



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Downtown Pasco Development Authority

For the period January 1, 2020 through December 31, 2022

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

February 1, 2024

Board of Directors
Downtown Pasco Development Authority
Pasco, 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 Authority 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 Authority'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,

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, Authority operations did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the Authority 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 Authority could make improvements. These recommendations are included with our report as findings.

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 Downtown Pasco Development Authority from January 1, 2020 through December 31, 2022.

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 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Authority'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, 2022, 2021 and 2020, 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, credit cards, debit cards, and electronic funds transfers
- Cash receipting – timeliness and completeness of deposits
- Compliance with private foundation grant contracts terms
- Annual report filing – timeliness and completeness
- Open public meetings – compliance with minutes, meetings, and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Downtown Pasco Development Authority January 1, 2020 through December 31, 2022

2022-001 The Authority did not have adequate controls over monitoring operations and financial activities to ensure the safeguarding of public resources and compliance with state law.

Background

Public development authorities (PDAs) are public corporations created by a city or county to perform a particular function under state law (RCW 35.21.730-755). The specific purpose of a particular PDA is defined by its charter and the ordinance or resolution creating the entity. The purpose of the Downtown Pasco Development Authority is to strengthen and develop downtown Pasco as a center for culture, business and community spirit.

Management is responsible for establishing internal controls that provide reasonable assurance the Authority is safeguarding public resources, and to ensure compliance with state law and its own policies. Management is also responsible for the integrity and retention of the original receipts, invoices and other documents needed to prove the validity of every transaction relating to the Authority's receipt, use and disposition of public funds and property. This requirement extends to all accounting entries.

An appointed, seven-member Board of Directors governs the Authority, which had total disbursements of \$649,300, \$739,093 and \$750,331 in fiscal years 2020, 2021 and 2022, respectively. The Authority had receipts totaling \$791,849, \$601,480 and \$745,715 in fiscal years 2020, 2021 and 2022, respectively.

The Authority employs an Executive Director to oversee and manage daily operations, including cash handling, accounts payable and receivable, payroll, the reconciliation of all Authority financial accounts, and financial reporting to the Board. In addition, the Authority employs a bookkeeper to complete daily financial transactions, such as processing payments and handling daily banking activities.

Description of Condition

Our audit found the Authority lacked effective internal controls for ensuring it safeguarded public funds and complied with state law. We identified the following

issues with the Authority's controls over accounts payable, cash receipting, grant funding and its financial condition.

Accounts payable

The Authority lacked internal controls for ensuring documentation was obtained to support the validity of disbursements. Our audit of purchases found check payments totaling \$299,826 were not adequately supported. This included \$1,050 in payments that were unallowable because they did not appear to be for a clear business purpose, and \$8,861 in unaccounted for asset purchases.

Further, the Executive Director used electronic funds transactions and a debit card to make purchases totaling \$285,141 that were not adequately supported. Of this amount, \$79,517 was paid to 14 people outside of the country and two people outside of the state using money transfer service providers. The Authority's debit card was also used to withdraw \$2,740 in cash from an ATM. We also found over-the-counter cash withdrawals totaling \$30,404 that lacked supporting documentation.

Cash receipting

The Authority lacked internal controls for ensuring all amounts due to the Authority were deposited in its accounts timely, if at all. Our audit of cash receipts found the Authority receipted \$20,794 during the audit period that was not deposited into its accounts. We reviewed 26 deposits and found the Authority did not deposit 11 of them within 24 hours, and staff did not complete timely reconciliations, within a month, if at all.

Grant funding

The Authority did not have an adequate process in place to ensure it passed on private grant funding to eligible people and businesses. Our audit found the Authority received about \$630,000 in grant funding from private foundations to assist with operations and support efforts to provide immediate financial support for people and families affected by COVID-19. The Authority used a portion of the funding to facilitate a Rapid Response Business Grant program for local businesses affected by COVID-19. The Authority was unable to provide complete applications demonstrating this funding was passed on to eligible recipients and used for a purpose that fulfilled the grant's objectives.

Financial condition

We analyzed the Authority’s financial condition for fiscal years 2020, 2021 and 2022, and the period of January 2023 through August 2023. The table below shows the Authority’s declining financial condition over this period.

Fiscal year	2020	2021	2022	As of August 31, 2023
Total operating revenue	\$ 791,849	\$ 601,480	\$ 745,715	\$ 246,477
Total operating expenditures	\$ 649,300	\$ 739,093	\$ 750,331	\$ 263,671
Ending cash balance	\$ 170,284	\$ 32,672	\$ 31,787	\$ 13,393
Cash balance sufficiency	95.72 days	16.13 days	15.46 days	12.29 days

We also analyzed the Authority’s accounts payable aging report dated September 28, 2023, and noted it has a total of \$67,759 in outstanding payables. Of this amount, \$57,964 were outstanding for more than 91 days.

All these issues were previously reported as findings in the prior audits covering years 2016 through 2019.

Cause of Condition

The Authority’s Executive Director position has turned over three times between 2020 and 2022. The turnover made it difficult for the Authority to ensure new staff received proper training to effectively monitor financial activities.

