



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Point Roberts Water District No. 4

For the period January 1, 2016 through December 31, 2018

Published November 25, 2019

Report No. 1025016





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

November 25, 2019

Board of Commissioners
Point Roberts Water District No. 4
Point Roberts, 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 independent audit report on the District's compliance with applicable requirements and safeguarding of public resources for the 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 RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, District operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we identified areas in which the District could make improvements.

We also noted certain matters that we communicated to District management and Board of Commissioners in a letter dated November 15, 2019, related to the procurement of engineering services. We appreciate the District's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of Point Roberts Water District No. 4 from January 1, 2016 through December 31, 2018.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the years ended December 31, 2018, 2017 and 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Payroll – gross wages, overtime, and leave balances and accruals
- Procurement – architecture and engineering services
- Billing adjustments
- Disbursements – credit cards
- Self-insurance for unemployment compensation

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2018-001 The District did not have adequate internal controls to ensure payroll expenditures were accurate and supported.

Background

The Point Roberts Water District is located in Whatcom County and serves approximately 2,300 water and sewer customers. The District's payroll expenditures for 2016, 2017 and 2018 totaled \$141,607, \$143,669 and \$144,412, respectively.

The District's Board of Commissioners and management are responsible for establishing effective internal controls over disbursements, including payroll, to ensure public funds are adequately safeguarded. In the prior audit, we recommended the District strengthen its oversight and monitoring over payroll transactions. Although the District worked to improve its review process, the current audit identified continuing weaknesses with the District's internal controls.

Description of Condition

The District has three employees who record hours worked on monthly timesheets. These timesheets record regular, overtime, sick, vacation, and compensatory time. The completed timesheets are reviewed by an independent person and then entered onto a payroll voucher form to be approved by the Board and processed for payment.

Although the review occurs regularly, we found it was not sufficient to ensure the hours recorded on the timesheets were accurate, reconciled to support, and followed District policy and state law. Specifically, we noted the following issues. The District:

- Did not perform a sufficient reconciliation between employee timesheets, supporting records, the payroll vouchers, and actual amounts paid out to ensure they match
- Did not perform adequate tracking, reconciliation, and review to ensure sick, vacation, and compensatory time accruals were accurate and did not exceed the limits set in District policy
- Has not updated its payroll policy to reflect actual procedures

Cause of Condition

The District did not establish strong internal controls to identify errors or concerns within the payroll process. Specifically it did not dedicate sufficient resources to train the employees who process and review payroll or implement written procedures that clearly outline adequate reconciliation and review expectations.

Effect of Condition

Without a detailed review process and reconciliation of timesheets to leave tracking and payroll vouchers, the District cannot ensure all amounts paid are valid and accurate. Because of the significant amount of errors noted and lack of adequate records, we could not identify the actual amount of over or underpayments in 2017 and 2018. However, from our review of the District's 2017 and 2018 payroll expenditures, we noted the following discrepancies:

- Paid 240 hours of unsupported time due to not maintaining records for one employee's November 2018 timesheet, incorrectly tracking leave balances, and not reconciling employee timesheets to payroll vouchers.
- Miscoded 338 hours (e.g., holiday time charged for regular hours worked) when comparing employee timesheets to County payment voucher information. Miscoding could cause the District to pay an incorrect amount to the employee.
- Underpaid 76 hours of overtime as regular hours for overtime-eligible employees rather than at a rate of 1.5, as required by state law.
- Paid 100 hours of compensatory time, however, its payroll policy did not address compensatory time payouts or limits.
- Under-accrued 79.5 hours of compensatory time due to not reconciling employee timesheets to associated compensatory time balance tracking.

We also found additional errors, including more leave taken than earned, timesheets with no evidence of approval or review by employee or supervisor, and other less significant errors.

Recommendation

We recommend the District:

- Reconcile timesheets to leave-tracking documents and payroll vouchers regularly, to ensure accuracy
- Ensure all payroll records are kept, signed by the employee, and reviewed by an independent person

- Ensure payroll policies are updated based on current procedures, including procedures/guidelines for paying out compensatory time
- Track and accrue leave, holiday, and compensatory time following District policy and state law

District's Response

We will be working with the Point Roberts Water District Accountant to put in place a tracking system in regards to Timesheets, Payroll Vouchers as well as Sick, Vacation and Compensatory time. This will track each employees' hours to ensure appropriate time has been given/taken. This will be updated on a monthly basis. Timesheets will be completed, signed and double checked before being submitted.

Payroll policies regarding compensatory time will be updated during our monthly Water District Meeting before the end of the year.

Auditor's Remarks

We appreciate the District's response and we will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting—Uniform system of accounting

BARS Manual 3.1.3 – Internal Control

RCW 49.46.130 – Minimum rate of compensation for employment in excess of forty-hour workweek – Exceptions

INFORMATION ABOUT THE DISTRICT

Point Roberts Water District No. 4 was formed in 1956 to provide water services to residents of Point Roberts in Whatcom County. The District serves approximately 2,400 water customers and 84 sewer customers.

An elected, three-member Board of Commissioners governs the District. The Board appoints a Manager to oversee the District's daily operations as well as its three employees. For fiscal years 2016, 2017 and 2018, the District generated revenue of approximately \$1,413,000, \$1,645,500 and \$1,695,500, respectively.

Contact information related to this report	
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Information current as of report publish date.

Audit history

You can find current and past audit reports for Point Roberts Water District No. 4 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.

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