

**Office of the Washington State Auditor (SAO)  
Port of Brownsville (Port)  
Accountability Audit Report  
For the period January 1, 2017 through December 31, 2019  
Published January 21, 2021  
Report No. 1027689**

**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.**

**Port's Full Response:**

The following represents the Port's full response to the SAO's Accountability Finding 2019-001 that was originally provided in full to SAO. The SAO's published version included a summary version of the Port's full 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:

**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.

In 2019, the Port of Brownsville was working on multiple financial projects, including the inhouse reconciling of their books and records from 2017 forward. As a part of that reconciliation process, accounts were traced back to their supporting documentation. The tracing process revealed various discrepancies with an employee's purchases that were determined to not have gone through the appropriate levels of approval and were not for allowable Port use. The matter was brought forward to the Port Commission and the employee was placed on administrative leave. As required by the state rules governing such matters, the information pertaining to the potential misappropriation of Port assets was reported to the Washington State Auditor's Office who then commenced an investigation.

The Port staff and Port Commission has reviewed its policies and implemented multiple levels of procedures to ensure that all purchases are made with the appropriate levels of approval and are for allowable Port use, that all purchases are checked into the Port by someone other than the purchaser and the review and allowable Port use is documented for each purchase, that the supporting invoices, receipts and delivery documents are all retained as supporting documentation for the payment either by credit card or check.

#### Accounts Payable - Travel and Petty Cash

The Port recognizes that some of its differences with its prior policies regarding travel expenses and petty cash did not necessarily reflect that any misappropriations occurred, and that they utilized the Port's long-standing policies that had been followed for many years.

The Port has taken into consideration the Internal Revenue Service and the BARS manual to update its travel and petty cash procedures and documentation requirements.

#### Travel

The Port recognized that its policies involving documentation of travel expenses went beyond the standard five W's (who, what, where, when, why), which were included on its expense reports, and also required an additional reconciliation to the time of day for the travel expenses, which is not a usual travel requirement when one is in travel status on an approved event. It is important to note that some of the noted differences in travel expenditures pertain to the Port's prior procedure that the Port document the determination of the time of the travel meal expenditure to the allowed time of the day, even though the expenditure occurred within the travel day.

The Port is updating its expense report format to follow more closely the recommendations from the BARS manual.

#### Petty Cash

Previously the Port utilized a petty cash fund for reimbursement of small amounts of tenant marina key deposit refunds and other immaterial reimbursements, in addition to maintaining two cash tills for the fuel dock and office.

The Port has eliminated all uses of the petty cash fund for small amounts of tenant marina key deposit refunds and other immaterial reimbursements and will eliminate this petty cash fund formally in 2021 as it is no longer used. All key deposit refunds and other small reimbursements now go through the Port's formal payables process and once approved are reimbursed by check through the Port's payables review process. The Port will continue to maintain the two cash tills for the fuel dock and office until the time that the Port transitions to electronic payments only in

the future. The Port will maintain its existing start of the day and end of the day cash reconciling procedures and documentation.

### 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.

The Port has devoted significant time and efforts to comply with recommended controls to ensure that all theft-sensitive assets are identified, tracked and securely stored, including expanding its asset listing to be comprehensive and updated on a regular basis. The Port is utilizing the BARS manual and sufficient detail to accurately identify the Port's assets. The Port has now established procedures to update and maintain its assets listing for capital and small and attractive assets, resolution of any missing assets and the oversight by designated individuals. All activities are reviewed by someone independent of the inventory process. All assets being disposed are required to follow the Port's and BARS respective requirements, including declaring the assets as surplus and related requirements. The Port has established steps to ensure that its policies regarding asset acquisition, retention and disposition follow the Port's and BARS prescribed policies.

The Port's missing welder and other Port assets were returned to the Port by a former Port employee.

