



Office of the Washington State Auditor  
Pat McCarthy

## Accountability Audit Report

# Port of Illahee

For the period January 1, 2019 through December 31, 2021

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

April 27, 2023

Board of Commissioners  
Port of Illahee  
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 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 complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the Port could make improvements. These recommendations are included with our report as a finding.

We also noted certain matters related to financial reporting that we communicated to Port management and the Board of Commissioners in a letter dated April 18, 2023. We appreciate the Port's commitment to resolving those matters.

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 Illahee from January 1, 2019 through December 31, 2021.

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 Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Port's use 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, 2021, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Open public meetings – compliance with minutes, meetings and executive session requirements
- Procurement – public works, purchases, cooperative purchases, joint purchasing agreements, purchasing exemptions, and professional services

- Compliance with public work projects – prevailing wages
- Annual report filing – timeliness, completeness and accuracy
- Tenant leases – compliance with contract terms
- Accounts payable – general disbursements and credit card activity
- Financial condition – reviewing for indications of financial distress

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Port of Illahee January 1, 2019 through December 31, 2021

#### **2021-001 The Port did not have adequate internal controls for ensuring compliance with state procurement laws.**

##### *Background*

The Port supports the economic development of the Illahee area, and maintains the pier and dock at the foot of Ocean View in Kitsap County. The Port is governed by an elected, three-member Board of Commissioners and has an Administrator responsible for its day-to-day operations. The Port receives income from property taxes and residential rental properties.

When procuring architectural and engineering services, state law (Chapter 39.80 RCW) requires local governments to publish in advance their requirements for professional services and engage in a qualification-based selection process. Local governments can meet this requirement by either publishing an announcement each time they need a consultant to provide professional services, or generally announcing to the public their projected requirements for any category or type of professional service.

Additionally, the Port is subject to prevailing wage requirements set by state law (Chapter 39.12 RCW), which includes the requirement for all vendors to submit a Statement of Intent to Pay Prevailing Wages for public works projects before disbursing funds to them. Further, state law (RCW 35.61.135) requires an interlocal contract or agreement between entities relying on another's small works roster.

In the absence of specific requirements, written contracts and agreements are generally a key form of documentation necessary to safeguard entity interests and support transactions with significant relationships.

##### *Description of Condition*

The Port is undergoing a multi-year dock and waterfront renovation project with total costs expected to exceed \$2 million. The Port contracted architectural and engineering services without engaging in the required competitive, qualifications-based selection process, and it issued related payments of about \$198,000 during the audit period.

The Port also engaged in public works projects with capital expenditures totaling \$239,000 between 2020 and 2021; however, it disbursed funds without requiring vendors to complete the required prevailing wage intents for these projects. Further, any activities related to Port-owned residential properties would also be subject to prevailing wage requirements when projects involve a public works scope, including those managed by a third party.

The Port relies on another government's small works roster, but does not have an interlocal agreement established, as required by state law (RCW 39.04.155

### *Cause of Condition*

Port management and staff were not aware of state laws for procurement including those governing architectural and engineering projects or prevailing wage requirements.

### *Effect of Condition*

Procurement laws are intended to promote openness in government and prevent fraud, collusion and favoritism when awarding public contracts. Because the Port did not comply with procurement requirements for architectural and engineering services, it cannot be sure all interested firms had the opportunity to apply and that the most qualified firm performed the services.

Without ensuring prevailing wage intents and affidavits are filed, the Port does not have certification that all vendors meet requirements of the corresponding checks, and exposes itself to risk if disputes are filed.

Because the Port has not entered into a contract with the government whose small works roster they utilize, it has not satisfied its statutory requirements to use it.

### *Recommendation*

We recommend the Port:

- Establish internal controls over procurement to ensure compliance with state laws when contracting for architectural and engineering services
- Ensure all required vendors have filed prevailing wage documentation before making payments
- Establish an interlocal agreement to rely on another government's small works roster.

## ***Port's Response***

### ***Re: Architectural and Engineering Services***

*Several years ago, Port of Illahee commissioners announced and solicited recommendations at a public Kitsap All Ports meeting for a grant writer to assist them with grants to update their deteriorating dock and upland facilities. It was at that meeting various comments and recommendations were received and over a period of weeks commissioners conducted their own research and concluded that Sound West Engineering Associates was who they wanted to hire, primarily because Sound West was successful with obtaining grants for other Kitsap Port Districts and furthermore Sound West was recommended by the other ports for following up after the grants were awarded with the engineering support needed to complete their projects. It is likely, based on those recommendations, that had a solicitation gone out for those professional services, that the same engineering group would have been hired. However, should the Port require additional professional services, they will follow RCW/MRSC procedures to make sure they are considering all qualified firms.*

### ***Re: Prevailing Wages***

*Port of Illahee commissioners adopted Resolution 2023-3 "Procurement Policies and Procedures" which states "Prevailing wages shall be required for all public work projects." The Resolution covers the issue of prevailing wages.*

### ***Re: Small Works Roster Inter-Local Agreement (ILA)***

*The Port of Illahee will work with the Port of Silverdale to establish an Inter-Local Agreement to use the small works roster the Port of Silverdale makes available to the other Kitsap Port Districts.*

## ***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.

Chapter 39.12 RCW – Prevailing Wages on Public Works.



RCW 39.04.155 – Small works roster contract procedures—Limited public works process—Definitions.

*Budgeting, Accounting and Reporting System (BARS) Manual, Section 3.1.3 – Internal Control*

## INFORMATION ABOUT THE PORT

The Port of Illahee provides economic development of the Port and maintenance of the pier and floats commonly called "Illahee Dock" at the foot of Ocean View in Kitsap County.

An elected, three-member Board of Commissioners governs the Port.

The Port received annual revenue of approximately \$287,000 in 2019, \$129,000 in 2020, and \$210,000 in 2021. The Port's main source of revenue comes from property tax collections; however, 2019 included refunding debt of about \$160,000, and 2021 included state grant proceeds of about \$84,000.

### Contact information related to this report

Address:	Port of Illahee P.O. Box 2357 Bremerton, WA 98310
Contact:	Caleb Reese, Administrator
Telephone:	(360) 698-4918
Website:	<a href="http://www.portofillahee.com">www.portofillahee.com</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Port of Illahee at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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