

OFFICE OF THE STATE AUDITOR

DIANA DIZOGLIO

Official Audit Report – Issued April 16, 2025

Fall River Line Pier, Inc.

For the period July 1, 2020 through June 30, 2023



OFFICE OF THE STATE AUDITOR

DIANA DIZOGLIO

April 16, 2025

Michael Lund, President of the Board of Directors
Fall River Line Pier, Inc.
1 Water Street
Fall River, MA 02721

Dear President Lund:

I am pleased to provide to you the results of the enclosed performance audit of the Fall River Line Pier, Inc. (FRLP). As is typically the case, this report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2020 through June 30, 2023. As you know, my audit team discussed the contents of this report with agency managers. This report reflects those comments.

I appreciate you and your team's cooperation with our audit team. Thank you for encouraging and making available your team. I must note, however, that our current findings mirror some of the same findings in our office's previous audit released in 2020, under my predecessor. According to this new audit, FRLP has still not addressed the ethics concerns earlier raised. As FRLP appears to have drafted but never adopted an ethics policy, we will be following up on this and other issues identified in our audit in approximately six months. Immediate steps should be taken to address the concerns raised in this audit report, as doing so is critical to preserving the public trust placed in FRLP and protecting it from financial loss—accidental or intentional—given the lack of segregated duties regarding financial operations.

I am available to discuss this audit if you or your team have any questions.

Best regards,



Diana DiZoglio
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has performed an audit of the Fall River Line Pier, Inc. (FRLP) for the period July 1, 2020 through June 30, 2023.

The purpose of this audit was to follow up on the issues identified in our prior audit report (Audit No. 2019-0504-3A) and to determine (1) what measures, if any, FRLP took to address these issues and (2) the adequacy of those measures. We assessed whether FRLP's board of directors established policies and procedures related to FRLP's financial activities, including conflicts of interest, travel, donations, and accounts receivable. We also determined the following:

- whether FRLP made appropriate nonpayroll expenditures during the audit period that were in line with its mission;
- whether FRLP attempted collection for delinquent accounts during the audit period; and
- whether FRLP board members disclosed and reviewed transactions that might result in any conflicts of interest during the audit period.

Below is a summary of our findings, the effects of those findings, and our recommendations, with links to each page listed.

Finding 1 Page <u>11</u>	FRLP paid \$187,921 to five companies, even though board members did not disclose their or their family members' financial interests in those companies.
Effect	<p>It is unclear whether the board considered whether these transactions presented conflicts of interest, or whether it determined whether the transactions were in the best interests of FRLP. This could create the appearance of conflicts of interest, if not outright conflicts of interest, which undermines the public's faith in the government(s) that contract with FRLP and of FRLP's work as a government contractor. Given the nature of FRLP's mission and business, this can have a negative impact on its current and future revenue, as potential customers may perceive that they would not receive fair treatment from the agency and may seek to do business with other entities.</p> <p>We note that our most recent audit of FRLP, issued on June 11, 2020, found similar conflict of interest concerns, which were at that time related to three board members and \$121,874 in payments.</p>

Recommendations Page <u>13</u>	<ol style="list-style-type: none">1. FRLP should formally establish and implement policies and procedures related to its financial activities, including conflicts of interest, travel, donations, accounts payable, and accounts receivable.2. Board members should declare in writing their potential conflicts of interest, should notify the board of transactions that pose a potential conflict of interest, and should recuse themselves from any participation in these transactions. The board should vote on whether said transactions are in the best interests of FRLP before engaging in these transactions. Given the extensive nature of the problems we found, we recommend that each board vote includes a certification from each board member that they are free from any conflict of interest for each vote.
Finding 2 Page <u>15</u>	FRLP did not retain meeting minutes for all board meetings.
Effect	If FRLP does not retain all records of its board meetings, then it undermines the integrity of the organization's governance process, making it difficult to track decisions and actions taken by the board, ultimately affecting accountability and transparency to stakeholders.
Recommendations Page <u>15</u>	<ol style="list-style-type: none">1. FRLP should ensure that meeting minutes are completed and retained.2. FRLP should establish and implement policies and procedures defining record retention periods.
Finding 3 Page <u>16</u>	FRLP did not accurately record check numbers for 33 transactions.
Effect	Missing and incorrect check numbers increase the risk of financial misstatements, inadequate reconciliation processes, and difficulties in detecting unauthorized or potentially fraudulent transactions.
Recommendations Page <u>17</u>	<ol style="list-style-type: none">1. FRLP should design and implement internal controls over expenditures, receivables, and the account reconciliation process. Specifically, the following should be considered in this design:<ol style="list-style-type: none">a. Including segregation of duties for financial processes would reduce the potential risk of fraud and error.b. Including monitoring controls would allow FRLP to ensure that all checks are accurately recorded and reconciled.2. Given that FRLP has outsourced its financial administration to its consulting firm, FRLP should require in any of its contracts with outsourced financial managers that sufficient segregation of duties be provided.3. FRLP should review its QuickBooks data to ensure that there are no additional instances of inaccurate or missing information related to its financial transactions.

