

Washington State Auditor's Office
Accountability Audit Report

**Grays Harbor Public Development
Authority**
Grays Harbor County

Audit Period
January 1, 2001 through December 31, 2001

Report No. 63478

Issue Date
July 16, 2002



Washington _____
State Auditor
_____ Brian Sonntag

Audit Summary

Grays Harbor Public Development Authority Grays Harbor County January 1, 2001 through December 31, 2001

ABOUT THE AUDIT

This report contains the results of our independent audit of Grays Harbor Public Development Authority for the period January 1, 2001, through December 31, 2001.

Audit procedures were performed to determine whether the Authority complied with state laws and regulations and its own policies and procedures. We also evaluated internal controls established by Authority management. Our audit work focused on areas that have potential for abuse and misuse of public resources.

RESULTS

The Authority complied with state laws and regulations and its own policies and procedures in the areas we examined. We noted certain issues that we communicated to Authority management. Details on issues identified during the prior audit can be found in the Status of Prior Findings section of this report.

We appreciate the Authority's commitment to resolve the issues.

RELATED REPORTS

Our opinion on the Authority's financial statements is provided in a separate report, which includes the Authority's financial statements.

CLOSING REMARKS

We appreciate the Authority's prompt attention to resolving prior audit issues and its commitment to ensure compliance with conditions reported this audit. We also thank Authority officials and personnel for their assistance and cooperation during the audit.

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Grays Harbor County
January 1, 2001 through December 31, 2001**

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Description of the Authority

Grays Harbor Public Development Authority Grays Harbor County January 1, 2001 through December 31, 2001

ABOUT THE AUTHORITY

In 1998, the Grays Harbor County Commission, the Grays Harbor Public Utility District and the Port of Grays Harbor signed an agreement creating the Grays Harbor Public Development Authority. The Authority began operations in 1999. It is the successor organization to the Satsop Redevelopment Project, which was organized to examine the economic potential of the site of the never-completed Washington Public Power Supply System's (WPPSS) Satsop nuclear plant.

The Authority was organized to facilitate the redevelopment of the Satsop site. In a series of transactions in 1999, the Authority gained title to the land, roads and other site improvements from the Bonneville Power Administration (BPA), which took over management of the property from WPPSS after the system's bond default. By the end of 1999, the BPA had paid a total of \$15 million in seed money to the Authority to help it develop the property as a business park. A seven-member Board governs the Authority. The Grays Harbor County Commission, the Grays Harbor Public Utility District (PUD) and the Port of Grays Harbor each appoint one of their current Members. Those three Members appoint the remaining four Members who are to be civic or business leaders with expertise in finance, real estate development, law and/or construction projects. All Members must be residents of Grays Harbor County. The County Commissioners have final approval over all appointments made to the Authority's Board.

AUDIT HISTORY

This is the second audit of the Authority. The 1999/2000 audit contained several findings. Due to significant improvements made in Authority operations by its current management team, this audit report is free of findings.

APPOINTED OFFICIALS

These officials served during the audit period:

Board of Directors:
President

Jack Thompson (Port of Grays Harbor representative)
Bob Beerbower (Grays Harbor County representative)
Frank Moses (PUD representative)
Dr. William "Don" Wallace
Diane Ellison
Jack Durney
Ron Rogstad
Tami Garrow
Art Blauvelt of Ingram, Zelasko & Goodwin

CEO
Attorney

ADDRESS

Authority

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Audit Areas Examined

Grays Harbor Public Development Authority Grays Harbor County January 1, 2001 through December 31, 2001

In keeping with general auditing practices, we do not examine every portion of the Grays Harbor Public Development Authority's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the Authority were examined during this audit period:

ACCOUNTABILITY FOR PUBLIC RESOURCES

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Property and equipment
- Purchases of goods and services
- Leases
- Telecommunications program
- Payroll
- Journal entries
- Asset sales program
- Petty cash expenditures

LEGAL COMPLIANCE

We evaluated the following areas of the Authority's internal control structure:

- Open Public Meetings Act
- Conflict of interest
- Contracts and agreements
- Compliance with debt covenants
- Budgeting requirements
- Deposit and investment of public funds

FEDERAL PROGRAMS

We evaluated internal controls and tested compliance with federal requirements, as applicable, for the Authority's major federal programs, which are listed in the Federal Summary section of the financial statement and federal single audit report.

