



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

Public Utility District No. 1 of Jefferson County

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

Published August 22, 2016

Report No. 1017251





Washington State Auditor's Office

August 22, 2016

Board of Commissioners
Public Utility District No. 1 of Jefferson County
Port Hadlock, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Public Utility District No. 1 of Jefferson County's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Public Utility District No. 1 of Jefferson County January 1, 2013 through December 31, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Public Utility District No. 1 of Jefferson County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the Schedule of Expenditures of Federal Awards. We were engaged to audit the financial statements and a disclaimer of opinion was issued in a separate report.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies related to the financial statements or the Schedule of Expenditures of Federal Awards.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses related to the Schedule of Expenditures of Federal Awards. We identified deficiencies that we consider to be material weaknesses related to the financial statements, which are included in a separate report.

We noted no instances of noncompliance that were material to the financial statements or Schedule of Expenditures of Federal Awards of the District.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with OMB Circular A-133.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.850	Rural Electrification Loans and Loan Guarantees

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

SECTION II – FINANCIAL STATEMENT FINDINGS

In a separate report dated August 16, 2016, matters related to the financial statements were included in finding 2013-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Public Utility District No. 1 of Jefferson County January 1, 2013 through December 31, 2013

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of Public Utility District No. 1 of Jefferson County. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 01/01/2010 – 12/31/2012	Report Ref. No: 1011579	Finding Ref. No: 2012-002	CFDA Number(s): NA
Federal Program Name and Granting Agency: NA		Pass-Through Agency Name: NA	
Finding Caption: The District's internal controls were inadequate to ensure accurate and timely federal grant reporting, resulting in a missed federal audit deadline.			
Background: Our audit found District personnel responsible for preparation of the Schedule of Expenditures of Federal Awards (SEFA) did not have an adequate understanding of the reporting requirements. In addition, the District's process for financial statement preparation did not include a reconciliation of reported grant expenditures to accounting records or an effective secondary review capable of detecting significant misstatements.			
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The PUD has recently hired a new Controller with training and experience in grant accounting and reporting requirements. She will be responsible for implementing and enforcing improved internal controls.</i>			

Audit Period: 01/01/2012 – 12/31/2012	Report Ref. No: 1011579	Finding Ref. No: 2012-003	CFDA Number(s): 66.468
Federal Program Name and Granting Agency: Capitalization Grants for Drinking Water State Revolving Funds, Environmental Protection Agency		Pass-Through Agency Name: Department of Commerce	
Finding Caption: The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.			
Background: During 2012, the District paid \$1,614,360 of its loan program funding to four vendors subject to suspension and debarment requirements. The District did not have procedures in place to verify whether the vendors were suspended or debarred prior to entering into the contracts, or inform the vendors of their responsibilities regarding lower-tier covered transactions.			
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The PUD was still unaware of the requirement as of 2013. The PUD has since taken corrective action.</i>			

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Public Utility District No. 1 of Jefferson County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Public Utility District No. 1 of Jefferson County
Port Hadlock, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Schedule of Expenditures of Federal Awards of Public Utility District No. 1 of Jefferson County, Washington, as of and for the year ended December 31, 2013, and have issued our report thereon dated August 16, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the schedule, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the schedule, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's schedule will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's schedule is free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 16, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

**Public Utility District No. 1 of Jefferson County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Public Utility District No. 1 of Jefferson County
Port Hadlock, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Public Utility District No. 1 of Jefferson County, Jefferson County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about

the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

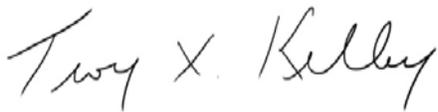
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any

deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 16, 2016

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Public Utility District No. 1 of Jefferson County January 1, 2013 through December 31, 2013

Board of Commissioners
Public Utility District No. 1 of Jefferson County
Port Hadlock, Washington

REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the accompanying Schedule of Expenditures of Federal Awards of Public Utility District No. 1 of Jefferson County, Washington, for the year ended December 31, 2013, and the related notes (the schedule).

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant

to the District's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule of Expenditures of Federal Awards referred to above presents fairly, in all material respects, the expenditures of federal awards of Public Utility District No. 1 of Jefferson County for the year ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

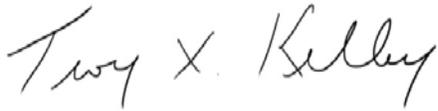
Other Matters

We were engaged to audit the financial statements of Public Utility No. 1 of Jefferson County as of and for the year ended December 31, 2013, and our report thereon, dated August 16, 2016, expressed a disclaimer of opinion on those financial statements.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 16, 2016

FINANCIAL SECTION

Public Utility District No. 1 of Jefferson County January 1, 2013 through December 31, 2013

SCHEDULE

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

**Public Utility District #1 of Jefferson County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Environmental Protection Agency Office of Water (WA Department of Commerce)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM10-952-018	173,458		173,458	1,2
Environmental Protection Agency Office of Water (WA Department of Commerce)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM12-952-091	123,702		123,702	1,2
Total CFDA 66.468				297,160	0	297,160	
Department of Agriculture Rural Utilities Service	Rural Electrification Loans and Loan Guarantees	10.850	N/A		115,507,000	115,507,000	1,2,3
Total CFDA 10.850				0	115,507,000	115,507,000	
Total Federal Awards Expended:				297,160	115,507,000	115,804,160	

The Notes to the Schedule of Expenditures of Federal Awards is an integral part of this statement

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Public Utility District #1 of Jefferson County (the District) under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirement of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 -Federal Loans

The District maintains loans with the U.S Department of Agriculture through the Rural Utilities Service. Reported expenditures represent drawdowns during 2013. The amount of the loans outstanding as of December 31, 2013 is \$115,507,000.

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.

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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