The Authority also did not ensure staff performed periodic, accurate reconciliations between accounting records and bank records. In addition, the Board did not adequately oversee and review disbursements to ensure expenditures were supported, allowable and approved, or to ensure public resources were adequately monitored to safeguard against misappropriation.

Effect of Condition

The lack of controls and oversight increase the risk that a misuse or misappropriation of public funds could occur, and the Authority would not be able to prevent or detect it in a timely manner, if at all.

Without adequate internal controls and procedures over disbursement activities, including grant funding, the Authority cannot ensure payments are for an allowable public purpose or that the items it purchased are for Authority business and not the result of misappropriation or misuse of public funds.

Without adequate internal controls and procedures over cash receipting and reconciliations, the Authority cannot ensure all amounts due to the Authority are deposited into its accounts and not the result of misappropriation or misuse of public funds.

Additionally, the Authority does not have a formal, comprehensive plan to monitor its financial condition and address cash flow issues. Due to turnover in the board and key staff, the Authority was unable to provide bank statements reflecting current activity. Based on the Authority's financial analysis through August 2023, there is a concern the Authority might struggle to meet its financial obligations.

Recommendation

We recommend the Authority:

- Establish effective internal controls and monitoring for disbursements to ensure it obtains and keeps supporting documentation showing the public purpose of all expenditures
- Implement processes to track and safeguard asset purchases
- Establish effective internal controls for cash receipting, including reconciling amounts receipted to deposit slips and bank statements, to ensure all amounts collected are deposited within 24 hours
- Establish processes for Authority officials to closely monitor the Authority's financial status and develop a plan, with benchmarks and guidelines, to address its declining financial condition

Authority's Response

We reached out to former and current board members who all declined the opportunity to respond to the finding.

Auditor's Remarks

We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting—Uniform system of accounting.

RCW 43.09.240, Local government accounting—Public officers and employees—Duty to account and report—Removal from office—Deposit of collections.

Budgeting, Accounting and Reporting System (BARS Manual), 3.1.3, Internal Control

BARS Manual, 3.6.1, Accounting Principles and Controls, Revenues, Cash Receipting

BARS Manual, 3.8.4, Accounting, Expenditures, Purchase Cards

BARS Manual, 3.8.5.10, Voucher Certification and Approval

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Downtown Pasco Development Authority January 1, 2020 through December 31, 2022

2022-002 The Authority's governing officials and management disregarded state laws when performing essential government functions.

Description of Condition

The Board of Directors and the Authority did not follow state laws when performing essential functions. We identified the following concerns with the Authority's compliance with the Open Public Meetings Act (OPMA) and requirements for annual report filing.

Open public meetings

The Authority did not ensure it met the OPMA's requirements. The OPMA (RCW 42.30) requires minutes of all regular and special meetings be promptly recorded and open to public inspection, because people rely on the information to make informed decisions. State law also requires the governing body's presiding officer to announce the purpose for excluding the public from an executive session.

Our audit found the Authority does not post agendas online, and its meeting minutes lacked a significant record of business conducted during open public meetings. Meeting minutes were not available for nine meetings between January 1, 2020, and December 31, 2022, and 11 executive sessions were held without reference to an allowable reason in state law. Further, it was not clear in the meeting minutes if a quorum was present on six occasions, and we found the Board took action on one occasion outside of an open public meeting.

By not posting meeting minutes timely for public inspection, the Authority did not meet the intent of the OPMA. When the Authority does not keep meeting minutes, it has no official record of what business the Board conducted. This limits transparency and the public's access to information about the Authority's business discussions and official decisions.

Annual reporting

Federal and state agencies, the Board of Directors, and the public rely on the information included in financial reports to make decisions. The Authority is

responsible for designing, implementing and maintaining internal controls that provide reasonable assurance its financial reporting is reliable.

State law (RCW 43.09.230) requires the Authority to submit an annual financial report to the State Auditor's Office within 150 days after the end of its fiscal year. The annual financial report includes summaries of financial information and supporting schedules.

The Authority submitted the 2020 report 708 days late and the 2021 report 345 days late.

Cause of Condition

Authority leadership and management did not have an adequate understanding of state laws, including those that require open public meetings and filing annual reports with the State Auditor's Office.

Effect of Condition

The Board's disregard for state laws and the resulting lack of transparency limits the public's knowledge and understanding of Authority business. The Board's insufficient knowledge of state laws it must follow hinders its ability to implement controls and policies to help ensure it follows those laws.

Filing late annual reports prevents the public and other interested parties from obtaining timely financial information about the Authority. Delays also limit public transparency and the State Auditor's efforts to compile statistical and financial information that the Legislature and other parties use.

Recommendation

We recommend the Authority:

- Improve documentation of meetings and post agendas and minutes online to ensure the public is informed of the Board's actions when spending funds, as required by state law
- Improve documentation of executive sessions in meeting minutes to ensure they were conducted for allowable purposes and in accordance with state law
- Establish internal controls to ensure accurate, complete, and timely financial reporting in accordance with state law

Authority's Response

We reached out to former and current board members who all declined the opportunity to respond to the finding.