In addition to the conclusions we reached regarding our audit objectives, we identified issues not specifically addressed by our objectives regarding the absence of a formal agreement with the Commonwealth for managing the Fall River Line Pier. For more information, see [Other Matters](#).

OVERVIEW OF AUDITED ENTITY

Chapter 665 of the Acts of 1945 gave the Commonwealth the right to construct a state pier with storage facilities in Fall River. The Fall River Line Pier, Inc. (FRLP) was chartered as a nonprofit in 1946 to lease a state pier from the Commonwealth to provide receiving, storing, and forwarding of freight and merchandise.

FRLP has been operating as an agent of MassDevelopment¹ without a formal contract since its 50-year lease agreement² with the Commonwealth expired in 2014. FRLP coordinates the day-to-day operations, security, and general maintenance of the Fall River State Pier, located at 1 Water Street in Fall River.

MassDevelopment currently operates and manages the Fall River State Pier and the New Bedford State Pier on behalf of the Department of Conservation and Recreation through an agreement with a December 1, 2017 effective date.

During the audit period, FRLP was overseen by a board of directors consisting of 10 members in 2020, 9 members in 2021, 9 members in 2022, and 8 members in 2023. The board is required to meet annually for the purpose of managing FRLP's property and business. From July 1, 2020 through April 30, 2021, FRLP employed a general manager to supervise the pier's daily operations, security, and maintenance personnel members.

Upon the general manager's retirement in 2021, the FRLP board hired a nonprofit consultant firm, Jobs for Fall River, Inc.³ (referred to throughout this report as the consulting firm), to perform the following duties:

- regarding accounts receivable, processing tenant invoices, depositing tenant payments into FRLP's bank account, and reconciling bank statements against deposits in QuickBooks;⁴
- regarding accounts payable, recording payroll, processing billing payments to businesses for goods and services, and reconciling bank statements against expenses in QuickBooks; and

1. MassDevelopment is a state agency that assists businesses and communities by providing services, such as loans and grants, to fuel economic growth.

2. The original lease agreement between FRLP and the Commonwealth was dated May 17, 1948, with subsequent agreement amendments for the following dates: March 25, 1954; September 24, 1959; March 24, 1964; September 21, 1966; June 16, 1981; and April 2, 2010.

3. Jobs for Fall River, Inc. does business as Bristol County Economic Development Consultants.

4. QuickBooks is a financial management computer program that FRLP uses as its accounting system.

- regarding tenant oversight, generating and reviewing aging reports⁵ to identify and notify tenants of delinquent accounts.

Currently, FRLP employs a full-time director of operations, who supervises four full-time and three part-time employees who provide security and maintenance/custodial services at FRLP.

Section 26A of Chapter 180 of the General Laws requires nonprofit corporations to file annual reports on or before November 1 with the Secretary of the Commonwealth to maintain their nonprofit status and to remain in good standing.

Accounts Receivable

FRLP provided exterior storage, office space, terminal (warehouse) space, parking, and dockage⁶ to 22 tenants during the audit period. FRLP is also equipped with a scale to weigh vehicles, incoming cargo, and outgoing cargo. The general public pays at the time of weighing while tenants are billed monthly for their use of the weigh scale. Every two weeks, the member of the consulting firm generates an aging report through QuickBooks that details tenant balances in 30-day increments.

FRLP considers tenant accounts with balances that are outstanding for longer than 90 days to be delinquent. The member of the consulting firm explained that tenants are notified of delinquency with an invoice, at which time they can enter into a payment arrangement.

Expenditures

During the audit period, FRLP reported \$2,341,893 in total expenditures. These expenditures included, but were not limited to, employee wages and vendor payments (i.e., office supplies, pier supplies, utilities, property maintenance, property repairs, and professional fees, which include accounting, legal, and consulting firm fees).

The member of the consulting firm enters invoice information into QuickBooks when it is received and prints checks for payment.

5. An aging report in QuickBooks is a type of report that provides an overview of customers who have outstanding balances and are falling behind on payments. This type of report details amounts past due and the lengths of time they have been past due.

6. Dockage refers to dock space for fishing boats, tugboats, cargo ships, and cruise ships.

Designated board members (in this case, the president or the treasurer) are responsible for reviewing checks to verify vendor names, payment amounts, and mailing addresses against corresponding invoices before signing these checks.

