



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Dallesport Water District

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

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

January 13, 2020

Board of Commissioners
Dallesport Water District
Dallesport, 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 selected for examination. 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 selected for examination. The District was unable to provide sufficient documentation to allow us to perform complete audit procedures in the areas selected for examination. Because we could not fully perform audit procedures, we could not come to conclusions about the District's compliance with state laws or controls over safeguarding of public resources in those areas.

As referenced above, we identified areas in which the District could make improvements. These recommendations are included with our report and in a separate communication as findings.

Because public distribution of tests performed and the related results over information technology could increase the risk to the District's IT security, distribution of that information has been limited to management and the governing body of the District and is kept confidential under RCW 42.56.420.

About the audit

This report contains the results of our independent accountability audit of the Dallesport Water District 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 selected for examination were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were selected for examination during this audit period:

- Accounts receivable – utility billings and adjustments
- Cash receipting – timeliness and completeness of deposits
- Accounts payable – general disbursements, credit cards, and travel
- Payroll – gross wages
- Procurement – architecture and engineering services

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2018-001 The District did not have adequate controls over the retention of accounting records, which prevented our Office from performing auditing procedures.

Background

District management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws and policies and of safeguarding of public resources. District management is also responsible for the integrity and retention of the original vouchers, receipts, and other documents needed to prove the validity of every transaction relating to the receipt, use, and disposition of public funds and property. This requirement extends to all accounting entries.

Description of Condition

The District reported an average of \$501,000 for supplies, services, and capital outlay expenditures and an average of \$83,000 in annual salary and wage costs each year during the audit period. Further, the District made credit card payments of about \$7,000, \$15,000 and \$12,000 in 2016, 2017 and 2018, respectively.

Our audit found the District did not keep supporting records for financial transactions occurring during the audit period, including vendor and credit card payments, customer billing and receipts, financial reconciliations, payroll records, grant awards, and contracts entered into for professional services.

Cause of Condition

The District's system for keeping records was not well organized. In addition, the District experienced turnover in key positions during the audit period and could not locate records for audit.

Effect of Condition

The District cannot demonstrate the validity of its financial activity for the audit period. Because of the lack of supporting records, we could not perform detailed testing over all financial activity and therefore cannot determine if losses occurred. In addition, we could not confirm the District spent funds only for allowable purposes or that all receipts collected were deposited in a timely manner. Specifically, our audit noted:

- Payroll records, including gross pay reports, timesheets and approved wage rate documentation were not accessible and available. We could not test this financial activity.
- Billing records for April 2017 through May 2018 were not available for audit. We could not test this financial activity.
- Payments for professional engineering services were not supported by contracts, which would identify the negotiated price and scope of work. As a result, we could not verify whether payments for services were within the scope of the approved project and at approved rates.
- Credit card charges, totaling \$1,856, did not have supporting invoices or receipts. Of this amount, we could not identify the purpose for \$608.

In addition, all local governments in Washington that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of the annual financial report and receive a federal single audit if funds spent exceed \$750,000 annually. The District could not provide support to show it reported federal expenditures accurately. Therefore, the District risks noncompliance with federal single audit requirements.

We further communicated concerns specific to cash receipting and account adjustments in Finding 2018-002.

Recommendation

We recommend the District improve internal controls and develop procedures to effectively store records to support its financial activity and comply with records retention schedules.

District's Response

The Dallesport Water District finds no errors in the SAO preliminary report.

While the Dallesport Water District had limited personnel in the past, additional personnel have been hired to split duties and a new Water Manager was hired in 8-2019 to oversee all daily operations.

With the hiring of the new personnel and the daily oversight of the existing employee, internal controls and procedures to effectively store and maintain records have already been implemented starting 8-2019.

Specific to supporting documentation and record keeping, very strict controls were implemented in 7-2019 and continue to be followed.

In 1-2020 the Dallesport Water District shall be implementing new and strict oversight reporting requirements to ensure that previous problems do not arise again.

Auditor's Remarks

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

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting

RCW 40.14.070 Destruction disposition donation of local government records – Preservation for historical interest – Local records committee duties – Record retention schedules – Sealed Records establishes records retention requirements

RCW 43.09.2855 Local governments – Use of credit cards

Budgeting Accounting and Reporting System (BARS) manual, Section 3.1.3 – Internal Control

Budgeting Accounting and Reporting System (BARS) manual, Section 3.14 – Accounting Principles and Internal Control

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2018-002 The District did not have adequate internal controls over cash receipting and customer account adjustments to safeguard public resources.

