



Washington State Auditor's Office

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Accountability Audit Report

Tahuya River Valley Water District

Mason County

For the period January 1, 2012 through December 31, 2014

Published January 11, 2016

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Washington State Auditor's Office

January 11, 2016

Board of Commissioners
Tahuya River Valley 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
OLYMPIA, WA

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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 make improvements by:

- Evaluating the District's financial condition and develop a plan for replacement/repairs on the system
- Ensuring annual reports 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
- Retaining District records in accordance with records retention schedules

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 Tahuya River Valley Water District from January 1, 2012 through December 31, 2014.

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:

- Financial condition
- Utility revenue
- General disbursements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The District should continue to improve internal controls over District activities and compliance with state laws.

Background

A three-member Board governs the Tahuya River Valley Water District. A General Manager oversees daily operations. The District has approximately 134 active customers and operates on a yearly budget of approximately \$50,000.

During the prior audit, we identified internal control weaknesses over customer billings, cash receipting procedures, annual report filings and retention of public records, which resulted in two material weakness audit findings.

Description of Condition

During the current audit, we noted the following control deficiencies continue to exist:

- We identified the District's possible inability to continue to operate as a going concern
- Although the District had a billing system for water sales it was not effective or reliable to ensure all customers were billed on a consistent basis.
- The individuals in charge of governing the District did not adequately monitor operations to ensure the 2012 annual financial reports were filed with our Office by the statutory deadline.
- The District did not have procedures in place to ensure supporting documentation for expenditures, customer billings and customer receipts were properly maintained.

Cause of Condition

The Commissioners, former general manager and former bookkeeper were not ensuring:

- All customers were billed or all revenues were collected
- Expenses were properly documented or paid
- The 2012 annual financial reports were filed
- Records were retained for 2012 and 2013

The former general manager left the district in 2014 and failed to turn over all District records upon termination. Without adequate billing records or expenditure documentation the District has had to update customer billing history to ensure all customers are properly billed for past use and update vendor payments to ensure all delinquent expenses are paid.

Effect of Condition

Financial Report Filing

The District did not file the 2012 annual financial report until November 2015, twenty-nine months after the required deadline.

Customer Billing and Receipting

The lack of consistent billing and collection is not in compliance with state law requiring uniform charges for the same class of customers. In 2012 the District collected only \$10,387 in revenues, which is \$42,677 less than expected revenues. In 2013 the District collected \$10,611 in revenues, which is \$42,453 less than expected revenues.

Expenses

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

Records Retention

The District was not able to provide original invoices for 2012 and 2013. The District's expenditures for 2012 and 2013 are not adequately supported.

Financial Condition

The District's utility system has not been upgraded for several years and may need major repairs in the near future. However the District was not consistently collecting revenue in 2012 and 2013 resulting in a lack of funds to pay expenditures. Due to this the District does not have adequate cash flow or reserves to pay for any major repair or replacement to the system.

Recommendation

The District made substantial improvements since our last audit by billing customers, paying off delinquent expenditures and providing records for our audit. We recommend the District continue to make improvements by:

- Evaluating the District's financial condition and developing a plan for replacement/ repairs on the system.

- Ensuring annual financial reports 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.
- Retaining District records in accordance with records retention schedules.

District's Response

Financial Report Findings: *The district did not have adequate controls or oversight to ensure that the 2012 annual financial report was submitted within 120 days within the close of the fiscal year. As this report did not get submitted until November of 2015 we agree with this finding. The people who were responsible for submitting this report and said that it had been completed were terminated in April of 2014 due to cause. The reports for 2013 and 2014 have been submitted within the required timeframe as described by law and the district feels that this item will not reoccur.*

Customer Billing and Receipting: *The district were not consistently billing in 2012, 2013, and the first quarter of 2014. Before October of 2013 the district was unable to bill with any consistency. The district began sending bills out for September of 2013, though admittedly more accuracy was obtained when Commissioners took over the billing and book keeping of the district. Bills have been sent out to all customers that have been identified as active. Receipts have been collected from the district PO Box by Commissioner #1 and deposited into the Districts bank account. The customer payment slips are received by Commissioner #2 and the payment is inserted into the billing program on the district's computer. This information is backed up electronically and the payment slips are combined with the billing program print out and retained for paper backup. The water sales payment funds are transferred via check by Commissioner #2 within 24 hours to the Mason County Treasurer. The district feels that this item will not reoccur. In October of 2015 the District hired a book keeper to take over from Commissioner #2 for billing and book keeping.*

Expenses: *The district was not able to produce original Invoices to support payments for fiscal years 2012 and 2013 expenses. The District did not have adequate controls or oversight to ensure all district expenses were paid and supporting documentation was retained. The water manager and book keeper that the district had retained had received the records from the previous book keeper and had retained all district records at their residence. This was identified as a problem during the districts last audit when requested records were not*

supplied to the audit team. When the persons were terminated the district received the records from the inception of the district through 2004 and some electronic data including meeting minutes and resolutions. Invoices defining payments of vouchers were not included. Since 2014 a system has been set up that places the warrant sheet that is provided from the Mason county Treasures office with the invoice, in addition the months invoices are filed with a copy of the voucher authorization sheet that has been signed by at least two commissioners at a publicly held meeting. The district feels that this item will not reoccur.

