



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Port of Brownsville

For the period January 1, 2017 through December 31, 2019

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

January 21, 2021

Board of Commissioners
Port of Brownsville
Bremerton, 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 Port 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 Port'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

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Port operations did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the Port 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 Port could make improvements. These recommendations are included with our report as findings.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

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 Port of Brownsville from January 1, 2017 through December 31, 2019.

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 obtaining 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. 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, 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, credit cards, travel expenditures, employee reimbursements, and petty cash replenishments
- Tracking and monitoring of theft sensitive assets, such as computers, tools, equipment, boats and boat trailers
- Surplus vehicles – disposition and receipt of sales proceeds

- Compliance with boating facilities state grant requirements
- Cash receipting – timeliness and completeness of deposits at the main office and fuel docks, and receipting of credit card rewards and lease revenue
- Payroll – retroactive merit payments and timekeeping
- Budget compliance

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-001 The Port did not have adequate internal controls over financial operations and assets to avoid the risk of misappropriation.

Background

The Port of Brownsville is governed by a three-member Board and employs a full-time Port Manager and Office Administrator/Auditor. The Port receipts about \$1.2 to \$1.4 million a year for providing services at two locations – the main office and fuel dock – and spends about \$1.3 million a year on operating expenditures, \$300,000 of which are payroll costs.

Description of Condition

The Port did not have adequate procedures in place over accounts payable, safeguarding of theft-sensitive assets, payroll, and cash receipting activity to safeguard public funds. We identified the following control deficiencies:

Accounts payable

The Port did not obtain adequate supporting documentation to determine if purchases were made for allowable Port use, including travel, other general purchases, and petty cash replenishments.

Theft-sensitive assets

The Port did not have adequate controls in place to ensure theft-sensitive assets were identified, tracked, and securely stored. The Port's asset listing was not complete nor did it have sufficient detail to identify assets. The Port's controls were also inadequate to ensure theft-sensitive assets were only used for Port purposes. In addition, the Port did not follow its policy regarding disposal of assets.

Payroll

The Port did not include sufficient detail on employee timesheets to ensure payroll charges to grants or projects were valid. Also, the Port did not have adequate controls to identify retroactive merit pay was unallowable.

Cash receipting

The Port did not have adequate controls to ensure all funds were accounted for and deposited in a timely manner.

Cause of Condition

The Port experienced significant turnover in key management positions during 2017 and 2018, contributing to a lack of adequate oversight to ensure employees followed Port policies related to the areas described within this finding. Additionally, the Board did not hold staff and management accountable for following its policies and procedures designed to safeguard public resources.

Effect of Condition

Inadequate internal controls over accounts payable, safeguarding of theft-sensitive assets, payroll, and cash receipting increase the risk that a loss, misuse or misappropriation of public funds or assets could occur and not be detected by management in a timely manner, if at all.

Accounts payable

The Port did not obtain adequate supporting documentation to determine if purchases were made for allowable Port use. Our examination of purchases found 64 of 151 purchases tested, totaling \$21,634, were not adequately supported.

Without adequate internal controls and procedures over disbursement activities, the Port cannot ensure payments are for an allowable public purpose or that assets purchased are for Port business.

Theft-sensitive assets

We identified the following issues caused by the control deficiencies identified above:

- A welder from the Port's asset listing could not be located.
- We were unable to match 14 assets, including a boat, boat trailers, tractor and other small equipment, to the Port's asset listing because of insufficient or inaccurate detail on the listing.
- The Port sold a 1990 Dodge truck to a related party for \$500. The Port could not provide the Asset Disposal Form for the truck, as required by Port policy. Additionally, the Port had no documentation to show how it conducted the sale (such as by auction, advertised, request for offers, or direct offer to the buyer) or the approximate value of the truck to ensure it was sold for an appropriate price and in compliance with its own policies and state law.

In addition to the issues identified above, Port assets were used by members of the public and by Port employees to perform work for the Port's tenants for non-Port services. There is a risk that Port employees are receiving personal gain from these services with unallowable use of Port equipment.

Payroll

Unsupported payroll costs charged to grants could result in a risk of the granting agency requesting the return of grant funds and reduced grant funding in future years.

Additionally, in August 2017, the Port approved and paid an unallowable retroactive merit payment of \$2,630 to the Interim Port Manager for services performed since May 2017, prior to his appointment as the Interim Port Manager. The retroactive payment was not allowable because the Port did not establish the Port Manager expectations before the period of service for which the payment was made.

Cash receipting

The Port did not deposit 17 of 164 cash receipts, located at the main office and the fuel dock, in a timely manner (within one day). Our examination of deposits found five instances of cash back to the Port employee totaling \$195. The Port explained it used the cash to make change for its change drawer. However, the Port did not provide adequate documentation to support its use.

Additionally, the Port did not collect and deposit all revenue it was owed, including cash earned from credit card rewards totaling \$1,175 and revenue owed for the use of the Port's annex space in the amount of \$3,151.

