

Crescent City Harbor District

Crescent City, California

*Auditors' Communication of Material
Weaknesses and Significant Deficiencies*

For the year ended June 30, 2021



October 7, 2022

To the Board of Commissioners
of Crescent City Harbor District
Crescent City, California

In planning and performing our audit of the financial statements of the business-type activities of the Crescent City Harbor District (District), as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

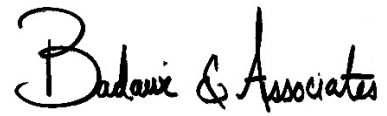
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2021-001, 2021-002, 2021-003 and 2021-004 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 2021-005 to be a significant deficiency.

The District's written response to the material weakness identified in our audit has not been subject to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To the Board of Commissioners
Of Crescent City Harbor District
Crescent City, California
Page 2

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPAs
Berkeley, California
October 7, 2022

Crescent City Harbor District
Schedule of Findings and Responses
For the Year Ended June 30, 2021

FINDINGS - FINANCIAL STATEMENTS AUDIT

2021-001: Restatement of Previously Issued Financial Statements (Material Weakness)

Criteria

The District is responsible for the fair presentation of financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition

During the performance of the audit, we noted the District recorded prior period adjustments to correct several accounting errors.

Cause

The District's internal controls over financial reporting did not identify the misstatements in a timely manner, resulting in the restatements.

Effect

The District's previously issued financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

Recommendation

We recommend that the District enhance its internal control over financial reporting to ensure complete and accurate financial reporting.

Management Response

In November 2021, , the Board of Harbor Commissioners established the Financial Reform Ad Hoc Committee to oversee the implementation of corrective actions and ensure public accountability of District finances. Because of significant staff and management turnover in recent years, the District had not performed proper year-end close in the past two years. Under the direction of the Committee, the District performed a comprehensive year-end close for the fiscal year ended June 30, 2021. The District examined line-item account balances to identify and correct accounting errors and material misstatements that resulted in several prior period adjustments. The District is in the process of developing policies and procedures to ensure the timely review and reporting of account balances and financial statements.

Crescent City Harbor District
Schedule of Findings and Responses
For the Year Ended June 30, 2021

FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

2021-002: Bank Reconciliation (Material Weakness)

Criteria

An effective internal control system over cash and investments includes frequent and timely reconciling of account balances to information provided by the bank and custodians.

Condition

During the performance of the audit, we noted that the District was behind in performing the monthly bank reconciliation for the last several years. It is unclear, when the last bank reconciliation was prepared.

Cause

The District was not able to perform the bank reconciliations timely as there was not sufficient procedures in place to ensure completion of the process.

Effect

Errors and fraud can go undetected without frequent and timely bank reconciliation.

Recommendation

We recommend the District develop formal written policies over cash and investments that include the timely reconciling of accounts and include cash and investment accounts reported.

Management Response

In Fiscal Year 2020/2021, the District encountered significant disruptions with the termination of the Director of Finance and lack of staffing with adequate accounting expertise. Moreover, the District endured major issues during the conversion of its marina management and accounting software that consumed extensive resources and inhibited reconciliation efforts. In May 2022, the District upgraded its software to MarinaOffice and QuickBooks Premier Plus. The District has begun performing bank reconciliations for the fiscal year ended June 30, 2022. The District is in the process of connecting bank account and credit card feeds to QuickBooks and is developing policies and procedures to ensure reconciliations are performed in a timely and accurate manner.

**Crescent City Harbor District
Schedule of Findings and Responses
For the Year Ended June 30, 2021**

FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

2021-003: Documentation of the Review Process (Material Weakness)

Criteria

The District is responsible for maintaining adequate internal controls over its accounting records, account balances, and financial statement disclosures.

Condition

During the performance of the audit, we noted that the District has some internal controls in place, but it was difficult to verify if the internal controls were implemented or not because there was no documentation of the performance of the controls such as signatures, stamps, initials, etc. The internal controls cannot be verified in these areas:

- 1) Review for various reports in the cash receipt process
- 2) Supervisor's review on timesheets
- 3) Review of invoices
- 4) Independent review of each journal entry
- 5) Employee's status change documentation (hiring, termination, salary increase, etc.)