FINANCIAL AREAS

Our opinion on the Authority's financial statements is provided in a separate report, which includes the Authority's financial statements and other required financial information. The financial activity and balances were examined, which included a review of:

- Overall presentation of the financial statements
- Cash and investments
- Long-term debt
- Revenues and expenses
- Accounts payable
- Property, plant and equipment

Status of Prior Audit Findings

Grays Harbor Public Development Authority Grays Harbor County January 1, 2001 through December 31, 2001

The status of findings contained in prior audit reports of the Grays Harbor Public Development Authority is provided below:

Findings this audit: 0
Findings last audit: 5
Number of repeat findings: 0

- 1. The Authority entered into an arrangement with a private company to finance the company's development of computer software and related products. The Authority paid \$1,084,961 to the company and has no documentation showing any goods or services were received.**

Background

During the 1999/2000 audit, the Authority entered into a contract that had vague and conflicting terms. The Authority paid \$859,961 without receiving any measurable goods or services. The Authority eventually cancelled the contract and settled through arbitration at an additional cost of \$225,000.

Status

The Authority Board has become more involved in contracting situations. In recent Board meetings, Board Members have raised questions about contracts including concerns over contract length. Contract length now is being limited and contract status is being periodically reviewed.

We consider this finding resolved.

- 2. The Authority did not comply with state bid laws and had poor internal controls over contracts.**

Background

The prior audit noted two instances in which the Authority did not comply with statutory bid requirements.

Status

During the current audit, the Authority called for bids and awarded them to the lowest responsible bidder. The Authority is aware of bid requirements and has taken steps to ensure compliance in the future.

We consider this finding resolved.

3. The Authority loaned its credit to private companies.

Background

The prior audit noted two instances in which the Authority loaned its credit to private companies. The first instance was the purchase of furniture, fixtures and equipment for a tenant. The second instance occurred when the Authority guaranteed a construction loan for a private developer.

Status

The 2000 audit determined that for a six-month period, SafeHarbor had title to more than \$2 million in equipment noted in the furniture, fixtures and equipment lease agreement. During this time, SafeHarbor received a private bank loan. The company disclosed the outstanding Authority loan to the bank, however, the collateral in the loan documents was described as: "All personal property of the Borrower"

At the time the loan documents were signed, SafeHarbor had title to the equipment under the lease and the Authority had failed to file the required Uniform Commercial Code (UCC) documents in a timely manner.

UCC filings, which are required by state law, are designed to inform potential creditors that equipment being used by the business is actually owned by another company or government entity.

The original lease with SafeHarbor was signed on January 15, 1999, at which point the UCC should have been filed. The Authority filed its UCC on September 28, 2000. An amended lease was signed on March 30, 2000, granting title to SafeHarbor. The Authority discovered the UCC filed by the bank on June 20, 2000. The Authority could have lost title to the equipment had SafeHarbor defaulted on the bank loan. The loan was paid off and the lien was eliminated on September 25, 2000.

On October 1, 2000, the Authority revised the lease agreement so that the Authority owns the equipment until SafeHarbor pays the balance.

The Authority has purchased SafeHarbor Building No. 2 and paid off the construction loan.

SafeHarbor is scheduled to make a final balloon payment in June 2003 that will terminate the furniture, fixtures and equipment lease.

We will review the status of this issue during our next regularly scheduled audit.

4. The Authority improperly invested public funds.

Background

During 1999 and 2000, more than 40 percent of the Authority's investments did not comply with state law.

Status

Due to the penalties for early withdrawal, the improper investments are reinvested legally as they mature. Currently, the finance committee has meetings prior to monthly Board meetings to formulate investment plans to be presented to the Board.

We will review the status of this issue during our next regularly scheduled audit.

5. The Authority does not have adequate internal controls over payroll expenditures for leave.

Background

During the audit period, nine employees left the Authority's employment. We reviewed final payroll information for each of the nine and found that the Authority cashed out a total of \$75,518.28 in leave that had not been taken. When we recalculated the cash-outs based on information in offer of employment letters, we determined the amount should have been \$39,646, a difference of \$35,872. Of the nine calculations reviewed, only two had been done correctly.

Status

The Authority established new payroll policies specifically addressing the issues noted in the prior audit. The new policy calls for paid time off rather than vacation and sick leave. The policy also outlines the rights of employees who leave the Authority.

We consider this finding resolved.