

Schedule of Audit Findings and Responses

Trails End Water District Mason County April 17, 2013

1. **The District does not consistently bill for water, collect all money due or deposit timely, placing public funds at risk.**

Background

A three-member Board governs the Trails End Water District. A General Manager oversees daily operations. The District has approximately 225 ratepayers and typically operates on a budget of approximately \$70,000.

We initially planned to perform a three-year audit of the District due to concerns citizens brought to our Office and because the District failed to submit required annual financial reports to our Office for three years. Because of the difficulties in obtaining records we later elected to increase our audit scope by one year to also include 2012.

Billings and water sales

On January 27, 2012, our Office issued a subpoena requesting the following documents related to the District's water sales. We issued the subpoena because the District had not responded to our requests for this information. The District did not provide any of the documents detailed below:

- Revenue and expenditure reports generated by the District's accounting system.
- A list of customer accounts.
- A list of accounts receivable reports by customer for 2009, 2010 and 2011.

We analyzed District water sales revenues from reports issued by the County Treasurer and noted:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Actual revenue	\$51,578	\$55,594	\$42,299	\$56,973
** Auditor estimate	\$67,981	\$67,981	\$67,981	\$67,981
Variance	(\$16,403)	(\$12,387)	(\$25,682)	(\$11,008)

***Estimate was calculated by multiplying the monthly billing rate of \$26.65 times the estimated number of full-service customers which we calculated to be 194 multiplied by twelve months in each year. In addition, the estimate includes 30 maintenance only customers that are billed \$16.50 per month.*

Due to the large variances between actual and projected revenues we issued another subpoena for the District's local bank account information to look for unusual transactions. We noted infrequent deposits but no other irregular activity. Amounts deposited largely reconciled with amounts transmitted to the Mason County Treasurer.

However, due to the District's inadequate record-keeping, we could not determine whether all money collected was deposited in the District's local bank account.

We also noted citizens had raised numerous concerns that billings were not consistent. Some citizens stated they had not received a water bill for up to three years.

Because of the District's poor record-keeping and lack of internal controls, we could not determine the cause for the variance between actual and projected water sales. The variance could be the result of under-billing. Our audit work included procedures designed to determine if any misappropriation occurred. Due to the lack of controls, we could not make a determination.

Deposits

State law requires the District to deposit funds with the Mason County Treasurer's Office within 24 hours, unless that Treasurer's Office has granted an exception. The District was granted an exception allowing it to make weekly deposits. However, a review by the County Treasurer noted no deposits were made in February, November or December of 2011. On January 31, 2012, the Treasurer rescinded the exception and now requires all funds to be deposited with the Treasurer within 24 hours.

Other Areas of Concern

Citizens expressed concerns about the District's bookkeeper being the General Manager's spouse. In addition, we reviewed the District's expenditures and noted no original invoices to support the purpose of District expenditures. Our review was limited to analyzing County expenditure reports.

Cause of Condition

District record keeping is inadequate. The District could not provide the subpoenaed documents or other documentation to show it is billing for all water sales and properly accounting for expenditures.

The District lacks clear policies and procedures to ensure consistent billing, receipt and deposit of water sales. District records are kept at the General Manager's house, which limits Board Members' and citizens' access to records.

Effect of Condition

Without adequate internal controls public funds are at risk of misappropriation. Further, it is unlikely the District would be able to detect a loss or assign responsibility if one were to occur.

Additionally, without accurate and complete financial information, Board members are unable to make informed decisions that affect the District's current financial condition.

Recommendation

We recommend the Board of Commissioners take immediate steps to address these issues. At a minimum the District should:

- Establish an organized system for documenting Board minutes and resolutions.
- Ensure its billing software is functioning correctly and can produce accurate and timely reports.
- Deposit receipts in accordance with state law.
- Establish sufficient checks and balances to ensure no conflicts of interest exist between the District's General Manager and bookkeeping responsibilities.
- Establish an organized system for retaining original invoices to document the purpose of expenditures.

District's Response

In response to the audit performed on the Trails End Water District #2 the following steps to correct deficiencies found is submitted as follows:

The state audit pointed out that there was inconsistency in the water billing and that the auditor was unable to obtain certain water district records even after a subpoena was issued.

The district was aware of sporadic billing occurring prior to the October 2011 regular meeting; however at the regular meeting in October 2011 the Board became fully aware of the extent of the billing problem and took immediate steps to resolve this.

After finding out about the billing problem an accurate count of all connections was made. All accounts were reviewed for current ownership and correct billing addresses. Since then the commissioners have been monitoring the billing each month. Furthermore after reviewing the audit results, the commissioners are going to require that the bookkeeper provide (in addition to the current Financial Report) for each monthly meeting the following list of items:

- *Copy of customer billing base with billing and history report.*
- *Copy of Olympia Federal bank statement.*
- *Copy of bank transmittal sheet.*
- *Copy of old billing system balances, reconciliation.*

In the past the billing problems were blamed on the billing software. The district has purchased new billing software which will be online this month. This will remove any excuses for no bills being sent to customers.