Conflict of Interest

Through inquiries with management, we learned of a Conflict of Interest Policy drafted in 2021. The purpose of this policy is to protect FRLP's interest when it considers entering into a transaction or arrangement that might benefit the private or financial interests of any director, officer, or board member.

According to FRLP's Conflict of Interest Policy,

Financial Interest means, when a person has, directly or indirectly, through business, investment, or family:

- a. An ownership or investment interest in any entity with which Corporation has a transaction or arrangement;*
- b. A compensation arrangement with Corporation or with any entity or individual with which Corporation is negotiating a transaction or arrangement.*
- c. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which Corporation is negotiating a transaction or arrangement.*
- d. Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.*

According to the FRLP Conflict of Interest Policy, individuals must disclose the existence of any financial interests in order for the board to discuss whether a conflict of interest exists and to vote on whether the transaction or arrangement is in the best interests of the company. The FRLP Conflict of Interest Policy was never officially adopted by the FRLP board of directors. Our prior audit of FRLP, released on June 11, 2020, recommended the adoption of a conflict of interest policy. See [Finding 1](#) for more information on this matter.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Fall River Line Pier, Inc. (FRLP) for the period July 1, 2020 through June 30, 2023.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did FRLP's board of directors establish policies and procedures related to FRLP's financial activities, including conflicts of interest, travel, donations, and accounts receivable?	No; see Finding <u>1</u>
2. Did FRLP make appropriate nonpayroll expenditures that were in line with its mission?	Partially; see Finding <u>3</u>
3. Did FRLP attempt collection for all delinquent accounts?	Yes
4. Did FRLP board members disclose and review transactions that might result in conflicts of interest?	No; see Findings <u>1</u> and <u>2</u>

To accomplish our audit objectives, we gained an understanding of the aspects of FRLP's internal control environment relevant to our objectives by conducting observations and interviews with FRLP's management and members of the consulting firm. In addition, to obtain sufficient, appropriate evidence to address our audit objectives, we performed the procedures described below.

Response to Prior Audit Report Findings Regarding Policies and Procedures

To determine whether FRLP implemented corrective actions in response to our prior audit report (2019-0504-3A), we took the following actions. We interviewed FRLP and members of the consulting firm about whether updates were made to policies and procedures. We requested the meeting minutes from all six board meetings held during the audit period. We reviewed the five meeting minutes that were made

available for any evidence of board discussions and/or approvals related to financial policies and procedures, including conflicts of interest, travel, donations, and accounts receivable.

We also noted that neither FRLP nor the member of the consulting firm could locate the meeting minutes for the meeting held on January 4, 2021. See [Finding 2](#) for more information.

Nonpayroll Expenditures

To determine whether FRLP properly administered its nonpayroll expenditures, we took the following actions. We targeted all 10 nonpayroll reimbursements⁷ (totaling \$2,098) that were made to employees and board members from the population of 597 expenditures during the audit period. Additionally, we selected a random, nonstatistical sample of 50 vendor payments, totaling \$273,801, from the remaining 587 nonpayroll expenditures. We reviewed supporting documents for all 60 sampled nonpayroll expenditures (invoices, receipts, and bank statements) to determine whether the information was accurately recorded in QuickBooks and whether the nature of the expenditures aligned with FRLP's mission of operating a state pier.

We found that all 10 nonpayroll reimbursements were supported, were recorded accurately in QuickBooks, and were consistent with FRLP's mission. We found that all 50 vendor payments were supported and consistent with FRLP's mission; however, these payments were not always recorded accurately in QuickBooks.

See [Finding 3](#) for more information regarding vendor payments recorded inaccurately in QuickBooks.

Delinquent Accounts

To determine whether FRLP pursued collection of delinquent accounts, we took the following actions. We inquired with the consulting firm to gain an understanding of FRLP's collection policies. We reviewed physical accounts receivable files for all five tenants with outstanding balances older than 90 days. We looked for evidence of collection activity, such as stamped invoices, correspondence regarding overdue accounts, and documentation of legal action. We found that FRLP did collect on the five delinquent accounts, as evidenced by the invoices we reviewed and the zero balance due as of June 30, 2023.

7. Nonpayroll reimbursements included postage; golf cart gasoline; pier supplies; security badges; office supplies; Transportation Worker Identification credentials; Facility Security Officer training; and related travel expenses such as food, hotel, and airfare.

