

**Office of the Washington State Auditor (SAO)
Port of Brownsville (Port)
Financial Statements Audit Report
For the period January 1, 2017 through December 31, 2019
Published January 21, 2021
Report No. 1027690**

Schedule of Audit Findings and Responses

2019-001 The Port's internal controls over accounting and financial statement reporting were inadequate to ensure accurate, complete and timely reporting.

Port's Full Response:

The following represents the Port's full response to the SAO's Financial Statements 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 financial statements. The Port acknowledges prior deficiencies in its review processes with its prior contracted CPA firm. Most if not all of the issues raised in the audit related to the conduct of the Port's prior CPA. 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. The Port strives to give a fair and accurate representation of its activities in its financial statements and has put in place a tighter financial review process. All identified deficiencies and the associated notes have been corrected in the restated financial statements by the Port's new contracted CPA firm.

Historically, the Port of Brownsville's outside contracted CPA firm was engaged to reconcile the Port's financial accounts, prepare the monthly journal entries, prepare monthly and annual financial statements and prepare the State Auditor's Annual Report, in addition to many other accounting duties. The Port acknowledges that it had received a management letter for fiscal years 2013 and 2014, and a finding for fiscal years 2015 and 2016, all pertaining to inadequate internal controls over financial reporting. The Port Commission directed Port staff and the Port's then CPA firm to establish the required internal controls. Throughout each of these years that required corrective actions, the Port Commission was assured by the prior outside CPA firm that the proper steps were being added and maintained to the Port's processes to assure that the Port complied with the required corrections needing to be made.

In the fall of 2018, when the State Auditor's Office came in to audit the 2017 financial statement, which was prepared by the prior outside CPA firm, it was determined by the State Auditor's Office that the 2017 financial statement needed significant corrections to bring it into compliance

with the current reporting standards and the Port would again receive a finding for deficient reporting.

The Port relieved the former Port General Manager of his duties, and retained an interim general manager with experience managing Washington Public Ports. The Port Commission has held the port management accountable for the failure to follow port policies and state law.

At that point the Port Commission reacted quickly and reached out to the Washington Public Ports Association and other Ports for assistance in hiring a CPA with long-term Port experience to correct and restate the 2017 financial statement. The Port contracted with a new CPA with long-term Port experience, who restated the 2017 financial statement to be in compliance with the current accounting standards and the current BARS reporting requirements. The new CPA also correctly prepared the 2018 and 2019 financial statements in accordance with the current accounting standards and the current BARS reporting requirements. In addition, the new CPA embarked on an internal training program, assisting the Port staff and Port Commission in upgrading internal control policies over multiple financial areas. The new internal control policies provide the Port with the internal controls to monitor and help to assure that all future reports will be in compliance with the latest accounting standards and reporting requirements.

The Port has taken this situation seriously and has invested significant efforts in turning this prior situation around. Since the last audit, the Port has made staff changes and retained a new contracted CPA as noted above. These transitions have resulted in the correctly reported 2017 restated financial statement and the 2018 and 2019 financial statements. In addition, in the fall of 2020, the Port also retained a new outside legal firm that has extensive experience with public entities, and specifically Public Ports.

The following is the Port's response to the noted deficiencies in its 2017 financial statement:

For the 2017 financial statement, the Port did not:

- 1) Have a review process over the monthly cash reconciliations performed by the CPA firm to ensure they were accurate.
- 2) Perform a secondary review to ensure the journal entries the CPA firm prepared were accurate and supported.
- 3) Have procedures in place to ensure new accounting standards were implemented.
- 4) Perform an adequate review of the financial statements and notes prepared by the CPA firm to ensure all required financial statement elements were prepared and the financial information was accurately reported and fairly presented under Budgeting, Accounting and Reporting System (BARS) requirements.

The interim general manager and contracted CPA have fully addressed the issues originally raised in the 2018 audit that occurred in 2020. In response to the above noted deficiencies in the 2017 financial statement, the Port has established the following recommended procedures along with other additional procedures to establish strong monitoring and oversight of the financial process:

- 1) The Port has established and is following strong monitoring oversight procedures to ensure that the monthly cash reconciliations are accurate, complete and adequately supported.
- 2) The Port expanded procedures includes that all journal entries prepared are accurate, supported and reviewed by the appropriate designated personnel.
- 3) The Port has provided additional and ongoing training to all staff involved with and responsible for oversight of financial reporting to ensure compliance with the BARS Cash Manual and applicable accounting standards.
- 4) The Port has established and follows a detailed and effective process for review of the financial statements by multiple persons, who understand the BARS Cash Manual financial reporting requirements, including detailed checklists, to ensure the financial statements are fairly presented, accurate and complete.

All identified deficiencies resulting in misstatements and presentation errors on the original 2017 financial statements have been completely corrected and properly reflected in the 2017 restated financial statements, without exception. All changes made to the original 2017 financial statements were detailed in the body of the restated financial statements and the notes to the 2017 restated financial statements for reference. The Port then applied these same accounting and reporting procedures to correctly prepare and present the 2018 and 2019 financial statements, without exception.

Summary

The Port is committed to strengthening its internal controls over accounting and financial statement reporting to ensure compliance with state and local 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 appreciates the State Auditor Office's audit of the financial statements to help the Port to improve its reporting requirements in the future.