



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Accountability Audit Report**

# **Trails End Water District**

**Mason County**

**For the period January 1, 2013 through December 31, 2013**

**Published January 26, 2015**

**Report No. 1013496**





# Washington State Auditor Troy Kelley

January 26, 2015

Board of Commissioners  
Trails End Water District  
Belfair, Washington

## Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office 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 District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY  
STATE AUDITOR

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the District could make improvements.

We recommended the District continue to improve internal controls over District activities and compliance with state laws.

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of the Trails End Water District from January 1, 2013 through December 31, 2013.

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.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Billings/receivables
- Cash receipting
- Open public meeting minutes
- Open public records laws compliance
- Payments/expenditures
- Financial condition
- Accounting/financial reporting

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### 1. The District should continue to improve internal controls over District activities and compliance with state laws.

#### *Background*

During the prior audit, we were unable to obtain records from the District. As a result of that audit we issued two findings:

- The District did not consistently bill for water, collect all money due or deposit timely, placing public funds at risk.
- The District did not have a policy for responding to public records requests and missed annual financial report filing deadlines.

In January 2014, two new Commissioners took office. All of the former employees of the District were terminated, new staff was hired, and the Commissioners are in the process of establishing controls over the District's operations.

#### *Description of Condition*

##### Annual Questionnaire and Financial Report Filings

State law requires local governments to annually prepare, certify and file financial reports with our Office within 150 days after the close of each fiscal year. The District did not file annual financial reports with our Office for 2009-2012. The District began, but could not finish its 2013 on-line submission due to incomplete financial records.

In addition, the District is also required to submit an annual questionnaire (Schedule 22) to our Office for audit purposes. The District did not submit a schedule for 2012 or 2013 due to incomplete financial records.

The annual questionnaire and financial reports are not yet due for 2014.

##### Customer Billing and Receipting

In 2014, the District started improvements to ensure all of its customers were correctly billed for services. The District's computer was returned by the former general manager; however, the billing system had been erased. In 2014, the District purchased a new billing system, recreated its list of customers, and is now billing all identified customers. The District is currently determining how much its customers owe for previous years.

Review of customer receipting found the following:

|  | 2013 | 2014 |
|--|------|------|
| Customers who made no payments                 | 118  | 29   |
| Customers who paid less than the regular bills | 77   | 61   |
| Customers who paid all bills                   | 7    | 112  |
| Customers who paid more than the regular bill  | 28   | 28   |

### Expenses

There were no original invoices to support payments of fiscal year 2013 expenses.

Our review of Mason County records of District payments for 2013 found the District did not pay all of its bills. Employee withholdings were not paid to the Internal Revenue Service and partial payments were made on District obligations for workers compensation and unemployment taxes.

In 2014 the District paid the employee federal and state tax withholdings, delinquent amounts for workers compensation and unemployment taxes, and interest and penalties for late payments to the Internal Revenue Service.

### *Cause of Condition*

The Commissioners and the former general manager were not ensuring that all customers were billed or that all revenues were collected. They also did not ensure expenses were properly documented, annual questionnaires and financial reports were filed, and records were retained during 2013.

The former general manager did not turn over all District records upon his termination. Without adequate billing records, the District had to recreate its list of properties served by the District to ensure all customers were properly billed in 2014.

### *Effect of Condition*

The lack of consistent billing and collection is not in compliance with state law requiring uniform charges for the same class of customers.

Failure to pay disbursements timely resulted in delinquent taxes. The District was assessed interest and penalties for the late tax filing.

Failure to file the annual financial and questionnaire reports to the State Auditor's Office resulted in noncompliance with state law. In addition, policymakers do not have the District's financial information, which is used to make informed decisions that could impact District operations.

District records prior to 2014 were not retained, as required by state law, and were not available for public review.

### ***Recommendation***

The new board of commissioners made substantial improvements since our last audit by billing customers and providing us records for audit. We recommend the District continue to make improvements by:

- Ensuring annual financial reports and questionnaires are filed with the State Auditor's Office.
- Billing customers for past due amounts and enforcing collection of accounts.
- Implementing controls to safeguard public assets by ensuring disbursements are paid timely.
- Retain District records in accordance with records retention schedules.

### ***District's Response***

*We agree with the findings and accept the report and recommendations as presented.*

*It has been a pleasure working with you, and we appreciate the help you have provided to the District through this process.*

### ***Auditor's Remarks***

We thank the District for its cooperation and assistance during the audit. We will review the District's progress during our next audit.