Conflict of Interest

To determine whether FRLP did business with companies in which board members had financial or personal interests, we took the following actions. We obtained lists of the 18 FRLP board members covering the audit period. We identified five companies paid by FRLP during the audit period in which board members had financial interests. This work included the following actions:

- We searched for these board members' names in the Secretary of Commonwealth's corporate database. We identified 89 businesses associated with board members (either through ownership or serving on a business's board). We compared the list of 89 businesses against FRLP's vendor list. We identified two matches where an FRLP board member served as a director or president of a related party⁸ that did business with FRLP during the audit period.
- We performed searches using Google, LinkedIn, and company websites associated with board members. We found that FRLP made payments to one company owned by relatives of an FRLP board member. Additionally, this board member also worked for this company.
- We reviewed FRLP insurance policies. We identified two carriers for which two board members worked as insurance agents. FRLP made payments to both companies.

To determine whether FRLP board members properly disclosed these five instances of financial interest, we took the following actions:

- We requested copies of Annual Disclosure Statement Forms for evidence that board members disclosed these relationships.
- We reviewed board meeting minutes for evidence that board members discussed these transactions before they were processed. We looked for evidence that the board determined that the transactions were in the best interests of FRLP by reviewing the majority vote.
- We reviewed expenditure data in QuickBooks to calculate the amount of money paid to these companies during the audit period.

See [Finding 1](#) for more information regarding these transactions.

We used nonstatistical sampling methods for testing and therefore did not project the results of our testing to any populations.

8. *The [Massachusetts] Attorney General's Guide for Board Members of Charitable Organizations*, which nonprofit organizations use to file financial data, defines a related party as "an officer, director, or trustee (or an individual having powers or responsibilities similar to those of officers, directors, or trustees) of [an] organization." A related-party transaction is a transaction between parties that had an association before the transaction.

Data Reliability Assessment

QuickBooks

To determine the reliability of the data obtained from QuickBooks, we interviewed members of the consulting firm who were knowledgeable about the data and inquired about transaction types within the data. We also reviewed the System and Organization Control 2 reports⁹ that covered the period May 1, 2022 to April 30, 2023. We determined whether the System and Organization Control 2 reports described testing certain information system general controls (access controls, security management, configuration management, contingency planning, and segregation of duties).

Transaction Data

To determine the reliability of QuickBooks transaction data, we ensured that transaction dates were within the audit period and checked for missing data in key fields. We checked for duplicate check numbers, invoice numbers, and employee names.

Further, we traced the information (name, amount, and check number) from 50 randomly selected QuickBooks transactions to source documentation (invoices, deposit slips, bank statements, and payroll reports). Additionally, we traced a randomly selected sample of 20 transactions from FRLP's files (invoices, payroll reports, and receivables) to the data in QuickBooks and determined whether the name, amount, and check number agreed to the source documentation. In addition, while conducting our data reliability assessment work for the above objectives, we noted an issue with the accuracy of check numbers in QuickBooks. See [Finding 3](#) for more information.

To determine the reliability of invoice data, we selected 20 random tenant invoices from QuickBooks and traced the information to the 2019 FRLP Domestic Rate Sheet, determining whether FRLP charged the correct rate and billed the correct invoice amount. Further, we traced vendor names, check numbers, and amounts from 20 physical invoices maintained in FRLP's account receivables files to the QuickBooks data.

9. A System and Organization Control report is a report, issued by an independent contractor, on controls about a service organization's systems relevant to security, availability, processing integrity, confidentiality, or privacy.

Employee List

To determine the reliability of the employee list provided by FRLP's consulting firm, we traced all 19 FRLP employees active during the audit period from the QuickBooks data to copies of their corresponding Forms W-2. We checked for duplicate employee records within the data. We also verified hire and termination dates with FRLP's consulting firm.

FRLP Tenant List

To determine the reliability of the tenant list, we interviewed FRLP employees who were knowledgeable about the data. We compared the total count of tenant names provided against the customer list within QuickBooks. We selected a random sample of five companies from the tenant list and checked that FRLP maintained physical accounts receivable files for each. We also randomly selected five companies from the accounts receivable files and ensured that each company was included in the tenant list and QuickBooks data.

Aging Reports

To determine the reliability of the aging report data, we traced the information (tenant name, report date, and account balance) for all records to invoices and check payments in QuickBooks.

We compared the invoice date against the aging report date to calculate the number of days the balance due was delinquent. We determined whether all delinquent records had balances that were over 90 days old.

Board Members

To determine the reliability of the list of board members, we traced all member names to source documents (Annual Report filed with the Secretary of the Commonwealth, 990-PF Return of Private Foundation, and FRLP board meeting minutes).

Based on the results of the data reliability assessment procedures described above, we determined that the information we obtained was sufficiently reliable for the purposes of our audit.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Fall River Line Pier, Inc. paid \$187,921 to five companies, even though board members did not disclose their or their family members' financial interests in those companies.

During the audit period, Fall River Line Pier, Inc. (FRLP) paid 30 expenses, totaling \$187,921, to five companies in which four board members had financial interests.

