

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Palisades Irrigation District January 1, 2015 through December 31, 2016

2016-001 The District's controls over its operations were not adequate to ensure compliance with state ethics laws and compliance with competitive bidding requirements.

Background

The District is managed by a five member Board of Commissioners and has two part time employees, with an operating budget of \$70,000 for 2015 and \$20,000 for 2016. In spring of 2015, the District began work on the Spring Project, which included the replacement of the mainline pipe for an estimated total of \$44,000. Funding for this project came from private sources.

State law prohibits municipal officers from having a beneficial interest in a contract. The law defines beneficial interest as a financial interest in a contract to which the government or agency is a party, if an official participates in awarding the contract or is responsible for the contract by virtue of the office he or she holds.

Further, state law requires the District to use a competitive bid process for the construction of canal(s), other works, or for the purchase of materials (RCW 87.03.435). The Board of Commissioners may elect to use the small works roster contract procedures for all contract projects estimated to cost less than \$300,000 (RCW 87.03.436).

Description of Condition

Three of the five District Commissioners entered into an agreement with the District to help fund the District's spring project in 2015, which included the replacement of the mainline pipe. The District received \$40,000, paying an interest rate of 6 percent payable to the Board members. Due to a lack of documentation, the District could not show how the District procured the services. The District did not have a written process or policy over procurement of services.

Cause of Condition

The District required financing to fund a spring project to replace the mainline pipe and was unaware that entering into an agreement with Board members would cause a conflict of interest.

Further, the District did not have a control process or written procurement policies to guide it in complying with state procurement laws.

Effect of Condition

District Board members were out of compliance with Code of Ethics for Municipal Officers laws and procurement requirements and have used their position for personal gain.

The District could not show it adequately safeguarded public resources by ensuring it received the best price for goods and services and contracted with the lowest responsible or most highly qualified bidder, as applicable. Items not competitively procured may result in hiring of less qualified contractors and increased costs for goods and services purchased by the District.

Recommendations

We recommend the Board and management receive training on conflict of interest laws. We recommend the District no longer enter into contracts that present a conflict of interest prohibited by state law (RCW 42.23.030), unless an exception can be met. We recommend that the District document any conflict, even in the presence of an exception, in the meeting minutes as required by state law.

We further recommend the District implement controls over procurement and retain adequate documentation to show compliance with state procurement laws and District policy.

District's Response

I am writing in response to your findings dated May 29, 2019 and on behalf of the Palisades Irrigation District Board of Directors.

We accept full responsibility for our actions. We apologize for our ignorance of the law in this case and we are willing to take immediate steps to prevent any further infractions. As such, we intend to adopt written policies and procedures addressing conflict of interest and competitive purchase prior to any further purchasing or projects. We would like to take advantage of any training that you can offer our board members and staff as per your offer at the earliest convenience. Additionally, we are prepared to take any other steps you deem necessary at this time. It is our desire to operate our irrigation district with professional integrity and in compliance of all laws. Thank you for your counsel and consideration as we work towards our goal. Sincerely, Palisades Irrigation District.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 42.23.030 Interest in contracts prohibited– No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any other person beneficially interested therein.

RCW 87.03.435 Construction work – Notice – Bids – Contracts – Bonds. (1) Except as provided in subsections (2) and (3) of this section and RCW 87.03.436, whenever in the construction of the district canal or canals, or other works, or the furnishing of materials therefor, the board of directors shall determine to let a contract or contracts for the doing of the work or the furnishing of the materials, a notice calling for sealed proposals shall be published. The notice shall be published in a newspaper in the county in which the office of the board is situated, and in any other newspaper which may be designated by the board, and for such length of time, not less than once each week for two weeks, as may be fixed by the board. At the time and place appointed in the notice for the opening of bids, the sealed proposals shall be opened in public, and as soon as convenient thereafter, the board shall let the work or the contract for the purchase of materials, either in portions or as a whole, to the lowest responsible bidder, or the board may reject any or all bids and readvertise, or may proceed to construct the work under its own superintendence. All work shall be done under the direction and to the satisfaction of the engineer of the district, and be approved by the board...

RCW 87.03.436 Small works roster. All contract projects, the estimated cost of which is less than three hundred thousand dollars, may be awarded using the small works roster process under RCW 39.04.155.