Background

Dallesport Water District serves about 300 customers within Klickitat County, collecting \$221,406, \$265,790, and \$313,563 for utility billings in 2016, 2017, and 2018, respectively. District management is responsible for designing, implementing, and maintaining internal controls that provide reasonable assurance that public resources are safeguarded. In our previous audits, we communicated concerns over cash receipting and customer account adjustments.

Description of Condition

We identified the following deficiencies in internal controls over cash receipting and customer account adjustments:

- The District did not have a written policy or procedure over cash receipting and adjustments.
- The District contracted with an accountant to perform independent reconciliations of cash receipts to bank records. However, the District did not follow up on identified discrepancies. Additionally, records were not kept to show reconciliations were performed for 2017 or 2018.
- Validated bank deposit slips did not provide the cash and check composition of the deposits. Without this information, the District could not validate the composition of deposits.
- All employees had access to a shared cash drawer. Also, unique user accounts were not set up in the District's billing software and employees had access to the computer terminal with the billing software. This limits the District's ability to assign responsibility for transactions recorded in the system.
- The District kept the key to the payment dropbox in an unsecured location in the District office.
- The District did not receipt all water payments into the system.
- Mailed payments, which included cash and checks, were opened by one individual who had access to adjust customer accounts and void receipts.
- The District did not deposit all receipts daily, as required by state law. The District did not have a waiver allowing it to make less frequent deposits.

- The District did not independently monitor or approve adjustments to ensure all adjustments were supported, valid, and approved.

Cause of Condition

The District had limited staff available to segregate duties, and it experienced significant turnover in key positions. The District did not dedicate sufficient resources to perform monitoring procedures or adequately train employees to gain adequate knowledge to strengthen controls.

Effect of Condition

Without adequate internal controls, the District puts public funds at risk of misappropriation, misuse, or loss that would not be detected by management quickly, if at all.

Additionally, because of a lack of supporting records available during the audit, as reported in Finding 2018-001, we could not perform detailed testing on cash receipts and adjustments. Therefore, we cannot determine if losses occurred. Specifically, we noted the following:

- The District could not support that it made deposits intact and in the same form – cash or check – the payment was made.
- Account adjustments were not supported or approved. As a result, we could not determine the validity of adjustments. Adjustments include the waiving of late fees. However, the District did not have a policy authorizing late fees being waived.
- Our testing identified one deposit that was not made within 24 hours.

Recommendations

We recommend the District strengthen internal controls to safeguard public resources. Specifically, we recommend the District:

- Adopt written policies or procedures over cash receipting and adjustments
- Adequately segregate duties or establish compensating controls to increase oversight of cash receipting and adjustment processes
- Ensure the payment dropbox key is kept in a secure location, with only necessary individuals having access to it
- Eliminate the sharing of cash drawers and establish unique user accounts in the system so it can assign responsibility for transactions
- Deposit receipts in a timely manner in compliance with RCW 43.09.240

- Ensure independent reconciliations are performed that include a review for cash and check composition. Follow up on variances between receipting records and bank deposits and keep sufficient records.
- Ensure it receipts all payments immediately upon collection
- Implement an independent process to monitor and review all adjustments to customer accounts and voids of receipt transactions to ensure they are supported and valid

District's Response

The Dallesport Water District finds no errors in the SAO preliminary report.

The Dallesport Water District shall be implementing all the recommendations made by the SAO.

While the Dallesport Water District had limited personnel in the past, additional personnel have been hired to split duties and a new Water Manager was hired in 8-2019 to oversee all daily operations.

Auditor's Remarks

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

Applicable Laws and Regulations

Budgeting Accounting and Reporting System (BARS) manual – Accounting Principles and Internal Control section 3.1.3

Budgeting Accounting and Reporting System (BARS) manual – Accounting Revenues Cash Receipting Deposits section 3.6.1.20

RCW 43.09.200 Local government accounting – Uniform system of accounting.

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

INFORMATION ABOUT THE DISTRICT

The Dallesport Water District, formed in August 2009, provides water services to the Dallesport and Murdock communities in Klickitat County.

An elected three-member Board of Commissioners governs the District. At the District's December 8, 2010 meeting, an agreement was signed transferring ownership of Murdock Water and Mountain View Water Associations to the District. The systems will be owned, managed and operated by the District as individual systems, with independent budgets, improvements and Small Water System Plans. The agreement not only allows the District to aid these systems in seeking water system and fire protection improvements, but also puts the District in a better position for receiving funding that could benefit the entire Dallesport/Murdock peninsula.

The District has three employees and is funded primarily through water sales and services. The District collected revenues of about \$329,000, \$1,059,000 and \$365,000 in 2016, 2017 and 2018, respectively. The increase in revenues in 2017 were due to grants received.

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 the Dallesport 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.

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