FRLP Board Members with Financial Interests in External Companies

Company	FRLP Board Member's Relationship to Company	Number of Transactions During the Audit Period	Total Amount	Was There Evidence that FRLP Discussed Potential Conflict of Interest?	Was There Evidence that FRLP's Board Voted and Approved the Transactions?
Company A	On the company's board	22	\$ 174,269	No	No
Company B	Relative is the owner	2	5,750	No	No
Company C	Owner	1	3,466	No	No
Company D	Relative is the owner	1	2,945	No	No
Company E	Owner	4	1,491	No	No
Total		<u>30</u>	<u>\$ 187,921</u>		

Further, FRLP did not produce evidence that all 18 board members signed annual Conflict of Interest Acknowledgment Forms, disclosing any financial interest in companies doing business with FRLP during the audit period. In addition, we did not find any evidence of board discussions regarding these transactions.

It is unclear whether the board considered whether these transactions presented conflicts of interest, or whether it determined whether the transactions were in the best interests of FRLP. This could create the appearance of conflicts of interest, if not outright conflicts of interest, which undermines the public's faith in the government(s) that contract with FRLP and of FRLP's work as a government contractor. Given the nature of FRLP's mission and business, this can have a negative impact on its current and future revenue, as potential customers may perceive that they would not receive fair treatment from the agency and may seek to do business with other entities.

We note that our most recent audit of FRLP, issued on June 11, 2020, found similar conflict of interest concerns, which were at that time related to three board members and \$121,874 in payments.

Authoritative Guidance

Section 6C of Chapter 180 of the Massachusetts General Laws requires that board members act in good faith and in the best interests of the corporations for which they serve.

A director, officer or incorporator of a corporation shall perform his duties as such, including, in the case of a director, his duties as a member of a committee of the board upon which he may serve, in good faith and in a manner he reasonably believes to be in the best interests of the corporation, and with such care as an ordinarily prudent person in a like position with respect to a similar corporation organized under this chapter would use under similar circumstances.

The [Massachusetts] Attorney General's Guide for Board Members of Charitable Organizations serves as a guide of best practices for nonprofits. The guide suggests the following regarding how boards should govern organizations:

VIII. BEWARE OF CONFLICTS OF INTEREST

As a member of the board, you may find yourself in situations in which your board service conflicts with another aspect of your personal or professional life. For example, you, a business you control or benefit from financially, [or] a member of your family . . . may be considering whether or not to engage in a transaction with the organization on whose board you are sitting. . . . Situations such as these present a potential conflict between your own interests and your duty as a board member to be absolutely loyal to the organization and its mission.

. . . Such a transaction should not occur unless the board determines it is clearly in the best interest of the charity. . . .

Any conflicted transaction should be scrutinized very closely by the board . . . because of the predictable skepticism with which the public and regulators will view the transaction.

Reasons for Issue

Through our review of the five board meeting minutes documented during the audit period and our inquiries with members of the consulting firm, we found that the board never officially approved policies and procedures developed for various financial activities, including conflicts of interest, travel, donations, and accounts receivable. We recommended the development and implementation of these policies in our June 11, 2020 audit of FRLP.

Recommendations

1. FRLP should formally establish and implement policies and procedures related to its financial activities, including conflicts of interest, travel, donations, accounts payable, and accounts receivable.
2. Board members should declare in writing their potential conflicts of interest, should notify the board of transactions that pose a potential conflict of interest, and should recuse themselves from any participation in these transactions. The board should vote on whether said transactions are in the best interests of FRLP before engaging in these transactions. Given the extensive nature of the problems we found, we recommend that each board vote includes a certification from each board member that they are free from any conflict of interest for each vote.

Auditee's Response

In its response to this audit report, FRLP provided background information on its conflict of interest policy. See the [Appendix](#) for more information on this.

Company A: As noted above and as you are aware, a newly constituted FRLP Board of Directors was established in October 2021. It should be noted that prior to October 2021 all past members of the FRLP had resigned or their terms had expired. In early 2021, the FRLP Board of Directors was virtually non-existent and had not met in a number of months.

In April 2021, the Pier Manager abruptly resigned leaving the FRLP with no short term or long-term management capacity. In an emergency action, the President of the FRLP and Mayor of the City asked that COMPANY A temporarily assume the management responsibilities of the Pier Corporation. This was done without a FRLP Board vote and COMPANY A has served in a temporary management capacity to the FRLP since that time. At this time, there was no Conflict of Interest or appearance of a Conflict of Interest since the FRLP Board was essentially defunct and COMPANY A fulfilled this role at the request of the FRLP President and the Mayor of the City of Fall River neither of which had any standing on the COMPANY A Board.

Furthermore, COMPANY A had the demonstrated management capacity to undertake this task and bought their entire management team to the FRLP for a fee less than what was being paid to the Pier Manager, so there was no unjust enrichment. As noted above, in February 2022, MassDevelopment requested that FRLP continue to serve as its agent, manage the State Pier and work closely with MassDevelopment. Since April 2021 COMPANY A has provided management services to the FRLP and has increased the net income profitability of the Fall River Sate Pier from \$60,366.50 in 2021 to \$224,888.89 in 2024.

Companies C and E: In response to your finding, Company C and Company E no longer have any affiliation with the 2021 FRLP Board of Directors and any conflict of interest detected for these Companies preceded the post 2021 FRLP Board of Directors. The balance of the FRLP Board Member's relationships have been disclosed and will be addressed at the next board meeting.

Companies B and D: Post 2021, all transactions between the FRLP and Companies B and D represented fair market value and neither the volunteer Board Members nor the companies received direct compensation for the transactions. The costs associated with the provision of

services provided by Companies B and D were far less than the services provided by Company C. Conflict of Interest practices have been established in draft form to be discussed with the Board of Directors and Conflict of Interest forms have been executed by the current Board and will be executed annually by all board members moving forward.

Auditor's Reply

FRLP attempted to explain why the conflicts of interest identified in this report are not concerning. However, in each case, FRLP failed to address the main issue; namely, there were no documented disclosures regarding board members of FRLP who had affiliations with organizations that were doing business with FRLP. This issue is compounded by the fact that FRLP was unable to provide evidence that each of its board members had signed annual Conflict of Interest Acknowledgment Forms, disclosing any financial interest in companies doing business with FRLP during the audit period.

In its response, FRLP stated,

There was no Conflict of Interest or appearance of a Conflict of Interest since the FRLP Board was essentially defunct and COMPANY A fulfilled this role at the request of the FRLP President and the Mayor of the City of Fall River neither of which had any standing on the COMPANY A Board.

We note that a conflict of interest can exist, regardless of the status of the FRLP board. The involvement of the FRLP president and/or the mayor does not extinguish conflict of interest concerns regarding the company and its board member serving a dual role as board member of both Company A and FRLP, especially when these two organizations conduct business with each other. Additionally, FRLP claims that the FRLP board was defunct, and so, the FRLP president and the mayor of Fall River made the decision to hire Company A in a temporary management capacity of the pier. However, we saw no evidence that the board ever voted to approve Company A for this role. FRLP has an obligation to take a vote as soon as the board reconvenes to approve the decision to hire such a company, especially one that serves in such a key role as the manager of the pier.

FRLP cited changes in the board members during the audit period and explained that the board no longer does business with some of the companies identified. Further, FRLP suggested that conducting business with some of these companies represented fair market value. All of this may be true. However, we did not see any evidence of a discussion or a pricing comparison by FRLP in any of the board meeting minutes. This does not explain the issues identified in the finding. We strongly encourage FRLP to implement all of our recommendations. We will follow up with FRLP in approximately six months to assess its progress in addressing these issues.

2. Fall River Line Pier, Inc. did not retain meeting minutes for all board meetings.

FRLP could not provide meeting minutes for one of the six board meetings held during the audit period. Specifically, management could not locate the meeting minutes for the meeting held on January 4, 2021.

If FRLP does not retain all records of its board meetings, then it undermines the integrity of the organization's governance process, making it difficult to track decisions and actions taken by the board, ultimately affecting accountability and transparency to stakeholders.

Authoritative Guidance

FRLP's bylaws state,

The records of all meeting of the Board of Directors and meeting of members comprising the corporation shall be kept by the Secretary at his office on the State Pier, or at any other place as the Board of Directors may from time to time determine. In case of the death, absence, or incapacity, or the refusal of the Secretary to discharge his duties, same may be done by any other officer so designated by the Board of Directors.

Additionally, Section 16.01(a) of Chapter 156D of the General Laws states,

A corporation shall keep as permanent records minutes of all meetings of its . . . board of directors, a record of all actions taken by the . . . board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.

Reasons for Issue

FRLP explained that 2021 was a transitional year in that the majority of the board was replaced.

Recommendations

1. FRLP should ensure that meeting minutes are completed and retained.
2. FRLP should establish and implement policies and procedures defining record retention periods.

Auditee's Response

The FRLP underwent significant transition in early 2021 with the majority of the Board resigning and the Pier Manager resigning. In the spring of 2021, COMPANY A began working with the FRLP. The Meeting Minutes missing are dated January 2021 and occurred before the involvement of COMPANY A and the newly constituted FRLP Board. All Meeting Minutes since the time the newly constituted FRLP Board was in place have been accounted for. As such, [FRLP] would suggest that this occurrence was an anomaly given the transition. We are also recommending that meeting

minutes be sent to board members in draft form within 30 days of the meeting to ensure minutes are available to board members prior to the next meeting.

