



Washington State Auditor's Office

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Assessment Audit Report

Sacheen Lake Water and Sewer District

Pend Oreille County

For the period January 1, 2013 through December 31, 2015

Published September 26, 2016

Report No. 1017432





Washington State Auditor's Office

September 26, 2016

Board of Commissioners
Sacheen Lake Water and Sewer District
Newport, Washington

Report on Assessment Audit

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.

The attached report describes the procedures performed and conclusions for the areas we reviewed. We appreciate the opportunity to work with your staff and we value your cooperation during the assessment audit.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

AUDIT SUMMARY

Results in brief

Based on the procedures performed, nothing came to our attention in the areas we reviewed that caused us to believe the District was not in substantial compliance with applicable state laws, regulations, and its own policies, or had significant weaknesses in controls over the safeguarding of public resources. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

About the assessment audit

This report contains the results of our independent audit of the Sacheen Lake Water and Sewer District from January 1, 2013 through December 31, 2015.

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. Local governments are also required by state law (RCW 43.09.230) to prepare and submit certified annual reports to our Office summarizing such things as revenues received, collections made, amounts receivable or payable, expenditures made, and debt owed.

This assessment audit was conducted under the authority of RCW 43.09.260, which requires the State Auditor's Office to examine the financial affairs of all local governments at least once every three years. Assessment audits are risk-based, limited-scope reviews of small local governments with less than \$300,000 in annual revenues. To help minimize audit costs, our work for this engagement was conducted primarily using financial and other information provided by the District.

This assessment audit was limited to the following:

- Reviewing meeting minutes for compliance with the Open Public Meeting Act.
- Inquiring as to internal controls over assets, revenues, and disbursements.
- Verifying that annual reports submitted to our Office were complete and filed timely in compliance with state law.
- Reviewing the District's annual revenues and expenditures for unusual transactions or trends.
- Corroborating financial information reported by the District by comparing its annual revenues, expenditures, and cash and investment balances to third-party sources.

- Reviewing expenditures for indications of unusual activities, excessive Board of Commissioners compensation, conflicts of interest, or procurement requirements.
- Evaluating the District's financial information for indications of financial difficulties.

Financial

Our opinion on the District's Schedule of Expenditures of Federal Awards (financial statement) and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statement. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate federal program audit report. That report includes a federal finding regarding a significant deficiency in internal controls with Davis-Bacon Act requirements in its Capitalization Grants for Clean Water State Revolving Fund program. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Sacheen Lake Water and Sewer District is comprised of approximately 580 properties in the Sacheen Lake community in south Pend Oreille County.

A three-member Board of Commissioners governs the District. The Board appoints a District Manager to oversee the District's daily operations. The District operates on approximately \$60,000 from its annual maintenance and operations levy and the Board focuses on the lake's water level, water quality, education on topics of importance that impact the lake, and care of Myers-Harter Sanctuary.

The District is currently completing the construction of a \$15 million community sewer system that as a phase I project serves 310 of the District's properties around the lake. This project removed antiquated and failing on-site septic systems and uses current technology to adequately transport and treat waste thereby reducing the potential for lake water degradation as well as providing better protection of on-site wells used for drinking water.

Contact information related to this report	
Address:	Sacheen Lake Water and Sewer District 8272 Fertile Valley Road. Newport, WA 99156
Contact:	Sheila Pearman, District Manager
Telephone:	(509) 447-4641

Information current as of report publish date.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Sacheen Lake Water and Sewer District Pend Oreille County January 1, 2013 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Sacheen Lake Water and Sewer District. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: January 1, 2010 through December 31, 2012	Report Ref. No.: 1012271	Finding Ref. No.: 1
Finding Caption: The District's financial condition puts it at risk of not being able to meet its financial obligations.		
Background: Through a water quality diagnostic study it was determined the District was in need of a new wastewater system and it took steps to construct and develop a community sewer system around the lake that uses current technology to adequately transport and treat waste and reduce the potential for water quality degradation and threats to public health. While the majority of the property owners within the District's boundaries support the development of a wastewater treatment system, some disagree on the future of the District and its plans. To fund the project, the District was approved for a significant Public Works Trust Fund (PWTF) loan of \$8,580,000 for which it deferred its loan payments for five years. The District originally had difficulty forming a local improvement district (LID) to collect fees from property owners to repay the PWTF loan. Due to the District's limited cash balances, it may encounter difficulties collecting some LID assessments, which are used to fund a significant portion of the system's costs and the District may be at risk of not meeting its financial obligations.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Corrective actions taken to the findings of our 2010-2012 audit are:</i> 1. <i>The District secured additional funding from the Department of Ecology at 0% interest as well as \$5,000,000 in grant funding to complete our Wastewater Collection and Treatment System. With the 0% loan we were able to repay \$5,856,629.77 of our Public Works Trust Fund Loan that was outstanding with 2% interest. Public Works also allowed for the alternate funding source to act as matching funds therefore reducing our remaining loan to a rate of 1/2%.</i>		

2. *The District has begun billing customers and will begin paying down the loan debt per amortization schedules of both Public Works and Ecology in 2017.*
3. *The District has made efforts to secure proviso money from the state legislature in order to reduce our debt. Although we were unsuccessful last session we plan to again put forth a request for debt relief during the next session.*

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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