Cause

The District does not have sufficient documentation of the internal control procedures performed.

Effect

It is not possible for the District to determine whether internal controls were in place and implemented.

Recommendation

We recommend the District improve the documentation procedures to document the reviews.

Management Response

The District created the Comptroller position in March 2022 to improve oversight of accounting personnel and processes, develop accounting policies and procedures, and monitor internal controls over financial reporting. The District hired a qualified candidate for the Comptroller position in May 2022 and has begun developing standard operating procedures. Deposits are processed by the Office Assistant, reviewed by the Office Manager, and reconciled as part of the closing process. The Office Manager is authorized to record journal entries for payroll and the journal entries are reviewed by the Comptroller during month-end close. The Comptroller is the only authorized individual to record all other journal entries. Documentation supporting journal entries are saved as attachments in QuickBooks and the original documents are maintained in customer and/or vendor files. All invoices are reviewed by the Comptroller and CEO/Harbormaster. Invoices are again reviewed by

**Crescent City Harbor District
Schedule of Findings and Responses
For the Year Ended June 30, 2021**

FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

2021-003: Documentation of the Review Process (Material Weakness)

two Commissioners before the checks are signed. The Board of Harbor Commissioners approve the Warrant List, a check detail report showing bills paid, at regular meetings. The District is confident that the procedures being implemented will improve the documentation of reviews and internal controls over accounting records, account balances, and financial reporting.

Crescent City Harbor District
Schedule of Findings and Responses
For the Year Ended June 30, 2021

FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

2021-004: Account reconciliation (Material Weakness)

Criteria

The District is responsible for the fair presentation of financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition

During the performance of the audit, we noted that the District did not reconcile several general ledger accounts. The District is still working on the account reconciliation, and we noticed that some transactions were missing from book.

Cause

The District does not have sufficient procedure to reconcile all general ledger accounts regularly in fiscal year 2021.

Effect

It is possible that the District has additional missing transactions and the account balances are not correct.

Recommendation

We recommend the District implement more procedures to reconcile the general ledger accounts on a regular basis.

Management Response

The District concurs with the auditor's recommendation to implement procedures to reconcile the general ledger accounts on a regular basis. As noted in the preceding responses, the District has undertaken significant measures to ensure the fair presentation of financial statements in conformity with generally accepted accounting principles. The District has implemented month-end and year-end close procedures that include reconciling all general ledger accounts. The District will prepare and present financial statements on at least a quarterly basis to the Board of Harbor Commissioners and the general public. The District is in the process of codifying new standard operating procedures encompassing account reconciliations.

**Crescent City Harbor District
Schedule of Findings and Responses
For the Year Ended June 30, 2021**

FINDINGS - FINANCIAL STATEMENTS AUDIT, Continued

2021-005: OPEB Liability not Reported (Significant Deficiencies)

Criteria

The District is responsible for the fair presentation of financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition

During the performance of the audit, we noted that the District did not report the OPEB related liability on the financial statements, while the District implemented OPEB back in fiscal year 2014.

Cause

The District did not calculate the OPEB liability timely and did not report it on the financial statements.

Effect

The OPEB liability was not reported on the financial statement.

Recommendation

We recommend the District implement sufficient procedures to confirm if there are other liabilities during year-end closing procedures.

Management Response

The District concurs with the auditor's recommendation to implement sufficient procedures to confirm whether other liabilities exist that have not been reported. After two years of turmoil within the finance and accounting department, the District in July 2021 awarded Robert Half management consulting firm a comprehensive contract to perform an organizational and operational assessment of the District's financial operations. The District has implemented the firm's recommended actions to include year-end close procedures and detailed account reviews. The District is validating OPEB related liability for the fiscal year ended June 30, 2022. The District is in the process of converting the list of recommended actions into policies and procedures that maximizes the District's stewardship and transparency of public resources and assets.