Auditor's Reply

The steps that FRLP propose may address our concerns regarding this matter. We will follow up with FRLP in approximately six months to assess progress in this regard.

3. Fall River Line Pier, Inc. did not accurately record check numbers for 33 transactions.

We identified 33 instances of check numbers that were missing or recorded incorrectly within QuickBooks. Our analysis of accounts payable data revealed the following:

- FRLP did not record the check numbers for 11 nonpayroll expenditures, totaling \$75,926.
- FRLP recorded incorrect check numbers in the QuickBooks check register for 22 nonpayroll expenditures, totaling \$20,639.

Missing and incorrect check numbers increase the risk of financial misstatements, inadequate reconciliation processes, and difficulties in detecting unauthorized or potentially fraudulent transactions.

Authoritative Guidance

The [Massachusetts] Attorney General's Guide for Board Members of Charitable Organizations states,

IV. PAY CLOSE ATTENTION TO FINANCIAL MATTERS

As a board member you have primary responsibility for making sure that the charity is financially accountable, that it is not allowing charitable assets to be used inappropriately or diverted to private interests, that it has mechanisms in place to keep it fiscally sound, and that it is properly using any restricted fund it may have.

THIS MEANS: . . .

The board should be sure that the charity has adequate internal accounting systems and controls.

We believe these to be best practices that FRLP should follow.

Reasons for Issue

FRLP did not have written policies and procedures specifying a review of QuickBooks check registry information, specifically comparing the check numbers against QuickBooks records. We did not identify a

control, such as a secondary review that could have identified incorrect check numbers during the reconciliation process. We learned that FRLP did not have an internal control plan and did not perform a risk assessment over financials. There was no segregation of duties, as a single member of the consulting firm handled all accounts payable, accounts receivable, and account reconciliations, increasing operational risks and reducing control over business processes.

Recommendations

1. FRLP should design and implement internal controls over expenditures, receivables, and the account reconciliation process. Specifically, the following should be considered in this design:
 - a. Including segregation of duties for financial processes would reduce the potential risk of fraud and error.
 - b. Including monitoring controls would allow FRLP to ensure that all checks are accurately recorded and reconciled.
2. Given that FRLP has outsourced its financial administration to its consulting firm, FRLP should require in any of its contracts with outsourced financial managers that sufficient segregation of duties be provided.
3. FRLP should review its QuickBooks data to ensure that there are no additional instances of inaccurate or missing information related to its financial transactions.

Auditee's Response

It should be noted that during the audit time frame, FRLP processed an estimated 900 paper and electronic checks. The Fall River Line Pier, Inc. did not accurately record check numbers for 33 transactions or 3.7% of all checks. This is largely due to technology errors that occurred during an upgrade to the computer system and transition from a desktop QuickBooks program to an upgraded online version of QuickBooks. During these upgrades there were instances where checks were misprinted and needed to be handwritten. While the changes in the check numbers were not noted in the system, the accounts were accurately reconciled with vendor names and amounts. Check numbers are primarily utilized for convenience of the financial team and do not affect the validity of payments. Further, no misappropriation of funds was identified in the audit further confirming that was merely a technological error. Again, because this was a largely technological error related to a transition of computer equipment and programs, it is not anticipated that such issues would occur in the future.

Auditor's Reply

In its response, FRLP explained that the identified 33 instances of check numbers that were missing or recorded incorrectly within QuickBooks were due to a technological error that occurred during a computer system upgrade and transition from a desktop version of QuickBooks to an online version. FRLP

acknowledged that the check numbers were not recorded in the system but stated that the accounts were accurately reconciled using vendor names and amounts.

An open question remains as to why FRLP did not correct the error if it was performing reconciliations of the data. FRLP stated that check numbers are used primarily for the convenience of the financial team. We would argue, however, that the purpose of annotating the correct check numbers serves more purpose than just convenience. For example, check numbers are used to identify specific checks issued when performing a reconciliation. Check numbers are also used to identify outstanding checks or for the purpose of placing a stop payment on a specific check. Finally, check numbers can be used to assist in identifying potentially fraudulent activities. If FRLP was aware that there was an error with check numbers, then it had an obligation to correct the error as soon as possible.

FRLP also did not address the lack of a segregation of duties. A lone individual should not be performing accounts payable and performing an account reconciliation. A segregation of these duties would help to ensure that any potentially fraudulent activity is identified as quickly as possible. In this instance, segregation of duties may have helped FRLP more clearly see the importance of this issue and address it. Instead, FRLP relied on institutional memory, which exposes it to significant vulnerabilities, as FRLP itself has experienced in recent years, given the significant turnover it reported to us.

