



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Accountability Audit Report**  
**Belfair Water District**  
**Mason County**

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

**Published January 29, 2018**

**Report No. 1020718**





**Office of the Washington State Auditor**  
**Pat McCarthy**

January 29, 2018

Board of Commissioners  
Belfair Water District  
Belfair, 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,

Pat McCarthy  
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 most areas we examined.

However, we identified areas in which the District could make improvements.

We recommended the District:

- Provide staff with written policies and procedures and ensure monitoring is adequate to prevent misappropriation
- Ensure staff are adequately trained to complete assigned tasks
- Establish adequate segregation of duties over the general and payroll disbursement processes and the utility billing and account adjustment processes
- Ensure all expenses, employee timesheets and account adjustments are properly approved

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of the Belfair Water District from January 1, 2016 through December 31, 2016.

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 billings and customer account adjustments
- Cash receipting, to include receipt of online credit card payments
- Monthly cash reconciliations and fund transfers
- Payroll/personnel and leave accruals
- Payments/expenditures, to include credit cards, employee reimbursements and petty cash

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2016-001    The District lacks adequate internal controls and monitoring over significant systems to ensure safeguarding of public resources or compliance with state law.**

#### ***Background***

Belfair Water District serves about 500 customers within Mason County, reporting approximately \$923,000 in operating revenues. Customers rely on the District to establish effective internal controls to safeguard public resources and to ensure compliance with laws and policies. During our audit, we found the District does not have effective internal controls over general disbursements, payroll disbursements, utility billing and account adjustments.

The lack of internal controls hinders the District's ability to prevent or detect misappropriation and ensure compliance with laws or policies.

#### ***Description of Condition***

We identified the following deficiencies in internal controls that we consider to be significant deficiencies:

##### General Disbursements

- The District does not have adequate policies and procedures over disbursements to include purchase authorizations, spending limits, credit card use, electronic payments or petty cash use.
- A detailed secondary review of warrants is not completed to ensure accuracy and compliance with District policy.
- The District does not have a process in place to ensure adequate support is retained for all purchases and warrants paid.

##### Payroll Disbursements

- The District does not have a process in place to ensure payroll or leave accruals are accurate because there is no secondary review of information entered into the payroll system or direct deposit information sent to the bank.
- The District lacks controls to ensure timesheets and approval for salary adjustments are retained.

### Utility Billing and Account Adjustments

- The District does not have a process in place to ensure all customers are properly billed.
- The District does not complete a detailed secondary review of account adjustments to ensure the adjustment complies with District policies, and is correctly calculated and adequately supported.

### ***Cause of Condition***

The District lacks adequate policies or procedures to ensure all disbursements, utility bills and account adjustments are reviewed, approved and allowable. The District has experienced turnover, and previous District staff responsible lacked training to adequately perform the tasks.

### ***Effect of Condition***

#### General Disbursements

During our audit, we reviewed 70 disbursement transactions and identified the following:

- Thirteen transactions lacked complete original invoices or receipts to support payments. However, the District provided enough detail for 10 of these transactions, allowing us to determine they were allowable expenses. No support was provided for the remaining three transactions, totaling \$272.
- We reviewed all voided warrants reported by the County for 2016, and identified two voided or duplicate transactions, totaling \$19,752, that were not properly voided in the District's financial system.
- Thirty-three transactions were not properly reviewed or approved. Eleven of these transactions noted no evidence of review or approval and others had evidence of review or approval, but well after payment. This lack of review and approval resulted in four employee reimbursements for mileage or per diem being found unreasonable or not in compliance with District policy because incorrect rates were applied or reimbursements lacked adequate documentation.

### Payroll Disbursements

During our audit, we reviewed payroll and leave transactions for three District employees for 2016 and identified the following:

- The District was unable to provide timesheets for one employee for five pay periods during 2016, resulting in unsupported pay of approximately \$13,500 for 210 hours. Additionally, we identified eight instances in which hours recorded in the District's payroll system did not agree to the employee's timesheet, resulting in unsupported pay of \$5,265 for 81 hours.
- Two employees were underpaid by approximately \$400.
- In May 2016, the wrong direct deposit request form was sent to the bank, resulting in an overpayment to employees of \$189.
- The District was unable to provide approval evidence for three raises received by two employees during 2016; one employee received two raises totaling 24 percent, and the other received a 13 percent raise.
- Although all employees were approved to accrue eight hours of vacation leave a month throughout 2016, we noted all employees accrued 10 hours a month from May to September without approval.
- Leave recorded in the District's payroll system did not match timesheets. We identified four hours of sick leave use recorded in the payroll system that was not recorded on the employee's timesheet.