Previously the Port's insurance company reimbursed the Port for the cost of a replacement trailer, less the \$1,000 deductible for the theft of an employee's personal trailer located at the Port being utilized by the Port. After the theft, the Port purchased a replacement trailer for the Port employee. The WA State Auditor's Office asked that the Port attempt to identify if the vin number of the stolen trailer could be located in the state online records. When the requested search was performed, it revealed that the stolen trailer had been returned to the Port employee and that subsequently that the Port employee had sold the trailer. The recovery of the stolen trailer and its subsequent sale was not reported to the Port by the employee.

As required by the rules governing such matters, the information pertaining to the recovery and subsequent sale of the stolen trailer has been forwarded to the local authorities for investigation.

Some of the Port's equipment because of age and exposure to the marine environment have difficult to read identification labels. In addition, descriptions entered into the Ports accounting system did not always utilize the formal name for the asset. As such, some assets that were difficult to identify were subsequently located. The Port has pulled online pictures of the assets to compare to the difficult to determine assets for a better cross-reference process in the future.

The Port did not follow its own rules and the state rules in selling a Port truck to a related party for \$500.

The Port has reviewed the BARS manual for the requirements and its own policies and will comply with all policies and requirements in the future.

It was determined that Port assets were used by members of the public and by Port employees to perform work for the Port's tenants and for non-Port services. There is a risk that Port employees are receiving personal gain from such unallowable use of Port equipment.

Upon discovering this situation, the Port issued an attest statement that all Port employees were required to sign that they acknowledged that any personal use of Port assets could result in disciplinary measures, up to termination, of which 100% of the Port employees signed. The Port also utilized the Port's monthly newsletter to inform the Port tenants that personal use of Port equipment was not allowed.

#### 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.

The Port has enhanced its payroll records to include documentation for all charges used for grant reimbursements and project tracking.

The Port acknowledges that retroactive pay of \$2,630 to the Interim Port Manager in 2017, is unallowable as it did not meet the requirements to establish the expectations before the period of services for which the payment was made.

#### Cash Receipting

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

Upon being brought to their attention, the Port has reviewed twenty-four-hour deposit rule and complies with this requirement on a go-forward basis. The Port had mistakenly been informed previously that due to their size, that if needed, that they could have additional time to make the deposit that was kept in a locked safe until the deposit was made. The Port is aware now that such a provision is not allowed.

Immediately during the audit, upon being made aware of the need for additional steps and reconciliations for when the Port needs to purchase quarters for its laundry machines use, the Port implemented new procedures and documentation to handle such transactions. Also,

immediately during the audit, the Port has changed the process to make change for its office cash till and has added additional documentation, if it occurs.

The Port deposited the cash earned from the credit card rewards into the Port's general fund in 2019, and will continue to do so in the future, if it participates in any reward programs. However, in June of 2019, the Port changed its credit card and it does not currently participate in a reward program.

The Port has reviewed the policies governing best practices in letting potential tenants take occupancy prior to completion of obtaining any prescribed deposits and the execution of lease documents and will instruct Port management to work with Port legal to determine that all lease contracts are proper and fully executed before occupancy occurs so as to ensure that a public gift of funds does not occur.

Several of the issues identified in the audit period were Port prescribed practices that were in place prior to the audit period. The Port appreciates that they were called out so that the Port can make the appropriate changes to be in compliance with the rules and regulations governing Port districts. While staff had turned over during the audit period, the staff were following many of the policies that were already in place at the Port. The Port has devoted extensive time and efforts to address the areas identified and is committed to continue to review and update its policies and procedures in accordance with the BARS manual on a go-forward basis.

Historically, the Port's prior long-term Port manager did not participate in the Washington Public Ports Association (WPPA) meetings, annual conferences, committee involvement and ongoing continuing education. WPPA provides a wealth of knowledge and resources that Port districts can use to effectively manage their operations in accordance with state and local guidelines governing Port districts. The WPPA meetings, annual conferences and ongoing continuing education have covered the rules and regulations governing many of the noncompliance items that have resulted in the findings listed herein. The Port has committed to supporting the Port management's involvement and attendance at WPPA's ongoing meetings and conferences and the SAO's BARS manual updates and continual guidance and educational opportunities.

## 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.