



Office of the Washington State Auditor  
Pat McCarthy

## Accountability Audit Report

# East Gig Harbor Water District

For the period January 1, 2021 through December 31, 2022

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## Office of the Washington State Auditor Pat McCarthy

March 25, 2024

Board of Commissioners  
East Gig Harbor Water District  
Gig Harbor, Washington

### **Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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.

Attached is our independent audit report on the District's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy, State Auditor  
Olympia, WA

### ***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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## AUDIT RESULTS

### Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, District operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the District could make improvements. These recommendations are included with our report as findings.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

### About the audit

This report contains the results of our independent accountability audit of the East Gig Harbor Water District from January 1, 2021 through December 31, 2022.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the District's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2022 and 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Annual report filing – timeliness and completeness
- Treasury activities – authority to be own treasurer, authorized public depositories and authorized investments
- Utility accounts receivable – collections and deposits
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### East Gig Harbor Water District January 1, 2021 through December 31, 2022

- 2022-001    The District did not comply with state law requirements to use the County Treasurer.**

#### *Background*

State law (RCW 57.20.135) allows water districts with more than 2,500 customers to designate a treasurer other than the county. The District provides water services to fewer than 200 customers in the East Gig Harbor community in Pierce County. The District serves fewer than 200 customers, requiring it to use the Pierce County Treasurer.

In the prior two audits, we recommended the District begin using the Pierce County Treasurer, as state law requires.

#### *Description of Condition*

Our audit found the District received about \$175,000 and \$167,000 in 2021 and 2022, respectively, but continued to receipt payments and pay bills out of its own bank account rather than use the services of the County Treasurer.

#### *Cause of Condition*

District officials said they have found it difficult to work with the County because it requires additional time, so they have chosen not to use its services for most of the District's banking activities.

The County does hold property tax funds collected in prior years for the District, which are used to pay the District's debt. District officials said they have struggled to get the County to provide statements showing how much money it is holding, and that it has not resolved errors they have identified. The District was unsuccessful in obtaining County Treasurer statements for our audit.

### ***Effect of Condition***

Since state law does not provide an alternative to using the county treasurer for water districts with fewer than 2,500 customers, the District's banking activities are noncompliant with state law.

### ***Recommendation***

We continue to recommend the District comply with state law by using the Pierce County Treasurer.

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

*We will add an agenda item to discuss our paying bills through our own bank account. The board will need to assess if compliance is detrimental to our ability to pay our invoices in a timely manner.*

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

We thank the District for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during our next audit.

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

RCW 57.20.135, Treasurer – Designation – Approval – Powers and duties – Bond.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### East Gig Harbor Water District January 1, 2021 through December 31, 2022

- 2022-002      The District lacked adequate internal controls over financial reporting to ensure compliance with state law requiring timely annual report submissions.**

#### *Background*

Federal and state agencies, the Board of Commissioners, and the public rely on the information included in the District's financial statements and reports to make decisions. The District is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance its financial reporting is reliable.

State law (RCW 43.09.230) requires the District to submit an annual financial report to the State Auditor's Office within 150 days after the end of its fiscal year. The annual financial report includes summaries of financial information and supporting schedules.

#### *Description of Condition*

The District did not submit the required annual reports to our Office within 150 days of fiscal year-end. The District has not yet filed its 2021 and 2022 annual reports.

#### *Cause of Condition*

The District has no employees. Instead, the District contracts with a third party to manage its water system, and the three elected Commissioners perform all administrative functions. The Commissioner responsible for financial accounting and reporting manually keeps track of much of the District's financial activity, and lacked procedures and the knowledge required to prepare the annual report.

#### *Effect of Condition*

Late annual report filings prevent District official, the public and other interested parties from obtaining financial information about the District. These delays also hinder public transparency and our Office's efforts to compile statistical and financial information that the Legislature and other parties use.

### ***Recommendation***

We recommend the District establish internal controls to ensure timely financial reporting in accordance with state law.

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

*We will make every effort to comply with the Audit report to provide our annual financial report within the deadline.*

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

We thank the District for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during our next audit.

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

RCW 43.09.230, Local government accounting – Annual reports – Comparative statistics.

*Budgeting, Accounting and Reporting System (BARS) Manual 3.1.20 – Internal Controls*

## INFORMATION ABOUT THE DISTRICT

The East Gig Harbor Water District was formed on May 21, 2002, under Title 57 of the Revised Code of Washington. The District provides water to the East Gig Harbor community in Pierce County.

An elected, three-member Board of Commissioners governs the District. Management and operation of the system is contracted out. The District received approximately \$175,000 and \$167,000 in revenues in 2021 and 2022, respectively.

### Contact information related to this report

Address:	East Gig Harbor Water District P.O. Box 1427 Gig Harbor, WA 98335
Contact:	Joanie Brodie
Website:	<a href="https://www.egha.org/water-district">https://www.egha.org/water-district</a>

*Information current as of report publish date.*

### Audit history

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

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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