



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Accountability Audit Report**  
**Snohomish County Diking District**  
**No. 2**

**For the period January 1, 2014 through December 31, 2016**

**Published April 26, 2018**

**Report No. 1020978**





**Office of the Washington State Auditor**  
**Pat McCarthy**

April 26, 2018

Board of Commissioners  
Snohomish County Diking District No. 2  
Everett, 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,

Pat McCarthy  
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 most areas we examined.

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

We recommended the District allocate the attention and resources necessary to establish internal controls to prepare and submit a timely annual report in accordance with state law.

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of Snohomish County Diking District No. 2 from January 1, 2014 through December 31, 2016.

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:

- Annual report filing
- Financial condition
- General disbursements
- Levee safety program

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**2016-001    The District's internal controls over annual reporting filing were inadequate to ensure annual reports were submitted timely to the State Auditor's Office in accordance with state law.**

### *Background*

A three-member Board governs the Snohomish County Diking District No. 2. The District receives about \$25,000 in annual operating revenues.

District Management, the state Legislature, and state and federal agencies rely on financial statement information to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance that financial reports that include the District's financial transactions are accurate and submitted promptly to our Office.

The District has not filed annual reports dating back to before 2008 and received disclaimer findings for those audit periods.

### *Description of Condition*

State law requires local governments to submit annual financial reports to our Office within 150 days after the government's fiscal year ends.

The District did not take appropriate action to prepare or submit the annual reports for fiscal years 2014, 2015 and 2016 to our Office as required.

### *Cause of Condition*

District management did not establish procedures or dedicate resources to ensure required annual reports were prepared and submitted.

### *Effect of Condition*

The District did not submit annual reports for 2014, 2015 and the 2016 fiscal years. Not filing the financial reports hinders transparency to our citizens and our Office's efforts to compile financial and statistical information used by the state Legislature and others.

## ***Recommendation***

We recommend the District allocate the attention and resources necessary to establish internal controls to prepare and submit a timely annual report in accordance with state law.

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

*In a response dated February 17, 2018, the District states, in part: “. . . no evidence of mishandling of funds was found. Our records were in order, and complete. It is important to note that no complaints against the District have been filed.*

*The sole deficiency that was identified was that the District did not dedicate sufficient resources to file annual reports to the State Auditor's office.*

*Dike District #2 is accountable to a grand total of 15 land owners. Three of them serve as commissioners. Our meetings are open to the owners at all times, and we encourage their participation and advice. Our books are always open to them for inspection and review. In addition to the assessments we collect from them, the owners often contribute their time and equipment to help maintain the dikes for the good of the district, and to keep costs down.*

*No one is paid for their time. The District does not own any equipment. We have no office. We have no official District email accounts or phone numbers.*

*In order to comply with the requirements imposed by the State Auditor's office to electronically file the annual report, we would need to allocate precious funds to purchase electronic equipment and software that would need only be used for the a once a year report. The equipment would need to be replaced regularly as software is updated and the old systems outdated and non-compliant with the new. This is an unreasonable expectation for a small district such as ours. In an effort to offer our district owners maximum protection at the lowest cost, individuals volunteer minor use of their personal equipment from time to time to prepare letters or legal required notifications to the 15 owners. Software owned by private individuals is not always compatible with email attachments and other software programs used by government offices. It is unreasonable to expect volunteers to purchase software that is required in order to meet the need of a public entity.*

*The State Auditor's office needs to provide an alternate method for small districts to comply with the required annual reporting than the current electronic requirement. Such alternate method could include an exemption from the requirement entirely, unless there is a complaint. Unless a mandatory audit*

*produces deficiencies, there should be no charge for the audit imposed on the District.*

*This audit and the Annual Reporting requirements have placed a significant and unnecessary burden to this small district. Time, resources, and effort would be better spent investigating larger jurisdictions.”*

### ***Auditor’s Remarks***

The Office of the Washington State Auditor has a constitutional duty to audit all governments in the state. State law requires all governments, regardless of size, to file an annual report with our Office. We also understand the challenges that come with operating a small government. That is why our Office offers small governments the chance to reduce audit costs and resources to help with annual report filing.

- Governments with revenues under \$300,000 a year are eligible for our Audit Assessment process, which results in lower audit costs. Some 750 governments across Washington are eligible for this program. However, to qualify for this process, governments must file their annual reports. Because the District did not file its annual reports, we spent more time conducting its audit, resulting in additional audit costs.
- While governments are required by law to file annual reports, they are not required to file them electronically. Our Office provides online, over-the-phone and in-person resources and assistance, free of charge, to help local governments file their annual reports. If a government desires to file annual reports via hard copy, by mail, our Office will provide the required forms.
- The Office offers free annual report filing workshops around the state to help local governments file online and receive one-on-one assistance with filing requirements.

We will follow up on the status of the audit finding during the next audit.

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

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.

RCW 43.09.230 Local government accounting – 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 form and methods prescribed by the state auditor, which shall be uniform for all account 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.

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

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal Control is a process- affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

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.



## INFORMATION ABOUT THE DISTRICT

Snohomish County Diking District No. 2 provides maintenance of a flood control, diking system near the city of Everett.

An elected, three-member Board of Commissioners governs the District. The District collected special assessment fees of \$22,270, \$24,134 and \$27,133 in fiscal years 2014, 2015 and 2016, respectively.

Contact information related to this report	
Address:	Snohomish County Diking District No. 2 P.O. Box 1525 Everett, WA 98206
Contact:	Ruth Brandal, Commissioner
Telephone:	(425) 334-7403

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for Snohomish County Diking District No. 2 at <http://portal.sao.wa.gov/ReportSearch>. The District did not receive an audit for the 2008-2010 and 2011-2013 fiscal years because it did not submit the required annual financial reports with our Office.

## 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>