Recommendations

We recommend the Port strengthen internal controls over the following areas to ensure compliance with state and local policies and avoid the risk of misappropriation. Specifically, we recommend the Port:

Accounts payable

- Establish adequate monitoring procedures to ensure purchases and travel expenditures are made only for allowable and valid public purposes
- Require supporting documentation for all transactions to demonstrate the public purpose and compliance with applicable laws and Port policies

Theft-sensitive assets

- Identify assets as Port property and implement controls to ensure assets are used only for Port business by Port employees
- Ensure the list of theft-sensitive assets includes all information required by the *Budgeting, Accounting and Reporting System* (BARS) manual and sufficient detail to accurately identify assets
- Strengthen asset and inventory policies to include attributes such as inventory frequency, who is responsible for performing the inventory, and procedures for following up on missing assets
- Update the asset list for additions, transfers or deletions in a timely manner, and ensure changes are reviewed by someone independent of the inventory to ensure changes are complete and accurate
- Ensure assets are disposed of properly in accordance with Port policy and that adequate supporting documentation is maintained

Payroll

- Ensure timesheets provide sufficient detail to support payroll charges to grants, when applicable
- Ensure unallowable retroactive payments are not given to Port employees

We further recommend the Port conduct additional legal review to determine if any further actions, such as repayment for the retroactive payment, are necessary or required by law.

Cash receipting

- Ensure all receipts are deposited daily in accordance with RCW 43.09.240
- Strengthen controls to adequately track cash back from the bank to its use in the change funds to ensure all funds are accounted for
- Ensure all revenues due to the Port are received and receipted in a timely manner

Port's Response

The Port of Brownsville would like to thank the Washington State Auditor's Office for its review of the Port's internal controls over its financial operations and assets to avoid the risk of misappropriation. The Port acknowledges prior deficiencies in its application of internal controls over financial operations and assets did occur. Most if not all of the issues raised in the audit related to the conduct of the Port's prior contracted CPA and prior Port staff. The Port Commission respectfully

disagrees with and disputes the statement that “the Board did not hold staff and management accountable”.

The following is the Port’s response to the noted deficiencies in regards to lack of internal controls over financial operations and assets to avoid the risk of misappropriation:

Summary

The Port is committed to strengthening its internal controls over financial operations and assets to avoid the risk of misappropriation to ensure compliance with state and local policies and to avoid the risk of misappropriation. The Port has used this audit process to assist them in identifying the areas that the Port needs to develop additional resources to be in compliance including attendance at multiple finance presentations, ongoing review of the BARS manual, hiring new CPA and legal firms with state-wide Port expertise and to develop additional internal procedures to govern all such activities. The Port appreciates the State Auditor Office’s audit of the Port’s financial operations and assets to help the Port to improve its compliance with the state and local policies.

This is a summary of the Port’s response. Please see the Port’s full response online at the Port of Brownsville website located here: <https://portofbrownsville.org> or obtain a copy by request from the Port office by phone or email at the following contact numbers: Port of Brownsville office 360-692-5498 or by email: pob@portofbrownsville.org

Auditor’s Remarks

We understand the Board is currently working to hold the staff and management accountable for Port policies and procedures; however, we reaffirm during the audit period this was a cause, in part, of the issues reported in this Finding. We will review and confirm that the internal controls associated with ensuring the Port’s financial operations and asset safeguards are in place and functioning as designed during our next audit.

We appreciate the Port’s willingness to address the concerns cited and look forward to a positive working relationship in the future.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting – Uniform system of accounting

RCW 43.09.2855, Local governments – Use of credit cards

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.1.3, Internal Control

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.8.4, Accounting, Expenditures, Purchase Cards,

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

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.6.1 – Accounting Principles and Controls, Revenues, Cash Receipting

Attorney General Opinion (AGO) 1995 No. 13

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-002 The Port did not comply with state grant requirements for its Boat Launch project.

Background

The Port was awarded a \$653,616 grant from the state Recreation and Conservation Office (RCO) in October 2017 for its Boat Launch project. The Port was required to provide \$217,873 in matching funds to bring total project funding to \$871,489. The scope of the Boat Launch project included replacement of the existing two-lane concrete boat launch and boarding float, and resurfacing the adjacent asphalt staging area. The project was to be performed between February 16, 2018 and December 31, 2019.

Description of Condition

We reviewed the Port's compliance with the state grant requirements identified in the RCO manual and the Funding Board Project Agreement (Agreement) between RCO and the Port. The Port did not comply with requirements related to procurement of engineering, public works services, allowable costs, and providing matching funds

Procurement – architectural and engineering services

The engineering firm procured in 2016 for the Boat Launch project notified the Port around September 2017 that it could no longer provide engineering services. The contract balance was \$6,616. The Port chose not to enforce the existing contract and instead awarded a new contract for engineering services in the amount of \$49,180 to a new firm owned by the former project manager from the previously awarded firm. The new contract was amended to include an additional \$59,875 for construction management services. The Port did not put out a request for proposals, as required, before awarding the new contract or adding the additional construction management services.

Procurement – public works

The Port awarded a construction contract for \$763,240 for the Boat Launch project in July 2018. It released the related retainage of \$34,511 to the contractor in November 2019. The Port did not comply with the following state procurement requirements for public works projects:

- The Port did not include all of the required prevailing wage information in the bid specifications and contract.