Auditor's Remarks

We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 42.30, Open Public Meetings Act.

RCW 43.09.230, Local government accounting – Annual reports – Comparative statistics.

Budgeting, Accounting and Reporting System (BARS Manual) 3.1.3, Internal Controls



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Downtown Pasco Development Authority January 1, 2020 through December 31, 2022

This schedule presents the status of findings reported in prior audit periods.

Audit Period:	Report Ref. No.:	Finding Ref. No.:
01/01/2017-12/31/2019	1026941	2019-001
<p>Finding Caption: The Authority’s financial condition puts it at risk of not being able to meet financial obligations.</p>		
<p>Background: Public development authorities (PDAs) are public corporations created by a city or county to perform a particular function under state law (RCW 35.21.730-755) to improve administration and efficiency. The specific purpose of a particular authority is defined by the ordinance or resolution creating the PDA and the PDA’s charter. The mission of the Downtown Pasco Development Authority (DPDA) is to strengthen and develop downtown Pasco as a center for culture, business and community spirit.</p> <p>We issued a financial condition finding in the prior audit as the Authority experienced a decrease in its cash balance and days of cash on hand, which estimates the number of days the Authority can meet its daily obligations before running out of cash.</p> <p>We analyzed the Authority’s financial condition for fiscal year 2017, 2018, 2019 and January 2020 through May 2020.</p> <p>Overall, we found the Authority cash balance and the number of days the Authority can operate on cash balances has not improved since the last audit. The Authority had more operating expenditures than operating revenue in three of the four years reviewed.</p> <p>We also analyzed the Authority’s accounts payable aging report dated May 8, 2020, and noted the Authority has a total of \$53,769 outstanding payables, of which \$33,769 were outstanding for more than 91 days. Based on the Authority’s financial analysis, there is a concern the Authority might struggle to meet its financial obligations.</p>		

Status of Corrective Action: (check one)			
<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input checked="" type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid
Corrective Action Taken:			
<p><i>The organization has struggled to maintain consistent leadership and funding strategies in the years 2020-2021. In the period 2020-2021 the organization saw an executive director transition and a lengthy interim director period. Prior leadership hasn't been able to implement or sustain funding from City of Pasco, grants, event income, and client income from various programs.</i></p> <p><i>Past Summary of Audit findings have indicated an intention to grow reserves for the DPDA year after year. This has not been the case past years as expenses have not been managed in years 2020-2021 and reserves year after year have not been sustained.</i></p> <p><i>We look to update the funding agreement from the city of Pasco, plan events to come away with net income, and restructure programs to run leaner and more effectively.</i></p>			

Audit Period: 01/01/2017-12/31/2019	Report Ref. No.: 1026947	Finding Ref. No.: 2019-002
Finding Caption:		
The Authority lacked internal controls to ensure expenditures were allowable and supported.		
Background:		
<p>Public development authorities (PDAs) are public corporations created by a city or county to perform a particular function under state law (RCW 35.21.730-755) to improve administration and efficiency. The specific purpose of a particular authority is defined by the ordinance or resolution creating the PDA and the PDA's charter. The mission of the Downtown Pasco Development Authority (DPDA) is to strengthen and develop downtown Pasco as a center for culture, business and community spirit.</p> <p>The Authority had total disbursements of \$329,196, \$433,830, and \$495,428 in fiscal years 2017, 2018 and 2019 respectively. The Authority had credit card purchases of \$12,605, \$18,561 and \$36,442 in fiscal years 2017, 2018 and 2019, respectively.</p>		
Status of Corrective Action: (check one)		
<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected
<input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken:		
<p><i>We have added and retained a part-time bookkeeper to manage and update our finances in QuickBooks. A separate third-party accountant assists with our payroll. Our Board Treasurer brings monthly bank transactions and an expense report every month to board meetings to be reviewed and answer any questions.</i></p> <p><i>We have also consolidated and closed credit cards that no longer had use for the organization. We now only have 1 P-card and look to create additional employee policies surrounding use of the P-card, and use of organization assets such as the organization vehicle.</i></p>		

INFORMATION ABOUT THE AUTHORITY

The Downtown Pasco Development Authority was formed by the City of Pasco for the purpose of increasing the economic vitality and the revitalization of Downtown Pasco, Washington. The Authority has many programs aimed at helping revitalize the Downtown Pasco area and creating opportunities for economic and community growth.

The Authority is governed by a seven-member board appointed by the City. The Authority had revenues of \$791,848, \$601,480 and \$745,175 in 2020, 2021 and 2022 and expenditures of \$649,300, \$739,093 and \$750,331 in 2020, 2021 and 2022.

As of June 1, 2023, the executive director of the Downtown Pasco Development Authority resigned. Upon the vacancy, the City resumed operational control of the Farmer's Market and the Specialty Kitchen.

Contact information related to this report

Address:	Downtown Pasco Development Authority 403 W. Lewis Pasco, WA 99301
Contact:	Downtown Pasco Development Board of Directors
Telephone:	(509) 380-5111
Website:	www.downtownpasco.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Downtown Pasco Development Authority 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.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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