OTHER MATTERS

The lease agreement between Fall River Line Pier, Inc. (FRLP) and the Commonwealth regarding the management of the state pier expired in 2014.

During our audit, we found that FRLP did not have a formal agreement in place with the Commonwealth to manage the Fall River Line Pier. Without an agreement in place, there is no legal record of the terms and conditions that outline the responsibilities of the respective parties. If the responsibilities of each party are unclear, then an unacceptable risk exists; namely, regular assessments may not be performed to identify operational hazards, safety protocols may not be implemented, and the pier may not be monitored or maintained.

A 2008 amendment to FRLP's bylaws states,

The corporation shall be known by the name of Fall River Line Pier, Inc. . . . It is formed for the purpose of leasing a pier from the Commonwealth of Massachusetts, with buildings, sidings, and other equipment thereon, and operating the same for the benefit of all persons engaged in the business of receiving, storing and forwarding, freight and merchandise, and for all the purposes mentioned in the Articles of Organization.

As these bylaws state, FRLP was created for the purpose of leasing a state pier, and since the absence of a lease is intrinsically in contradiction with this language from its bylaws, FRLP should continue to work with MassDevelopment to formally establish the terms of its management of the Fall River State Pier.

APPENDIX

Conflict of Interest Policy Background

In its response to this audit report, Fall River Line Pier, Inc. (FRLP) provided background information regarding its conflict of interest policy. We have included that full response here.

In April 2021, the Pier Manager abruptly resigned leaving the FRLP with no short term or long-term management capacity. In an emergency action, the 2021 President of the FRLP and Mayor of the City asked that a local business familiar with business operations temporarily assume the management responsibilities of the Pier Corporation. This was done without a FRLP Board vote as all but two board members had previously resigned. That business has served in a temporary management capacity to the FRLP since that time at a cost less than what the FRLP was paying the Pier Manager.

Since this was an emergency action taken by the President of the FRLP and the Mayor of the City of Fall River, there could not be any Conflict of Interest or appearance of a Conflict of Interest in hiring this business since the FRLP Board was essentially defunct and this business has fully and successfully fulfilled its temporary management role at the request of the FRLP President and the Mayor of the City of Fall River, neither of which had any standing or relationship with the business.

In June 2021, in response to the 2019 State Audit and in anticipation of the reconstitution of a new FRLP Board of Directors, the company managing the business affairs of the FRLP and FRLP Legal Counsel developed draft Conflict of Interest and other organizational policies. From June through October of 2021, the Mayor of the City of Fall River worked with the local business and neighborhood groups to re-establish the Fall River Port Authority whose members serve on the FRLP Board.

The new FRLP Board was established in October 2021. The first order of business of the FRLP Board was to stabilize the corporation and also enter into a State Pier Management Lease with MassDevelopment, which oversees the State Pier on behalf of the [Massachusetts] Division of Conservation and Recreation.

Despite ongoing meetings and discussions with MassDevelopment, talks broke clown in February 2022. MassDevelopment advised FRLP to continue to manage the State Pier as an agent without a contract until such time an agent would be engaged by MassDevelopment to manage the property. Since MassDevelopment has not engaged another agent to manage the property, this arrangement remains in place and the FRLP does not have a agreement with MassDevelopment. It is important to note that this current audit acknowledges that the FRLP was chartered as a non-profit in 1946 "to lease a state pier from the Commonwealth". Yet MassDevelopment has repeatedly suggested that the FRLP manage the pier via some other vehicles rather than a lease, which would be in violation of the By-laws and purpose of the FRLP.

As a result of not having an agreement in place, the FRLP has only met a handful of times from October 2021 through today and the primary purpose of those meetings has been focused on

entering into an agreement. Without an agreement in place there is no certainty that the FRLP Board will continue as the MassDevelopment Agent responsible for the management of the Sate Pier.

Despite not having a contractual relationship with MassDevelopment, the company managing the affairs and FRLP's Legal Counsel developed updated Conflict of Interest, Travel, Donations, Accounts Receivable, Operational and Management Policies, and officially adopted these policies in April 2024. Conflict of Interest Statements were signed by each Board member in June 2024. These documents were provided to the audit agent.

Prior to the official adoption of the above referenced policies, the FRLP adhered to the draft polices with specific attention was paid to the following: (i) implementing strong collection efforts regarding accounts receivables; (ii) ensuring that no payments of any kind to were made to FRLP Board members; (iii) ensuring no travel or dinner expenditures were paid to Board Members and (iv) ensuring no donations of any kind were received or made to any entities.