



Washington State Auditor's Office

Independence • Respect • Integrity

Accountability Audit Report

Irvin Water District No. 6

Spokane County

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

Published August 27, 2015

Report No. 1014789





Washington State Auditor

August 27, 2015

Board of Commissioners
Irvin Water District No. 6
Spokane, 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,

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.

The District Manager exceeded his authority by directing the Office Manager to increase pay above the commissioner authorized 1.5 percent. We recommend that the District seek repayment of the additional payroll amount of \$16,211 that exceeded the approved increase. We also recommend the District evaluate its policies and procedures over payroll to ensure that internal controls are adequately designed to safeguard public resources.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of Irvin Water District No. 6 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:

- Utility billing/receipting
- Payments/expenditures
- Payroll/personnel

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The District Manager exceeded his authority by increasing employee pay above the Commissioner approved amount.

Description of Condition

Irvin Water District has three employees. On February 12, 2013, the Commissioners took official action at an Open Public Meeting to approve the use of the Social Security Cost Of Living Adjustment as the basis for future District payroll raises. The amount for fiscal year 2014 was 1.5 percent and was to take effect on January 1, 2014, for all three employees. The District Manager exceeded his authority by directing the Office Manager to increase pay above the commissioner authorized 1.5 percent. This action violated the Washington State Constitution and resulted in a misappropriation of District funds.

Actual compensation increases for District employees are summarized below:

Position	Actual Percentage Increase	Extra Compensation
District Manager	15.90%	\$ 9,217.14
Operations Manager	12.70%	\$ 5,888.16
Office Manager	3.60%	\$ 1,106.64
	Total	\$ 16,211.94

The Commissioners did not become aware of the payment of extra compensation until the end of the year. During the 2015 budget development meeting the Office Manager brought this to the Commissioners attention. Currently, the Commissioners are not seeking repayment of the extra compensation.

This report is being referred to the Spokane County Prosecuting Attorney's Office.

Cause of Condition

The Commissioners approve expenditures each month, but did not have adequate internal controls in place to identify that payroll had been increased beyond the amount approved until it was brought to their attention by the Office Manager at the end of fiscal year 2014.

Effect of Condition

District's employees received a total of \$16,211.94 in extra compensation in violation of official actions of the Board of Commissioners and the state Constitution.

Recommendation

We recommend that the District:

- Evaluate its policies and procedures over payroll to ensure that internal controls are adequately designed to safeguard public resources.
- Seek recovery of the inappropriate extra compensation of \$16,212. Any compromise or settlement of this claim by the District must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or matk1@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

District's Response

We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud. We have also decided not to seek restitution for the extra payroll compensation for fiscal year 2014.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

Constitution, Article 2, Section 25, Extra Compensation Prohibited, states:

The legislature shall never grant any extra compensation to any public officer, agent employee, servant, or contractor, after the services shall have been rendered, or the contract entered into, nor shall the compensation of any public officer be increased or diminished during his term of office. Nothing in this section shall

be deemed to prevent increases in pensions after such pensions shall be been granted.

The Revised Code of Washington (RCW) 43.09.200 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.

The Budgeting, Accounting and Reporting System (BARS) Manual states in part:

Accounting Principles and Internal Control

3.1.3 Internal Control

Purpose and Definition of Internal Controls

3.1.3.10 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:

3.1.3.20 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

3.1.3.30 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. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

INFORMATION ABOUT THE DISTRICT

Irvin Water District No. 6 provides water and limited irrigation services to approximately 4,000 customers.

The District is governed by a three-member Board of Commissioners which appoints a District Manager to oversee the District's operations as well as its two full-time employees. From 2012 to 2014, the District operated on budgets ranging from approximately \$568,000 to \$596,000. The Spokane County Treasurer's and Auditor's offices process the District's revenue and expenditures.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for Irvin Water District No. 6 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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