- The Port did not obtain a signed statement from the winning bidder certifying that it complied with responsible bidder criteria before entering into the contact.
- The Port could not provide documentation showing it gave final acceptance of the project before releasing the retainage. In addition, the Port did not obtain the required approvals from the Department of Labor and Industries and Department of Revenue before releasing retainage.

Allowable costs

Under the Agreement, only allowable costs incurred during the project period were eligible for reimbursement, unless specifically provided for in the Agreement or applicable RCO manual. We found \$7,445 of unallowable pre-award costs and \$2,659 in duplicate charges by the contractor that were claimed as allowable costs, of which \$7,578 was inappropriately reimbursed by the grantor.

Matching funds

The Port needed to provide at least 25 percent of the project costs as its matching share. Costs must be eligible for the grant to be allowed as match. As identified above, the Port was reimbursed for unallowable costs. Therefore, the Port claimed \$2,526 of matching funds for these unallowable grant costs.

Cause of Condition

The Port relied on the contracted project manager to provide services to ensure compliance with grant requirements, including but not limited to identification of allowable grant costs, preparation of bid specifications and documents, and preparation of the construction contract. However, the Port's management and officials did not provide adequate oversight to ensure compliance with the requirements. In addition, Port management and officials did not have adequate knowledge of procurement requirements to ensure compliance with state requirements.

Effect of Condition

Noncompliance with state grant requirements could result in the granting agency requesting the return of grant funds. Noncompliance could also result in a risk of reduced grant funding in future years.

In addition, releasing retainage withheld on construction contracts before obtaining the required releases from state agencies increases the Port's potential liability for claims against the contractor.

Recommendations

We recommend the Port strengthen internal controls over grant management to ensure compliance with applicable state grant requirements. Specifically, the Port should:

- Comply with applicable requirements for procurement of architectural and engineering services and public works
- Ensure all required prevailing wage language is included in public work project bid specifications and contracts
- Obtain all required documentation before releasing retainage for public work contracts
- Ensure only allowable costs are requested for reimbursement and meeting matching requirements

Port's Response

The Port of Brownsville would like to thank the Washington State Auditor's Office for its review of the Port's compliance with the state grant requirements for its Boat Launch project. The Port acknowledges prior deficiencies in its compliance with various components of the state grant for its Boat Launch project. Most if not all of the issues raised in the audit related to the conduct of the Port's prior CPA and prior contracted engineering firm who was hired to manage the project. The Port Commission recognized the need to replace the Port's CPA and has retained a new outside CPA firm with extensive experience and specifically Washington Public Port experience.

Summary

The Port is committed to strengthening its internal controls over grant management to ensure compliance with state grant and procurement requirements. The Port has used this audit process to assist them in identifying the areas that the Port needs to develop additional resources to be in compliance including attendance at multiple finance presentations, ongoing review of the BARS manual, hiring new CPA and legal firms with state-wide Port expertise and to develop additional internal procedures to govern all such activities. The Port is engaging in a review of all of its procurement and related policies to assure compliance with state law, and will engage in internal training of staff and Commissioners related to these policies. The Port appreciates the State Auditor Office's audit of the grant files to help the Port to improve its oversight and monitoring of future projects.

This is a summary of the Port's response. Please see the Port's full response online at the Port of Brownsville website located here: <https://portofbrownsville.org> or obtain a copy by request from the Port office by phone or email at the following

contact numbers: Port of Brownsville office 360-692-5498 or by email: pob@portofbrownsville.org

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 Regulations

Chapter 39.80 RCW, Contracts for Architectural and Engineering Services

Funding Board Project Agreement between the Recreation and Conservation Office and Port of Brownsville

Recreation and Conservation Office Grant Manual 4: Development Projects, Section 2: Eligible Development Projects

Recreation and Conservation Office Grant Manual 9: Boating Facilities Program, Section 3: Money Matters

RELATED REPORTS

Financial

Our opinion on the Port's financial statements is provided in a separate report, which includes the Port's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding the preparation of the fiscal year 2017 financial statements.

Special investigations

The State Auditor's Office issued a report on a misappropriation of public funds at the Port. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE PORT

The Port of Brownsville was formed by a vote of the people in 1920 to enhance the economic development in Kitsap County. The Port consists of a marina for approximately 320 permanent boats, which includes 48 privately owned boathouses plus 45 moorage slips and 350 linier feet for guest boaters. The Port has a fuel dock, launch ramp, fishing dock, an upland, and waterfront park.

An elected Board of three Commissioners governs the Port. The Board hires a Manager to oversee the Port's daily operations as well as its five full-time employees. The Port received operating revenues of approximately \$1.96 million, \$2.42 million and \$1.67 million in 2019, 2018 and 2017, respectively.

Contact information related to this report

Address:	Port of Brownsville 9790 Ogle Road N.E. Bremerton, WA 98310
Contact:	Shaun Nye, Commission President
Telephone:	(360) 908-3702
Website:	www.portofbrownsville.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Port of Brownsville 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	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov