

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.