaccurate statement and should not be included in this report. The November 2020 rescinding of delegation of authority for the WBC by DES: this happened for the most part due to a lack of communication by DES to the WBC which stemmed from a series of documents being mailed from DES to an incorrect address for the WBC. The WBC never received these instructions. Additionally, from about January 2020 to October 2020, DES would not provide contracting or procurement support, advice or review to WBC staff or board members. It was not possible for WBC to comply with new procurement rules in place because DES had a moratorium on communicating with WBC staff and board members. The DES did not inform the WBC that it was withholding procurement support during this interim. Further, for an additional year, the DES would not provide procurement or contracting support directly to WBC staff. During this entire time that DES would not communicate with the WBC, the WBC was following WSDA direction and guidelines for contracts and procurement. The contracts the WBC used were provided by WSDA. We did not know that the WSDA provided contracts were not acceptable to DES. The reason for the inability for WBC to adhere to changing procurement rules stems from a lack of communication between WBC and DES and lack of DES support for procurement and contracting efforts. The WBC staff and board members have put an extraordinary amount of effort to comply with contracting and procurement

requirements. The WBC Executive Director has weekly meetings with the Small Agencies Team at DES. The WBC is currently in compliance with all state requirements regarding procurement and contracting.

The SAO claims that the WBC did not determine whether WSU had adequate research facilities to conduct every WBC funded research project before funding projects at facilities other than at WSU. This is a factually inaccurate statement. The January 2018 WBC quarterly board meeting minutes clearly state that such an investigation did occur. The investigation found that WSU did not have adequate facilities for conducting all blueberry research needed by the WBC and that the WBC could then conduct research with other facilities. This information was provided to the SAO two different times. Prior to awarding research funding the WBC Executive Director spoke to Associate Dean for Agricultural Research and Station Superintendent at the WSU Mt Vernon Research and Extension Center, location of the greatest number of blueberry researchers at WSU. They both indicated that WSU could not address all the Washington blueberry industry's research needs. The WBC staff is in constant contact with WSU researchers and research administrators and the WBC is very aware of WSU's research capacity. WSU is invited to address all the WBC stated research needs and WSU does not respond to filling those research needs every single year. There is no one at WSU that WBC representatives have spoken to that has ever professed that WSU could handle all our research needs. There is no guidelines, rules or law that requires such an investigation to be conducted annually nor that the results of the investigation must be in written form. The WBC has demonstrably determined that WSU does not have the facilities and has a written policy that research can be done at other facilities.

Further, the SAO is holding the WBC to a different standard than other Washington agricultural commissions. In discussions with more than a half dozen commissions (wine grape, tree fruit research, asparagus, WSCPR, potato, etc.) we found that not only did the SAO not bring this issue up to them, every one of the commissions contacted was unaware that this requirement exists. The WBC may be the only commission that is complying with this rule (see our 2018 minutes and our written policy on this) and is the only commission that is being penalized on this matter. No Washington Commission funds all their research at WSU, and to the best of our knowledge, none of them are doing the kind of investigation that the WBC has done and are not being held to the same standard as the WBC. The WSDA commodity liaison representative was not aware that there is a state requirement that all research be conducted at WSU unless an investigation was first conducted by the commodity group.

Regarding the submission of research reports, every researcher funded by the WBC is required to provide a final report for each project. If a final report is not available by the reporting deadline, then a progress report is required until such a time a final report is available. These reports are provided to the WBC Research Committee and made available to the grower community. Each researcher is expected to make at least one presentation to the blueberry industry. Every researcher has provided a final report or a progress report to the WBC for, without exception.

In conclusion, the WBC believes that the only valid issues raised by the SAO are 1) the box of receipts from 2017 lost in a basement flooding, 2) an overpayment of \$1,000 on an administrative contract and 3) two sets of receipts that were not itemized, although it was not possible to have itemized receipts for the most of those receipts. The WBC feels these issues cumulatively do not raise to a level to issue a finding by the SAO, and it would be more appropriately addressed using other means.

Auditor's Remarks

State agencies are responsible for maintaining adequate documentation to support expenditures, which is why we took exception to the \$1,836 referenced above. We appreciate the Commission's commitment to improving its records management process in the future.

During the audit, the Commission did not provide a written procurement policy. While not specially required by State regulation, the Commission should establish written policies and procedures describing how it procures goods and services.

The Commission did not provide the actual, signed contract amendments for 2019 or 2020 that were requested during the audit. These records should be retained in accordance with general State records retention requirements.

During the audit, we obtained a formal letter from the DES Director to the Commission outlining in detail why the Commission's delegated authority was suspended. The letter included documentation that, in our judgment, supports what is stated in the "Effect of Condition" section in the finding. We appreciate the Commission's effort to work with DES to ensure it complies with State contracting requirements in the future.

As stated above, the Commission has established its own rule in Washington Administrative Code (16-550-006) regarding the use of Washington State University facilities for all research projects unless the Commission determines other agencies have better facilities. Additionally, a state law (RCW 15.65.320)

allows commodity commissions to enter into marketing agreements for research. The law requires Commissions to work with Washington State University unless it is determined the University does not have adequate facilities or other research agencies have better facilities to carry out the research. Our audit recommendation is that the Commission improve its documentation to demonstrate it is compliant with both its own rule and state law.

The Commission's contracts for research projects require contractors to submit annual reports. The annual reports were not provided for one project in 2018 and one project in 2020 during the audit.

We reaffirm our finding and will follow up on the Commission's corrective actions during our next regular audit.

Applicable Laws and Regulations

RCW 15.65.320, Agreement and order provisions for research

RCW 39.26.090(5), Director's duties and responsibilities — Rules

RCW 40.14, Preservation and destruction of public records

RCW 42.52.020, Activities incompatible with public duties

WAC 16-550-006, Marketing order purposes

INFORMATION ABOUT THE COMMISSION

The Washington Blueberry Commission was established in 1969 by state law to coordinate marketing of the blueberry commodities produced in Washington. It is funded primarily by annual assessment fees on growers.

The Commission is governed by a seven-member Board of Commissioners consisting of six producers and a representative of the Washington State Department of Agriculture. The Commission does not have any employees and contracts with a management company for day-to-day operations. The revenue for 2017, 2018, 2019 and 2020 were \$507,346, \$571,315, \$889,813 and \$631,550, respectively.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Washington Blueberry Commission at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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