### ***Applicable Laws and Regulations***

RCW 43.09.240, Local government accounting — Public officers and employees — Duty to account and report — Removal from office — Deposit of collections, states:

Every public officer and employee of a local government shall keep all accounts of his or her office in the form prescribed and make all reports required by the state auditor. Any public officer or employee who refuses or willfully neglects to perform such duties shall be subject to removal from office in an appropriate proceeding for that purpose brought by the attorney general or by any prosecuting attorney.

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once

every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible as long as the treasurer has received a written request from the department, District, or agency, and where the department, District, or agency certifies that the money is held with proper safekeeping and that the entity carries out proper theft protection to reduce risk of loss of funds. Exceptions granted by the treasurer shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.

In case a public officer or employee collects or receives funds for the account of a local government of which he or she is an officer or employee, the treasurer shall, by Friday of each week, pay to the proper officer of the local government for the account of which the collection was made or payment received, the full amount collected or received during the current week for the account of the District.

RCW 40.14.070 Destruction, disposition, donation of local government records - Preservation for historical interest – Local records committee, duties – Record retention schedules – Sealed Records states, states in part:

(2)(a) Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee. Official public records shall not be destroyed . . . .

RCW 43.09.200 Local government accounting-Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove that validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for



the information of the people regarding any and all details of the financial administration of public affairs.

*Budgeting Accounting and Reporting System (BARS) Manual, Accounting, Accounting Principles and General Procedures, Internal Control*, states in part:

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

RCW 43.09.230, Local government account – Annual reports – Comparative statistics, states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

Schedule 22 – Questionnaire for Accountability Audit, states:

This schedule is required for local governments with annual revenues that are usually less than \$300,000. For purposes of this threshold, annual revenues include grants, tax collections, and other receipts, but not bond proceeds or other non-revenues. If annual revenues are usually less than \$300,000 but exceed the threshold in one year due to a one-time revenue source, such as a grant, the schedule should still be completed, as the State Auditor's Office may continue to perform an audit assessment in lieu of an on-site audit.

RCW 57.08.081, Rates and charges — Delinquencies, states in part:

(1) Subject to \*RCW 57.08.005(6), the commissioners of any District shall provide for revenues by fixing rates and charges for furnishing sewer and drainage service and facilities to those to whom service is available or for providing water, such rates and charges to be fixed as deemed necessary by the commissioners, so that uniform charges will be made for the same class of customer or service and facility.

## STATUS OF PRIOR AUDIT FINDINGS

The status of findings contained in the prior years' audit reports of the Trails End Water District is provided below:

### **1. The District does not consistently bill for water, collect all money due or deposit timely, placing public funds at risk.**

Report No. 1009615, dated April 17, 2013

#### *Background*

Citizens had raised numerous concerns that billings were not consistent. Some stated they had not received a water bill for up to three years. Due to inadequate record keeping, we could not determine whether all money collected was deposited in the District's local bank account.

Because funds were not deposited weekly with the Mason County Treasurer's Office, on January 31, 2012, the Treasurer rescinded the exception allowing weekly deposits and required all funds to be deposited within 24 hours.

We noted no original invoices to support the purpose of District expenditures.

#### *Status*

The District has made substantial progress. The District is now billing all identified customers regularly and provided us with billing and receipting records.

The Mason County Treasurer reinstated the exception allowing weekly deposits.

The District provided us with original invoices and other documentation supporting the purpose of district expenditures.

### **2. The District does not have a policy for responding to public records requests and missed annual financial report deadlines.**

Report No. 1009615, dated April 17, 2013

#### *Background*

We made numerous attempts to acquire District records but were unsuccessful until we issued a subpoena on January 27, 2012. The District could not produce all the requested records due to inadequate records retention practices.

The District did not file annual financial reports with our Office for 2009, 2010 or 2011.

In addition, the District is required to submit an annual questionnaire (Schedule 22) to our Office for audit purposes. It submitted a partially completed schedule for 2011 to our Office on October 20, 2011. It did not submit a schedule for 2009 or 2010.

*Status*

The District provided all requested records for 2014. The District has limited records prior to 2014.

The District did not submit an annual financial report or an annual questionnaire for 2013.

## INFORMATION ABOUT THE DISTRICT

The Trails End Water District provides water to the residents within District boundaries. The District provides water to approximately 230 ratepayers.

An elected, three-member Board governs the District.

### Contact information related to this report

|            |  |
|------------|--|
| Address:   | Trails End Water District<br>P.O. Box 850<br>Belfair, WA 98528 |
| Contact:   | Sarah Carlson, Commissioner                                    |
| Telephone: | (360) 552-2503   |

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Trails End Water District at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

| <b>Contact information for the State Auditor's Office</b> |  |
|---|--|
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| <b>Public Records requests</b>                            | (360) 725-5617   |
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