Records retention: *In 2012 and 2013 the District did not have adequate controls or oversight to ensure original invoices, customer billings and receipts, and board meeting minutes were retained. The findings on the lack of oversight of record retention in the area of invoices, billing and receipts were covered in the previous findings, as for the retention of board minutes Commissioner #2 has retained all of the minutes of every board meeting held since 2003 and the board meeting minutes for 2012 and 2013 were provided to the audit team. Commissioner #2 apologizes for any miscommunication that there were minutes missing when in actuality there were times when meetings were not held due to lack of a quorum or the water manager could not attend the meeting.*

Financial Condition: *The District did not have adequate controls or oversight for billing, cash receipting, and disbursements to ensure the District could continue to operate as a going concern. The district agrees with this finding and came to this conclusion that led to the termination of the persons that failed to correct the problems that were presented at the last audit, the billing problems and the paying of debts. The district board members have taken a more "hands on" approach on running the district and since doing so have paid off the 3 delinquent loan payments to the Dept. of Commerce for years 2011 through 2013 in addition to the on time payments for 2014 and 2015. We also paid all outstanding debts to two contractors and an Engineering firm that had done past services for the district. The issues of nonpayment and non filing of required quarterly and annual tax information were addressed when the matter was brought to the board's attention. The district has retained the services of a tax accountant and after a year and a half have satisfied the Internal Revenue Service and had the remaining fines removed. The accountant continues to take care of the district's federal tax and L&I requirements. The district has paid the required past state excise taxes in addition to 2013 and 2014, renewed insurance coverage in April of 2014 and has raised revenue from \$9608 in January to \$22963 in September to increase funds for capital improvements and repairs as needed.*

Recommendation: *The District agrees with all of the recommendations by the audit team, with the exception developing a plan for replacement/repairs on the system, it has been doing them since April of 2014 and will continue to do so.*

The district is in the process of updating the bylaws to include fees and collections, and Public records requests and open meeting requirements. The district is budgeting funds for capital reserves and the district budget will be finalized at the November 2015 meeting.

The district acknowledges the need to develop a long term plan for infrastructure replacement, but with the past history of failure to pay the loan payments between the years of 2011-2013, application for a loan for infrastructure replacement might not occur until 2019 when the loan is paid off.

The existing historical records are retained in the district's building and no longer at "the book keeper's house"

The District since April 2014 have implemented safeguards for public assets by ensuring all debts are paid in a timely manner and records of debts and the payments are retained as required.

Outgoing Commissioner #2 will assist the bookkeeper with the upcoming annual financial report for fiscal year to ensure timely reporting. The district has purchased an accounting program and the bookkeeper is in the process of uploading fiscal year 2015 data as recommended by the audit team for ease of future record keeping.

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.

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 in part:

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.

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

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Tahuya River Valley Water District. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 1/1/2009- 12/31/2011	Report Ref. No: 1009036	Finding Ref. No: 2011-1
Finding Caption: The District does not consistently bill for water, collect all money due or deposit it. This puts public funds at risk and raises issues about the District's ability to continue operations.		
Background: We performed a three year audit of the District due to concerns citizens brought to our Office and because the District failed to submit required annual financial reports to our Office for three years.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Billing has been consistent since Sept 2013. All money collected has been deposited and has records for verification. Funds have been transferred to the county treasurer within 24 hours as required.</i>		
Audit Period: 1/1/2009- 12/31/2011	Report Ref. No: 1009036	Finding Ref. No: 2011-2
Finding Caption: The Tahuya River Valley Water District does not have a policy for responding to public records requests and missed annual report financial report filing deadlines.		
Background: We performed a three year audit of the District due to concerns citizens brought to our Office and because the District failed to submit required annual financial reports to our Office for three years.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Since the last audit, the district has responded to all requests both verbal and written within 5 business days as required. The district is in the process of adding written policy to the district bylaws describing public records requests. The district has filed the 2013 and 2014 annual financial reports within the required times. The 2012 annual financial report was</i>		

filed November 2015 which was not within the required time frame. The governing body had believed that the report had been submitted on time by the previous book keeper who is no longer employed by the district. The district has corrected the filing part of this action and when the bylaws are updated by December 2015, this finding will be fully corrected.

INFORMATION ABOUT THE DISTRICT

Tahuya River Valley Water District is governed by a three-member Board of Commissioners. It has 134 active customers and operate on an approximate \$50,000 budget.

Contact information related to this report	
Address:	Tahuya River Valley Water District P.O. Box 849 Belfair, WA 98528
Contact:	Anthony Butler, Commissioner Position #2
Telephone:	(360) 275-9507

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Tahuya River Valley 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.

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