Office of the Washington State Auditor

Pat McCarthy

Accountability Audit Report

North Bonneville Public Development Authority

(Cannabis Corner)

Skamania County

For the period January 1, 2016 through December 31, 2017

Published August 16, 2018

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Office of the Washington State Auditor
Pat McCarthy

August 16, 2018

Board of Directors
Cannabis Corner
North Bonneville, 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 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 we value your cooperation during the audit.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, except as described below, Authority operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we identified areas in which the Authority could make improvements.

We recommended 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 future loan payments.
- 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.

These recommendations were included with our report and in a separate communication as a finding.

As referenced above, we also noted certain matters that we communicated to Authority management and Board of Directors in a letter dated August 8, 2018, related to monitoring of cash receipting and inventory processes. We appreciate the Authority's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of the Cannabis Corner from January 1, 2016 through December 31, 2017.

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 State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the years ended December 31, 2017 and 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Board oversight and monitoring of Authority operations
- Fiscal sustainability and financial condition
- General disbursements
- Cash receipting and adjustment testing
- Tracking and monitoring of inventory and inventory adjustments
- Payroll – recalculation of gross pay

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The Authority's financial condition puts it at risk of not being able to meet financial obligations.

Background

A public development authority (PDA) is a public corporation 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 by the PDA's charter. The North Bonneville PDA (Authority) was created to administer sales of marijuana and related goods to the public.

Description of Condition

At December 31, 2017, the Authority had outstanding debt totaling $244,111. Of this amount, a balloon payment of $79,486 is due December 1, 2019.

We analyzed the Authority's financial condition for fiscal years 2015, 2016 and 2017, and from January through May 2018, to determine the Authority's ability to meet this obligation. Overall, the audit found the Authority's cash balance has declined because of an operating revenue decrease, as shown in the table below:

Fiscal year	2015	2016	2017	As of May 31, 2018
Ending cash balance	$ 86,474	$ 136,649	$ 130,719	$ 53,792

Operating revenues decreased in 2017 and have continued to decline for the beginning of 2018. Through May 2018, sales revenue decreased 27 percent from the prior year through the same time period because of increased competition from other regional marijuana retailers.

In an effort to reduce debt service costs, the Authority negotiated a lower interest rate for some of the outstanding loans. However, the Authority's plan to meet this balloon payment in 2019 relies on issuing additional debt at a higher interest rate.

Cause of Condition

The Authority has not implemented a formal, comprehensive plan to address and improve its financial position or monitor its financial condition.

Effect of Condition

Without a formal comprehensive plan to monitor financial condition and address cash flow issues, the Authority is unable to ensure that it can meet its financial obligations and continue operations.

Recommendations

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 future loan payments.

- 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 North Bonneville Public Development Authority would like to thank the State Auditor's Office (SAO) for the thorough and concise audit, conducted this June 2018. Once again, this service provided valuable insights to our PDA policies/practices, as well as our procedures at the Cannabis Corner.

The Authority is committed to complying with applicable laws and regulations set forth by the State Auditor's Office. We appreciate the opportunity to reply and demonstrate our efforts to implement procedural changes that ensure current and future compliance.

The Authority acknowledges the concerns outlined in this year's finding regarding our financial condition, specifically regarding the ability to meet our debt obligation in the form of a balloon payment in December 2019. Though we have placed concentrated effort toward debt reduction throughout 2016-2017, (reducing our debt from $294,534 in 2016 to $244,111 as of December 2017 and $198,749 as of this writing and amortized at a reduced interest rate all but $79,486) we have faced many unexpected external challenges that have resulted in a reduction of cash-flow. We closely review our cash-flow and budget during quarterly meetings and make adjustments as necessary; constantly adjusting our budget to scale back expenses to ensure they coincide with reductions to income. To further ensure this reduced income does not adversely affect our ability to meet all of our obligations, we welcome the recommendation of a formal, comprehensive financial plan.

Auditor's Remarks

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

NORTH BONNEVILLE PUBLIC DEVELOPMENT AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Cannabis Corner
Skamania County
January 1, 2016 through December 31, 2017

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

Audit Period: January 1, 2013 – December 31, 2015	**Report Ref. No.:** 1018380	**Finding Ref. No.:** 2015-001
Finding Caption: The North Bonneville Public Development Authority Board provided inadequate oversight of payments and contracts.		
Background: The North Bonneville Public Development Authority created a subsidiary in 2014 for the purpose of developing a property for the Authority's later use. The Authority entered into a Development Agreement with its Subsidiary whereby it agreed to be responsible for all loan agreements it entered into. Overall, the Authority assumed responsibility for about $243,000 in loan obligations. The audit noted concerns with the formation and contract with the subsidiary, lack of monitoring of the subsidiary financial activities and Authority payments, as well as concerns with the Authority not maintaining separate financial records from the Subsidiary.		
Status of Corrective Action: (check one)		
☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected / ☐ Finding is considered no longer valid
Corrective Action Taken: *The Authority considers the finding of the State Auditor's Office in 2016 regarding our 2013-2015 Accountability Audit that the Board of Directors did not provide adequate oversight of payments and contracts to be fully corrected with the subsequently listed remedies. All financial records of the Authority and subsidiaries are recorded in a central Quickbooks accounting system. All expenditure reports, presented to the Board for approval, are taken directly from the Quickbooks accounting system reporting functions. All bank reconciliations are recorded in the same Quickbooks system and presented to the Board. All invoices, warrents, and vouchers are reviewed by the Board including a detailed review of random*		

invoices conducted monthly by the Board President and Treasurer. Additionally, the Authority enlists the services of its legal counsel in all rental and loan contracts and approvals for the same contracts are given with a consensus of the Authority's Board members. We feel the preceding corrective actions sufficiently address the finding of the SAO.

INFORMATION ABOUT THE AUTHORITY

The North Bonneville Public Development Authority is a special purpose government created by the City of North Bonneville for the express purpose of administering sales of marijuana and related goods to the public. The Authority employs eight people in a combination of full- and part-time positions.

The Authority is governed by a board consisting of five members initially appointed by the City. Subsequent board vacancies are appointed by the Authority's board. The Authority's retail location "The Cannabis Corner" began sale operations in April 2015.

During fiscal years 2016 and 2017, the Authority generated $1.55 and $1.43 million of revenues, respectively. The Authority also created a separate legal entity, 484 Evergreen Drive, LLC (Subsidiary) in 2014 for the purpose of developing a property for the Authority's later use. The governing body of both entities were comprised of the same individuals. The Subsidiary is currently inactive.

Contact information related to this report	
Address:	Cannabis Corner 102 CBD Mall Drive No. 3 P.O. Box 376 North Bonneville, WA 98639-0376
Contact:	Robyn Legun, Executive Director
Telephone:	(509) 427-0200
Website:	http://www.northbonnevillepda.org/

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Cannabis Corner 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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov