



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

## **Assessment Audit Report**

# **Island County Diking District No. 3**

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

**Published December 26, 2019**

**Report No. 1025498**





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

December 26, 2019

Board of Commissioners  
Island County Diking District No. 3  
Oak Harbor, Washington

**Report on Assessment Audit**

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.

The attached report describes the procedures performed and conclusions for the areas we reviewed. We appreciate the opportunity to work with your staff and we value your cooperation during the assessment audit.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

## AUDIT SUMMARY

### Results in brief

Based on the procedures performed, except as described below, nothing came to our attention in the areas we reviewed that caused us to believe the District was not in substantial compliance with applicable state laws, regulations, and its own policies, or had significant weaknesses in controls over the safeguarding of public resources. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

As referenced above and described in the attached finding, the District should ensure that annual reports are completed and submitted with 150 days after its fiscal year end in accordance with state law.

This recommendation is included with our report as a finding.

### About the assessment audit

This report contains the results of our independent audit of Island County Diking District No. 3 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. Local governments are also required by state law (RCW 43.09.230) to prepare and submit certified annual reports to our Office summarizing such things as revenues received, collections made, amounts receivable or payable, expenditures made, and debt owed.

This assessment audit was conducted under the authority of RCW 43.09.260, which requires the State Auditor's Office to examine the financial affairs of all local governments at least once every three years. Assessment audits are risk-based, limited-scope reviews of small local governments, generally defined as local governments with less than \$300,000 in annual revenues. To help minimize audit costs, our work for this engagement was conducted off-site primarily using financial and other information provided by the District.

This assessment audit was limited to the following:

- Reviewing meeting minutes for compliance with the Open Public Meetings Act.
- Inquiring as to internal controls over assets, revenues, and disbursements.
- Verifying that annual reports submitted to our Office were complete and filed timely in compliance with state law.

- Reviewing the District's annual revenues and expenditures for unusual transactions or trends.
- Corroborating financial information reported by the District by comparing its annual revenues, expenditures, and cash and investment balances to third-party sources.
- Reviewing expenditures for indications of unusual activities, excessive Board of Commissioners compensation, conflicts of interest, or procurement requirements.
- Evaluating the District's financial information for indications of financial difficulties.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Island County Diking District No. 3 January 1, 2016 through December 31, 2018

**2018-001    The District's internal controls over accounting and financial reporting were inadequate to ensure accurate, complete and timely reporting.**

#### ***Background***

The Board of Commissioners, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. The District is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting.

State law (RCW 43.09.230) requires the District to submit an annual financial report to our Office within 150 days after the end of the District's fiscal year. The annual financial report includes summaries of financial information, supporting schedules, and responses to compliance requirements.

The District received a recommendation in the previous audit for not filing annual reports on time.

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

The District did not take appropriate action to prepare or submit the required annual reports within 150 days after its fiscal year end for fiscal years 2016, 2017 and 2018.

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

The District did not dedicate the necessary resources to ensure it submitted the 2016, 2017 and 2018 financial reports on time. Specifically, the governing body did not have the technical knowledge or sufficient understanding of the controls needed to prepare and submit the annual report on time.

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

The District filed its annual report 843, 478 and 134 days late for fiscal years 2016, 2017 and 2018, respectively. Delays in the availability of complete financial reports prevent District officials, the public, and other interested parties from obtaining timely information. Such delays also hinder transparency to citizens and the efforts

of the State Auditor's Office to compile statistical and financial information for use by the State Legislature and others.

### ***Recommendation***

We recommend the District establish internal controls to ensure accurate, complete, and timely financial reporting in accordance with state law.

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

*The District had no questions or concerns and thanked us for bringing this matter to their attention.*

### ***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 43.09.230 Local government accounting, annual reports requires every local government to submit financial reports within one hundred fifty days after the close of each year.

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.

## INFORMATION ABOUT THE DISTRICT

Island County Diking District No. 3 operates and maintains a diking system to provide flood protection to the northern portion of Whidbey Island.

An elected, three-member Board of Commissioners governs the District. The District received \$50 in miscellaneous annual revenue for fiscal years 2016, 2017 and 2018.

<b>Contact information related to this report</b>	
Address:	Island County Diking District No. 3 170 W. Frostad Road Oak Harbor, WA 98277
Contact:	Ronald Christensen, Commissioner
Telephone:	(360) 929-2809

*Information current as of report publish date.*

### **Audit history**

You can find current and past audit reports for Island County Diking District No. 3 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>
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