It has been determined by the commissioners that the district record keeping policy is inadequate so the following is being implemented. All district records not required for day to day business will be moved to the district pump house and filed there. These records will include district meeting minutes, financial reports, original invoices, receipt deposit slips, copies of resolutions and copies of all voucher requests, etc. This will allow the commissioners greater access to district records and will alleviate any future problems when public records are requested.

In the past the Financial Report has not had a provision to show the breakdown for any money received for new connections. In the future the Board will require that any money paid for new hookups will have to be shown separately in the monthly Financial Report.

The board was not aware of the requirement to file an Annual financial report with the State Auditor. Starting immediately the board will be vigilant of the due date for the annual questionnaire (Schedule 22) and financial report that is required to be filed with the Auditor's office within 150 days after the close of the fiscal year.

In conclusion the commissioners need to be more involved in the day to day operations and to be kept informed by the manager of any information that the District receives from state agencies and other entities. There is an element of trust involved between the board, the manager and the bookkeeper. This trust must be exercised with prudence.

Auditor's Remarks

We thank District officials for their assistance during the audit. We will review the status of these issues during our next audit.

When performing our audit we considered the requirements of the following state laws:

RCW 43.09.200, Local government accounting — Uniform system of accounting, states:

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 system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.240, Local government accounting — Public officers and employees — Duty to account and report — Removal from office — Deposit of collections, states:

Every public officer and employee of a local government shall keep all accounts of his or her office in the form prescribed and make all reports required by the state auditor. Any public officer or employee who refuses or willfully neglects to perform such duties shall be subject to removal from office in an appropriate proceeding for that purpose brought by the attorney general or by any prosecuting attorney.

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible as long as the treasurer has received a written request from the department, district, or agency, and where the department, district, or agency certifies that the money is held with proper safekeeping and that the entity carries out proper theft protection to reduce risk of loss of funds. Exceptions granted by the treasurer shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.

In case a public officer or employee collects or receives funds for the account of a local government of which he or she is an officer or employee, the treasurer shall, by Friday of each week, pay to the proper officer of the local government for the account of which the collection was made or payment received, the full amount collected or received during the current week for the account of the district.

RCW 57.08.081, Rates and charges — Delinquencies, states in part:

(1) Subject to *RCW 57.08.005(6), the commissioners of any district shall provide for revenues by fixing rates and charges for furnishing sewer and drainage service and facilities to those to whom service is available or for providing water, such rates and charges to be fixed as deemed necessary by the commissioners, so that uniform charges will be made for the same class of customer or service and facility.

Budgeting Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1, Section C, states in part:

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.

RCW 40.14.070 Destruction, disposition, donation of local government records — Preservation for historical interest — Local records committee, duties — Record retention schedules — Sealed records, states in part:

(2)(a) Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee. Official public records shall not be destroyed unless:

(i) The records are six or more years old;

(ii) The department of origin of the records has made a satisfactory showing to the state records committee that the retention of the records for a minimum of six years is both unnecessary and uneconomical, particularly where lesser federal retention periods for records generated by the state under federal programs have been established; or

(iii) The originals of official public records less than six years old have been copied or reproduced by any photographic, photostatic, microfilm, miniature photographic, or other process approved by the state archivist which accurately reproduces or forms a durable medium for so reproducing the original.

An automatic reduction of retention periods from seven to six years for official public records on record retention schedules existing on June 10, 1982, shall not be made, but the same shall be reviewed individually by the local records committee for approval or disapproval of the change to a retention period of six years.

The state archivist may furnish appropriate information, suggestions, and guidelines to local government agencies for their assistance in the preparation of lists and schedules or any other matter relating to the retention, preservation, or destruction of records under this chapter. The local records committee may adopt appropriate regulations establishing procedures to be followed in such matters.

Records of county, municipal, or other local government agencies, designated by the archivist as of primarily historical interest, may be transferred to a recognized depository agency.

RCW 42.32.030, Minutes, states:

The minutes of all regular and special meetings except executive sessions of such boards, commissions, agencies or authorities shall be promptly recorded and such records shall be open to public inspection.

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Trails End Water District Mason County April 17, 2013

2. **The District does not have a policy for responding to public records requests and missed annual financial report filing deadlines.**

Background

A three-member Board governs the Trails End Water District. A General Manager oversees daily operations. The District has approximately 225 ratepayers and typically operates on a budget of approximately \$70,000.

We initially planned to perform a three-year audit of the District due to concerns citizens brought to our Office and because the District failed to submit required annual financial reports to our Office for three years. Because of the difficulties in obtaining records we later elected to increase our audit scope by one year to also include 2012.

Public Records requests

The General Manager keeps many of the District's records at home. We made numerous attempts to acquire District records but were unsuccessful until we issued a subpoena on January 27, 2012. The District could not produce all the requested records due to inadequate records retention practices.

Annual Questionnaire and Financial Report Filings

State law requires local governments to annually prepare, certify and file financial reports with our Office within 150 days after the close of each fiscal year. The District did not file annual financial reports with our Office for 2009, 2010 or 2011. The 2012 financial report is due by May 31, 2013.

In addition, the District is also required to submit an annual questionnaire (Schedule 22) to our Office for audit purposes. It submitted a partially completed schedule for 2011 to our Office on October 20, 2011. It did not submit a schedule for 2009 or 2010. The 2012 schedule is due by May 31, 2013.

Cause of Condition

The District has no formal policy for how to handle public record requests. Since many of the District's records are kept at the General Manager's home the fulfillment of record requests depends on the General Manager.

The General Manager was informed about the annual financial and questionnaire requirements but did not make it a priority to submit them by the deadlines.

Effect of Condition

The District could face financial penalties if it fails to fully respond to public records requests and also loses public trust when requested documents are not made available for review.

By not submitting the annual financial and questionnaire reports to our Office the District exposes itself to increased audit costs.

In addition, policymakers do not have the District's financial information which is used to make informed decisions that could impact District operations.

Recommendation

We recommend the Board of Commissioners take immediate steps to address these issues. At a minimum the District should:

- Adopt a policy for handling public record requests.
- Ensure annual financial reports and questionnaires are filed with the State Auditor's Office by the deadlines.
- Ensure public records are adequately safeguarded and retained according to state law.

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The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove that validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published

or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budgeting Accounting and Reporting System (BARS) Manual, Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section C, Internal Control, states in part:

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.

RCW 43.09.230, Local government account – Annual reports – Comparative statistics, states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

Schedule 22 – Questionnaire for Accountability Audit, states:

This schedule is required for local governments with annual revenues that are usually less than \$300,000. For purposes of this threshold, annual revenues include grants, tax collections, and other receipts, but not bond proceeds or other non-revenues. If annual revenues are usually less than \$300,000 but exceed the threshold in one year due to a one-time revenue source, such as a grant, the schedule should still be completed, as the State Auditor's Office may continue to perform an audit assessment in lieu of an on-site audit.

RCW 42.56.070 -- Documents and indexes to be made public, states in part:

(1) Each agency, in accordance with published rules, shall make available for public inspection and copying all public records, unless the record falls within the specific exemptions of *subsection (6) of this section, this chapter, or other statute which exempts or prohibits disclosure of specific information or records. To the extent required to prevent an unreasonable invasion of personal privacy interests protected by this chapter, an agency shall delete identifying details in a manner consistent with this chapter when it makes available or publishes any public record; however, in each case, the justification for the deletion shall be explained fully in writing.

(3) Each local agency shall maintain and make available for public inspection and copying a current index providing identifying information as to the following records issued, adopted, or promulgated after January 1, 1973:

(a) Final opinions, including concurring and dissenting opinions, as well as orders, made in the adjudication of cases;

(b) Those statements of policy and interpretations of policy, statute, and the Constitution which have been adopted by the agency;

(c) Administrative staff manuals and instructions to staff that affect a member of the public;

(d) Planning policies and goals, and interim and final planning decisions;

(e) Factual staff reports and studies, factual consultant's reports and studies, scientific reports and studies, and any other factual information derived from tests, studies, reports, or surveys, whether conducted by public employees or others; and

(f) Correspondence, and materials referred to therein, by and with the agency relating to any regulatory, supervisory, or enforcement responsibilities of the agency, whereby the agency determines, or opines upon, or is asked to determine or opine upon, the rights of the state, the public, a subdivision of state government, or of any private party.

RCW 40.14.010, Definition and classification of public records, states in part:

As used in this chapter, the term "public records" shall include any paper, correspondence, completed form, bound record book, photograph, film, sound recording, map drawing, machine-readable material, compact disc meeting current industry ISO specifications, or other document, regardless of physical form or characteristics, and including such copies thereof, that have been made by or received by any agency of the state of Washington in connection with the transaction of public business, and legislative records as described in RCW 40.14.100

RCW 40.14.070 Destruction, disposition, donation of local government records - Preservation for historical interest – Local records committee, duties – Record retention schedules – Sealed Records states, states in part:

(2)(a) Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee. Official public records shall not be destroyed

RCW 42.56.100, Protection of public records – Public access, states:

Agencies shall adopt and enforce reasonable rules and regulations, and the office of the secretary of the senate and the office of the chief clerk of the house of representatives shall adopt reasonable procedures allowing for the time, resource, and personnel constraints associated with legislative sessions, consonant with the intent of this chapter to provide full public access to public records, to protect public records from damage or disorganization, and to prevent excessive interference with other essential functions of the agency, the office of the secretary of the senate, or the office of the chief clerk of the house of representatives. Such rules and regulations shall provide for the fullest assistance to inquirers and the most timely possible action on requests for information. Nothing in this section shall relieve agencies, the office of the secretary of the senate, and the office of the chief clerk of the House of Representatives from honoring requests received by mail for copies of identifiable public records.

If a public record request is made at a time when such record exists but is scheduled for destruction in the near future, the agency, the office of the secretary of the senate, or the office of the chief clerk of the house of representatives shall retain possession of the record, and may not destroy or erase the record until the request is resolved.