



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Port of Dewatto

Mason County

For the period January 1, 2013 through December 31, 2016

Published September 7, 2017

Report No. 1019775





Office of the Washington State Auditor
Pat McCarthy

September 7, 2017

Board of Commissioners
Port of Dewatto
Belfair, 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 Port 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 report on the Port's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for 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

TABLE OF CONTENTS

Audit Summary.....	4
Schedule Of Audit Findings And Responses.....	6
Information About The Port.....	12
About The State Auditor’s Office.....	13

AUDIT SUMMARY

Results in brief

In most areas we audited, Port operations complied with applicable requirements and provided adequate safeguarding of public resources. The Port also complied with state laws and regulations and its own policies and procedures in most areas we examined.

However, we identified areas in which the Port could make improvements:

- Review the annual financial statements to ensure accuracy and timely submission
- Review cash receipts to ensure funds are deposited daily and completely and that funds are remitted to the County at least weekly
- Establish a written policy or contract to outline employee leave accrual rates and usage, and compensatory time guidelines
- Monitor employee leave and compensatory time balances
- Ensure employee timesheets show dates and hours worked
- Ensure Board minutes, public notices and adequate support for payments are properly retained

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Port of Dewatto from January 1, 2013 through December 31, 2016.

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.

Our audit involved performing procedures to obtain evidence about the Port'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, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Accounting/financial reporting
- Cash receipting
- Open public meeting minutes

- Payroll/personnel
- Payments/expenditures
- Financial condition

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The Port did not have adequate internal controls over financial reporting, cash receipting, payroll and records retention to ensure compliance with state laws and safeguarding of public resources.

Background

The Port of Dewatto maintains a natural and primitive campground with 60 campsites on the Dewatto River in Mason County. In 2016, the Port receipted about \$15,000 in campground fees and \$40,000 in taxes, of which \$40,000 was spent on payroll. Citizens rely on the Port to establish effective internal controls to ensure compliance with laws and policies and the safeguarding of public resources. Our audit found the District did not have effective internal controls over financial reporting, cash receipting, payroll, and the retention of records. The District has one full-time employee and occasional part-time employees.

Description of Condition

We identified the following deficiencies in internal controls:

- **Financial reporting:** The Port did not maintain an accurate or reliable method for tracking accounting activity, including cash, revenues and expenditures. Our audit found the annual financial reports submitted to our office were incomplete and unsupported.
- **Cash receipting:** Duties were not adequately separated because the Director receipted cash and prepared the deposits with no independent review. In addition, deposits were not made to the bank or remitted to the County promptly.
- **Payroll:**
 - Timesheets were not retained or prepared for part-time employees. Some timesheets listed only total hours for the month.
 - Annual and sick leave accrual rates and usage were not outlined in a contract or policy.
 - Leave balances were not tracked.
 - There was no contract or policy outlining required work hours or when compensatory time could be earned. However, the Director was accruing compensatory time.

- **Records retention:** The Port did not maintain a filing system to adequately organize or retain required records.

Cause of Condition

The Port Commissioners did not provide adequate monitoring or oversight to ensure annual reports were completed or accurate, policies and procedures were in place to adequately safeguard public resources, and records were properly retained.

Effect of Condition

Financial reporting

- The annual reports for fiscal years 2013 and 2015 were submitted on time, but were not accurate. The annual report for 2014 was submitted 730 days late. It was not submitted until our current audit. Our audit identified the following misstatements:
 - 2013 reported only a transportation expense and nothing else.
 - 2015 did not report campground revenues of \$20,000, which was about 20 percent of total revenues
 - 2013 and 2015 beginning and ending cash were missing or incorrect.
- We allowed the Port three months to correct the 2013 and 2015 financial reports and to submit the 2014 and 2016 financial reports. However, the reports still had the following errors:
 - Ending cash reported each year did not agree to starting cash of the next year. Ending cash for 2014 was \$63,409, but starting cash for 2015 was \$170,816, an overstatement of \$107,407. Ending cash for 2015 was \$212,676, but starting cash for 2016 was \$52,340, an understatement of \$160,336.

Cash receipting

- We found \$84 more deposited than listed on the campground envelopes for July and August of 2016. The envelope sequence was not in order, so we could not determine if all envelopes had been retained and all receipted funds had been deposited.
- Receipted funds were not deposited daily, as statute requires. In the two months tested, we found only four deposits totaling \$9,839.

- Funds deposited into the campground bank account were not being remitted to the County promptly. We found only one remittance of \$36,354 for April 2015 through December 2016.

Payroll

Without timesheets for part time employees and a policy or contract outlining the accrual, use and monitoring of sick, vacation, and compensatory time, the Port faces increased risk that time reported and used will not be authorized and accurate.

Records retention

The Port was unable to provide the following items:

- Board meeting minutes for January, February and November 2015
- Notice given to the public that was posted on the building when Commission meetings' time or date changed, which occurred frequently during the audit period
- Invoices for \$1,107 of disbursements tested. Explanations were given, but support was not provided for payments to a Board member and employee for work done, nor for payments to a security company and petty cash
- Support for petty cash payments totaling \$14,169 for January 2014 to April 2015.

Recommendation

We recommend the Port Commissioners provide adequate monitoring, ensure policies and procedures are in place to adequately safeguard public resources and ensure records are properly retained.

Specifically, we recommend the Port:

- Review the annual financial statements to ensure accuracy and timely submission
- Review cash receipts to ensure funds are deposited daily and completely and that funds are remitted to the County at least weekly
- Establish a written policy or contract to outline employee leave accrual rates and usage, and compensatory time guidelines

- Monitor employee leave and compensatory time balances
- Ensure employee timesheets show dates and hours worked
- Ensure Board minutes, public notices and adequate support for payments are properly retained.

Port's Response

The Port of Dewatto lost their previous Director, in 2015. Although her death was not sudden, it was quick. The Director had been amazing at keeping things in line for the many years she managed the port. It was found that in the later years, leading up to her passing, there were somethings that had been neglected, done incorrectly, or lost. Because the Director did not keep a desk guide, a list of passwords, and did not do port work on the computer, there was nothing to pass on to a new director when taking her place.

It was not a lot of time after the Director had slowed her work with the port that the commission needed to hire someone to take her place. In the short time between her illness and her death, the Director shared very little experience with the new Director. The duties to follow the new Director starting day were unknown to even the commission. She had to learn not just port rules and regulations, but the uniqueness of the Port of Dewatto. In this transition, and after learning enough to get started, there needed to be new passwords, rules, bank accounts, and other port needs met. The lack of experience in hiring a new port director was expected since the previous Director had been here since the beginning of this port. The expectations expressed by the commission at that time, were short and quick.

Since the hiring of the new Port Director, the port has delegated the financial reports and payroll to a local bookkeeping office. Office procedures have been put in place and a desk guide has been started now that we know more of the Port needs.

The job description that the previous Director was hired to was the one made for Director by our previous lawyer, who has since retired. There will be an appointment made soon to meet with the new lawyer to make a new job description that better suits our current director. In the last 8 months, the new Director has made timesheets that reflect duties accomplished, compensatory time earned, and leave used. These timesheets are presented to the commission at each meeting and signed off upon approval. The new Director will be working with the county offices and bookkeeper to correct reports done back to 2013.

We would like to thank the county offices and other local ports for helping us in this time of loss and transition. We would also like to thank our community for being patient with us while we are working to better meet their needs and ideas.

Auditor's Remarks

We thank the Port for its cooperation and assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the Port's corrective action during our next audit.

Applicable Laws and Regulations

RCW 43.09.230 Local government accounting—Annual reports—Comparative statistics, states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government, to which power has been delegated by the state to create a public debt, showing the purpose for which each item of the debt was

created, and the provisions made for the payment thereof; (3) a classified statement of all receipts and expenditures by any public institution; and (4) a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement; together with such other information as may be required by the state auditor.

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

Budgeting, Accounting and Reporting Systems (BARS) manual, Accounting Principles and Internal Control, states in part:

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.

INFORMATION ABOUT THE PORT

The Port of Dewatto was formed in 1927 and is located on the Kitsap Peninsula in north Mason County. The Port overlooks Hood Canal and the Olympic Mountains. The Port maintains a natural and primitive campground on the Dewatto River and operates on a budget of \$80,000. The Port's main revenue source is property taxes and user fees from the campground, which is open year round.

A three-member Board of Commissioners governs the District.

Contact information related to this report	
Address:	Port of Dewatto P.O. Box 1483 Belfair, WA 98528
Contact:	Leanna Krotzer, Director
Telephone:	(360) 265-4618
Website:	www.dewattoport.com

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Port of Dewatto 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