### Utility Billing and Account Adjustments

During our audit, we reviewed utility bills for 27 customer accounts and 35 adjustments to customer accounts. We noted the following:

- Seven accounts received bills for only part of 2016. The District was unable to provide support for when the water meters were removed. We were unable to conclude if the utility bills are accurate or reasonable.
- We identified one service address with two accounts, one of which is inactive. The District has not pursued collection for the inactive account with an outstanding balance of \$43.



- One account included one utility bill with only late fee charges. No meter reading was recorded nor were base charges applied. The District was unable to provide support for this discrepancy.
- One account was billed only base charges. No meter readings were recorded and the District was unable to determine if this was appropriate.
- Nineteen of 35 account adjustments were not properly reviewed or approved. Seventeen of these transactions noted no evidence of review or approval, and others had evidence of review or approval well after the adjustment was posted. Because of this lack of review and approval, five account adjustments were not adequately supported and seven, totaling \$1,537, were for incorrect or unreasonable amounts. Additionally, two of these account adjustments were for purposes that do not comply with District policy.

### ***Recommendation***

We recommend the District:

- Provide staff with written policies and procedures and ensure monitoring is adequate to prevent misappropriation
- Ensure staff are adequately trained to complete assigned tasks
- Establish adequate segregation of duties over the general and payroll disbursement processes and the utility billing and account adjustment processes
- Ensure all expenses, employee timesheets and account adjustments are properly approved

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

*Belfair Water District is committed to cooperating with the Auditor to insure that the District is managed and operated in full compliance with the law. The District appreciates the Auditors assistance in identifying the areas where improvement is needed. The District has been actively correcting conditions and procedures identified in the audit in order to improve on its financial procedures.*

*The District has had a large amount of turnover in staff, and a lack of training, knowledge and understanding of its own policies and procedures has contributed to past performance. The District board and staff are committed to working thru the issues of the past, and correcting the procedural issues and inaccuracies to*

*make sure the District is managed and operated in full compliance to all local, State and Federal regulations.*

*District management and staff are working with our accounting consultant to receive guidance and training to properly reconcile, document and report on the district's financial condition. Our processes and internal reviews of all district transactions are currently reviewed at least twice by staff and signed by management and the board reviews and initials warrant documentation.*

*In 2018 the District will be addressing changing out dated policies and procedures. The District will be updating per diem rates and expense policy to current accepted standards. Employee policies for leave, salary, and benefits as well as job descriptions and responsibilities will be updated to a clear and understandable policy. Customer account policies for adjustments and record keeping for customer accounts will be a part of this process also.*

*The District will continue to improve clarity and adequacy of its policies and procedures and implement those policies and procedures to improve internal controls, account adjustments, payroll process, records management and report monitoring.*

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

We thank the District for its cooperation and assistance throughout the audit, and the steps it is taking to address these concerns. We look forward to reviewing the results of the District's efforts during our future audits.

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

RCW 43.09.200 Local government accounting; Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

RCW 42.24.080 Municipal corporations and political subdivisions; Claims against for contractual purposes; Auditing and payment; Forms; Authentication and certification outlines the local government's requirement to ensure all claims against them are reviewed to ensure materials have been furnished, the services rendered, the labor performed as described, or that any advance payment is due and payable pursuant to a contract.

The *Budget, Accounting, and Reporting System Manual* (BARS), 3.14, Accounting Principles and Internal Control outlines the local government's responsibility for obtaining and retention of original vouchers, receipts and other documents.

RCW 43.09.2855 Local governments; Use of credit cards requires local governments to adopt a system for the distribution of the credit cards, the authorization and control of the use of credit cards, the credit limits available on the credit cards, payment of the bills, and any other rule necessary to implement or administer the system outlined in the RCW.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Belfair Water District**  
**Mason 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 Belfair Water District. The State Auditor's Office has reviewed the status as presented by the District.

|  |                                   |                                     |
|--|-----------------------------------|-------------------------------------|
| <b>Audit Period:</b><br>January 1, 2015 – December 31, 2015  | <b>Report Ref. No:</b><br>1018151 | <b>Finding Ref. No:</b><br>2015-001 |
| <b>Finding Caption:</b><br>The District lacks adequate internal controls and monitoring over significant systems to ensure safeguarding of public resources or compliance with state law.  |                                   |                                     |
| <b>Background:</b><br>During our 2015 audit, we found the District did not have effective internal controls over general disbursements, payroll disbursements and retention of records.<br>The lack of internal controls hindered the District's ability to ensure compliance with laws or policies and prevent or detect misappropriation.  |                                   |                                     |
| <b>Status of Corrective Action: (check one)</b><br><input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid  |                                   |                                     |
| <b>Corrective Action Taken:</b><br><i>Belfair Water District has made continual efforts to resolve past findings and continue to improve the efficiency and procedures to comply with the recommendations and requirements put forth by the auditor's office. Staff stabilization and retention will help with this effort. All disbursements are now being reviewed by finance as well as management at a minimum before being signed off on. Record retention is being reorganized to a more efficient and compliant system as well.</i> |                                   |                                     |

|   |                                   |                                     |
|---|-----------------------------------|-------------------------------------|
| <b>Audit Period:</b><br>January 1, 2015 – December 31, 2015   | <b>Report Ref. No:</b><br>1017655 | <b>Finding Ref. No:</b><br>2015-001 |
| <b>Finding Caption:</b><br>The District did not have adequate controls in place to ensure monthly reconciliations, general ledger entries and financial statements were properly prepared and presented.  |                                   |                                     |
| <b>Background:</b><br>It is the responsibility of District management to design, implement, and maintain internal controls to ensure reconciliations, general ledger entries and financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting.<br>Our 2015 audit identified a material weakness in controls over financial statement reporting that affected the District's ability to produce reliable financial statements.  |                                   |                                     |
| <b>Status of Corrective Action: (check one)</b><br><input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid   |                                   |                                     |
| <b>Corrective Action Taken:</b><br><i>Belfair Water District while retaining the services of an accounting consulting service is currently working with the accountant to train personnel to reconcile our accounts and prepare our financial statements in house. This will result in more timely and accurate reporting. Management is working with staff to accomplish this task we will also work with Mason County to make sure that Belfair Water is in total and complete compliance and representing itself well with both the Washington State Auditor's office and with the Mason County Treasurers office.</i> |                                   |                                     |

|   |                                    |  |                                  |
|---|------------------------------------|--|----------------------------------|
| <b>Audit Period:</b><br>January 1, 2015 –<br>December 31, 2015  | <b>Report Ref. No.:</b><br>1017655 | <b>Finding Ref. No.:</b><br>2015-002   | <b>CFDA Number(s):</b><br>10.760 |
| <b>Federal Program Name and Granting Agency:</b><br>Water and Waste Disposal Systems for Rural Communities; Department of Agriculture   |                                    | <b>Pass-Through Agency Name:</b><br>NA |                                  |
| <b>Finding Caption:</b><br>The District did not have controls in place to ensure compliance with federal suspension and debarment requirements.   |                                    |  |                                  |
| <b>Background:</b><br>During 2015, the District spent \$2,324,028 in federal loan funds. The loan was awarded for use on the District's State Route Three Main Replacement project. \$2,181,916 of these funds were paid to contractors for construction and engineering on the project.<br>Federal regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. The District is |                                    |  |                                  |

required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The District can obtain a written certification from a vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with a vendor.

The District did not have a process in place to ensure this requirement was met for its contracted engineer that was paid \$178,679 in federal funds.

**Status of Corrective Action: (check one)**

☒ Fully  
Corrected

☐ Partially  
Corrected

☐ Not Corrected

☐ Finding is considered no  
longer valid

***Corrective Action Taken:***

*Belfair Water District did not have a stable staff thru much of this project, with turnover, management issues and untrained staff the District was not adequately prepared to handle this size and scope of project. Currently the District is working to update the policies and procedures and training and retaining staff to produce consistencies in policy and working with Engineers to make sure we follow all the necessary laws and guidelines in developing our policies and procedures.*

## INFORMATION ABOUT THE DISTRICT

The Belfair Water District was formed in 1966 and provides water to approximately 500 citizens in the community of Belfair within Mason County.

An elected three-member Board of Commissioners governs the District. The District generated approximately \$923,000 in operating revenue in 2016 and operates with four full-time employees.

### Contact information related to this report

|            |  |
|------------|--|
| Address:   | Belfair Water District<br>P.O. Box 563<br>Belfair, WA 98528                            |
| Contact:   | Dale Webb, District Manager  |
| Telephone: | (360) 275-3008   |
| Website:   | <a href="http://www.northmason.com/belfairwater/">www.northmason.com/belfairwater/</a> |

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Belfair Water District 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.

| Contact information for the State Auditor's Office |  |
|--|--|
| Public Records requests                            | <a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a> |
| Main telephone                                     | (360) 902-0370   |
| Toll-free Citizen Hotline                          | (866) 902-3900   |
| Website  | <a href="http://www.sao.wa.gov">www.sao.wa.gov</a>                     |