



Office of the Washington State Auditor
Pat McCarthy

Federal Program Audit Report
Sacheen Lake Water and Sewer
District

Pend Oreille County

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

Published August 14, 2017

Report No. 1019626





Office of the Washington State Auditor
Pat McCarthy

August 14, 2017

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

**Report on Capitalization Grants for Clean Water State Revolving
Funds (66.458)**

Please find attached our report on the Sacheen Lake Water and Sewer District's compliance with requirements applicable to Capitalization Grants for Clean Water State Revolving Funds (66.458) in accordance with Title 2 *U.S Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

We are issuing this report in order to provide information on specific financial activities of the District.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Sacheen Lake Water and Sewer District
Pend Oreille County
January 1, 2016 through December 31, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Sacheen Lake Water and Sewer District are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Schedule of Expenditures of Federal Awards

We issued an unmodified opinion on the fair presentation of the District’s Schedule of Expenditures of Federal Awards in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the Schedule of Expenditures of Federal Awards is prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the Schedule of Expenditures of Federal Awards of the District.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Sacheen Lake Water and Sewer District Pend Oreille County January 1, 2016 through December 31, 2016

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, 2015 through December 31, 2015	Report Ref. No: 1017428	Finding Ref. No: 2015-001	CFDA Number(s): 66.458
Federal Program Name and Granting Agency: Capitalization Grants for Clean Water State Revolving Funds / Environmental Protection Agency.		Pass-Through Agency Name: Washington State Department of Ecology	
Finding Caption: The District did not have adequate internal controls to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements.			
Background: The District spent \$870,668 in federal program funds during fiscal year 2015. For federally funded construction project contracts that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers and to obtain weekly certified payrolls to demonstrate prevailing wages are paid. Our audit found weekly certified payroll reports were not obtained or reviewed for eight out of 23 subcontractors used on the project that were subject to the Davis- Bacon Act. The certified payrolls for seven of the eight subcontractors were subsequently submitted but were not reviewed or included in the certified payroll tracking document. This was identified as a significant deficiency in internal controls over program compliance.			
Status of Corrective Action: (check one) <input checked="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>The engineering firm worked with District personnel in order to ensure that the contractor listing was complete and that certified payrolls would be collected for all contractors and subcontractors.</i>			

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Sacheen Lake Water and Sewer District
Pend Oreille County
January 1, 2016 through December 31, 2016**

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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Sacheen Lake Water and Sewer District, Pend Oreille County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2016. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance

requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

July 27, 2017

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Sacheen Lake Water and Sewer District Pend Oreille County January 1, 2016 through December 31, 2016

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

REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the accompanying Schedule of Expenditures of Federal Awards for the Capitalization Grants for Clean Water State Revolving Funds (66.458) program of the Sacheen Lake Water and Sewer District, Pend Oreille County, Washington, for the year ended December 31, 2016, and the related notes (the financial statement).

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement of the program based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable

assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1 to the schedule, the Sacheen Lake Water and Sewer District has prepared this schedule to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the BARS manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP).

In our opinion, the Schedule of Expenditures of Federal Awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the Sacheen Lake Water and Sewer District for the year ended December 31, 2016, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their schedule, intended for general use, in accordance with GAAP. The effects on the schedule of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the schedule is presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The schedule referred to above is not intended to, and in our opinion does not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the

expenditures of federal awards of the Sacheen Lake Water and Sewer District for the year ended December 31, 2016, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style with a large initial "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

July 27, 2017

FINANCIAL SECTION

**Sacheen Lake Water and Sewer District
Pend Oreille County
January 1, 2016 through December 31, 2016**

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

**Sacheen Lake Water and Sewer District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Clean Water State Revolving Fund Cluster								
Office Of Water, Environmental Protection Agency (via WA ST DEPT OF ECOLOGY)	Capitalization Grants for Clean Water State Revolving Funds	66.458	EL150110	5,068,607	-	5,068,607	-	1,2
	Total Clean Water State Revolving Fund Cluster:			5,068,607	-	5,068,607	-	
	Total Federal Awards Expended:			5,068,607	-	5,068,607	-	

The accompanying notes are an integral part of this schedule.

Sacheen Lake Water and Sewer District

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the district's financial statements. The district uses the Cash Basis of Accounting as prescribed in the state BARS manual.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the district's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Federal Loans

The district was approved by the Department of Ecology to receive a loan totaling \$7,209,502 to build a sewer collection and treatment plant. The amount listed for this loan includes the proceeds used during the year. Both the current and prior year loans are also reported on the district's Schedule of Liabilities.

Note 4 – Indirect Cost Rate

The District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 5 – Additional Disclosure

In May 2016 Contractors Northwest (CNI) filed suit against the District for \$1,352,880.53. This matter involves a contract dispute between CNI and the District related to work performed by CNI in the construction of the District's sewage collection and treatment facility. CNI claims it is entitled to payment of additional money based on the work it performed. After mediation that was held in November 2016, the liability to the district was reduced to \$500,000, of which Sacheen Lake Water & Sewer's engineering firm paid \$125,000. The District's liability insurance will cover at least \$100,000 leaving \$275,000 for the District to cover.

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	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov