



# Washington State Auditor's Office

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## Accountability Audit Report

# Public Utility District No. 1 of Kittitas County

For the period January 1, 2012 through December 31, 2013

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## Washington State Auditor's Office

July 2, 2015

Board of Commissioners  
Public Utility District No. 1 of Kittitas County  
Ellensburg, 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,

A handwritten signature in blue ink, reading "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM  
ACTING 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 ensure responsible staff receive adequate training and understand bid law requirements. We further recommended the District follow policies and procedures to ensure it maintains bid documentation, and is in compliance with state and local bid laws.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to District management in a letter dated June 25, 2015, related to public works projects. We appreciate the District's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of Public Utility District No. 1 of Kittitas County from January 1, 2012 through December 31, 2013.

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:

- On-call contracts
- General disbursements, including credit cards
- Work orders
- Purchases and bid law requirements

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**2014-001    The District does not have adequate internal controls over procurement to ensure it received the best possible prices when purchasing supplies and materials.**

### *Background*

State laws provide an open and competitive public forum for bidders. The purpose is to enable governments to obtain the best goods for the most reasonable prices. Local governments must adopt policies to ensure they comply with these laws. Public Utility Districts are required to competitively bid all purchases over \$15,000. Specifications for the purchases must be available to all interested parties and must be approved by the governing body. The submitted bids must be opened and read publicly at a fixed time and place and the contract must be awarded to the lowest most responsible bidder.

### *Description of Condition*

The District purchased \$779,000 of supplies, materials and equipment from January 2012 through December 2013 without calling for competitive bids. This included 24 purchases ranging from \$15,024 to \$100,197 for various items such as electric cables, poles, utility meters, and transformers.

For five purchases of utility meters, totaling \$227,849, the District received informal quotes instead of advertising for competitive bids.

### *Cause of Condition*

The District did not have adequate understanding of state procurement requirements. Further, District management did not have policies and procedures in place to ensure compliance with these requirements.

### *Effect of Condition*

The District cannot ensure it received the best price for the items purchased and that all interested parties were given an equal opportunity to bid.

### *Recommendation*

We recommend the District ensure responsible staff receive adequate training on bid law requirements. We further recommend the District follow policies and procedures to ensure it maintains bid documentation, and is in compliance with state and local bid laws.

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

*Management of the District acknowledges its responsibility to design and implement internal controls over procurement that will enable the District to receive the best possible prices when purchasing supplies and materials. The District also recognizes that its policies and procedures related to an open and competitive public forum for bidders were not followed consistently through the District's fiscal year ended December 31, 2013.*

*The District hired a new Finance Manager and new General Manager during the District's fiscal year ended December 31, 2012 and 2013, respectively. In addition, the District contracted with an external CPA firm to assist the District in reviewing its internal control policies and procedures and identifying opportunities for improvement. As a result of that process, the external CPA firm provided management with a listing of recommendations for potential improvements in the District's internal controls over various accounting transaction cycles. Included in this list of recommendations were the implementation of additional controls over the inventory and purchasing transaction cycle. While management believes that significant improvements in the internal controls over procurement have been made, these controls have not been fully designed and implemented. Management believes that the improvements which have already been incorporated over the procurement process have resulted in an increase in the identification of failures to comply with bid law requirements.*

*The District's management will continue to develop and implement policies and procedures to improve internal controls over procurement. Additionally, the District's management will ensure that responsible staff are adequately trained on bid law requirements and that proper policies and procedures are followed.*

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

We thank District management and staff for their assistance during the audit. We will follow up on the status of the issue during our next scheduled audit.

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

RCW 54.04.070 – Contracts or work or materials, states in part:

- (1) Any item, or items of the same kind of materials, equipment, or supplies purchased, the estimated cost of which is in excess of fifteen thousand dollars, exclusive of sales tax, shall be by contract. However, a district may make purchases of the same kind of items of materials, equipment, and supplies not exceeding seven

thousand five hundred dollars in any calendar month without a contract, purchasing any excess thereof over seven thousand five hundred dollars by contract.

(2) Any work ordered by a district commission, the estimated cost of which is in excess of twenty-five thousand dollars, exclusive of sales tax, shall be by contract. However, a district commission may have its own regularly employed personnel perform work which is an accepted industry practice under prudent utility management without a contract. For purposes of this section, "prudent utility management" means performing work with regularly employed personnel utilizing material of a worth not exceeding one hundred fifty thousand dollars in value without a contract. This limit on the value of material being utilized in work being performed by regularly employed personnel shall not include the value of individual items of equipment purchased or acquired and used as one unit of a project.

(3) Before awarding a contract required under subsection (1) or (2) of this section, the commission shall publish a notice once or more in a newspaper of general circulation in the district at least thirteen days before the last date upon which bids will be received, inviting sealed proposals for the work or materials. Plans and specifications for the work or materials shall at the time of publication be on file at the office of the district and subject to public inspection. Any published notice ordering work to be performed for the district shall be mailed at the time of publication to any established trade association which files a written request with the district to receive such notices. The commission may, at the same time and as part of the same notice, invite tenders for the work or materials upon plans and specifications to be submitted by the bidders.

(4) As an alternative to the competitive bidding requirements of this section and RCW 54.04.080, a district may let contracts using the small works roster process under RCW 39.04.155.

RCW 54.04.082, Alternative bid procedure, states in part:

For the awarding of a contract to purchase any item, or items of the same kind of materials, equipment, or supplies in an amount exceeding fifteen thousand dollars per calendar month, but less than sixty thousand dollars per calendar month, exclusive of sales

tax, the commission may, in lieu of the procedure described in RCW 54.04.070 and 54.04.080 requiring public notice to invite sealed proposals for such materials, equipment, or supplies, pursuant to commission resolution use the process provided in RCW 39.04.190. Waiver of the deposit or bid bond required under RCW 54.04.080 may be authorized by the commission in securing such bid quotations.



## RELATED REPORTS

### **Financial**

Our opinion on the District's financial statements is provided in a separate report issued in June 2015, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding that the District was not aware of accounting principles related to recording capital contributions.

## INFORMATION ABOUT THE DISTRICT

Public Utility District No. 1 of Kittitas County purchases, generates, transmits and distributes electricity. The District provides services to approximately 4,300 customers in an area covering approximately 2,135 square miles in Kittitas County.

The District is administered by a three member Board of Commissioners and has 13 employees. For fiscal years 2012 and 2013, the District received revenue in excess of \$8 million and operated on an annual budget of approximately \$7 million.

<b>Contact information related to this report</b>	
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*Information current as of report publish date.*

## Audit history

You can find current and past audit reports for Public Utility District No. 1 of Kittitas County 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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