



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

**Accountability Audit Report**  
**Pierce County Drainage District No. 23**

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

**Published August 17, 2020**

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

August 17, 2020

Board of Commissioners  
Pierce County Drainage District No. 23  
Fife, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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.

Attached is 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

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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## AUDIT RESULTS

### Results in brief

This is the first audit of the District. Prior to this audit, we issued disclaimer letters for fiscal years 2009 through 2017 because the District did not file its annual reports for those years.

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, District operations did not comply, in all material respects, with applicable state laws, regulations, and its own policies. Additionally, the District did not provide adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the District could make improvements. These recommendations are included with our report as findings.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

### About the audit

This report contains the results of our independent accountability audit of Pierce County Drainage District No. 23 from January 1, 2018 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 obtaining evidence about the District's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – general disbursements, cost allocation of district and non-district expenses and employee reimbursements and payroll
- Open public meeting – documentation of minutes
- Conflict of interest – payments to commissioners and commissioner spouses
- Annual report filing – timeliness and completeness

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2018-001 The District did not comply with state statutes governing on conflict-of-interest and the Code of Ethics for Municipal Officers.**

#### *Background*

Pierce County Drainage District No. 23 provides operation and maintenance for a stormwater drainage system in Fife.

A three-member Board of Commissioners governs and manages the District. The Board is responsible for District operations and compliance with state laws. The current Commissioners have served on the Board with varying terms since 2005 or longer.

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 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.

#### *Description of Condition*

In reviewing disbursements at the District, we identified three instances in which commissioners had beneficial interest in financial transactions:

- One Commissioner worked as the District's foreman managing the crew cleaning ditches. He did not have a contract for services to define his responsibilities as foreman on the ditch cleaning project. He was paid \$4,991 in July 2018 and \$2,994 in August 2018 for foreman duties, exceeding the \$1,500 monthly limit allowed by state law.
- Two spouses of Commissioners performed work in 2018. Meeting minutes did not document contracts for either spouse. A spouse of one commissioner was paid \$622 for tax return and payroll preparation services. A spouse of another commissioner was paid \$120 for Board meeting support.

#### *Cause of Condition*

Commissioners were not aware of state law on compensation and beneficial, remote interest in contracts. Additionally, the Commissioners did not have proper internal controls over contracts to ensure contracts were allowable, approved and documented in the board meeting minutes.

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

There was no contract for the Commissioner foreman duties, nor was this role documented in the meeting minutes. As a result, there is no way to determine if the Board considered the incompatible duties of being a foreman as well as a Commissioner.

There was no contracts for the commissioner spouses who performed work in 2018, nor was this approved in the meeting minutes. Without adequate documentation we cannot determine if any Commissioners recused themselves from voting on their spouse's contract. If they did not recuse themselves, it would create a potential conflict of interest.

### ***Recommendation***

We recommend the District comply with state law regarding beneficial and remote interest in contracts and the Code of Ethics for Municipal Officers.

We further recommend the District meeting minutes clearly document all contracts. When there is a beneficial or remote interest, the minutes should clearly document that the related commissioner recused themselves from voting.

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

*We have taken responsibility of correcting the un-known problems of the 2018 audit presented to us on 7/30/2020.*

*We were not aware that the position of commissioner, could not perform work as a foreman without having a separate contract. The foreman's contract is needed to employ a person to perform the duty of supervisor to a crew of 6 to 8 young men to clean the ditches of Fife for 2 months during the summer. This will be corrected along with any other contracts that are needed to be signed. The commissioner's position is limited to \$128 a day or \$1,500.00 a Month which is compensation for the work performed only for the commissioner's duties.*

*The minutes of all meetings forward will include the new procedures that we are now aware of.*

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

The District's corrective actions will be reviewed during our next audit. We thank District officials for their assistance and cooperation.

## *Applicable Laws and Regulations*

RCW 43.09.200 – Local government accounting – Uniform system of accounting, gives the state auditor the authority to formulate, prescribe and install a uniform system of accounting and reporting for all local governments.

*Budgeting Accounting and Reporting System (BARS)* manual – Accounting, Accounting Principles and General Procedures, Internal Control defines internal control, describes its purpose, and specifies each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

RCW 42.30.035 – Minutes, states:

The minutes of all regular and special meetings except executive sessions of such boards, commissions, agencies or authorities shall be promptly recorded and such records shall be open to public inspection.

RCW 85.05.410 - Commissioners—Compensation and expenses, states:

Members of the board of diking commissioners of any diking district in this state may receive as compensation the sum of up to one hundred twenty-eight dollars for actual attendance at official meetings of the district and for each day or part thereof, or in performance of other official services or duties on behalf of the district and shall receive the same compensation as other labor of a like character for all other necessary work or services performed in connection with their duties: PROVIDED, That such compensation shall not exceed twelve thousand two hundred eighty-eight dollars in one calendar year, except when the commissioners declare an emergency. Allowance of such compensation shall be established and approved at regular meetings of the board, and when a copy of the extracts of minutes of the board meeting relative thereto showing such approval is certified by the secretary of such board and filed with the county auditor, the allowance made shall be paid as are other claims against the district.

Each commissioner is entitled to reimbursement for reasonable expenses actually incurred in connection with such business, including subsistence and lodging, while away from the commissioner's place of residence, and mileage for use of a privately owned vehicle in accordance with chapter 42.24 RCW.

Any commissioner may waive all or any portion of his or her compensation payable under this section as to any month or months during his or her term of office, by a written waiver filed with the secretary as provided in this section. The waiver, to be effective, must be filed any time after the commissioner's election and prior to the date on which the compensation would otherwise be paid. The waiver shall specify the month or period of months for which it is made.

RCW 42.23.030 - Interest in contracts prohibited— states:

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.

(6)(a) The letting of any other contract in which the total amount received under the contract or contracts by the municipal officer or the municipal officer's business does not exceed one thousand five hundred dollars in any calendar month.

(12) A municipal officer may not vote in the authorization, approval, or ratification of a contract in which he or she is beneficially interested even though one of the exemptions allowing the awarding of such a contract applies. The interest of the municipal officer must be disclosed to the governing body of the municipality and noted in the official minutes or similar records of the municipality before the formation of the contract."

RCW 42.23.070 – Prohibited Acts, states:

No municipal officer may use is or her position to secure special privileges or exemptions for himself, herself, or others.



## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2018-002 The District's disbursement activity did not comply with state law and placed public resources at risk for loss.**

#### ***Background***

Pierce County Drainage District No. 23 provides operation and maintenance for a stormwater drainage system in Fife. A three-member Board of Commissioners governs and manages the District. Commissioners are responsible for designing and following internal controls to ensure public resources are adequately safeguarded. The current Commissioners have served on the Board with varying terms since 2005, or longer.

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

The District spends about \$77,000 annually in operating expenses. The District did not retain the supporting documentation for its disbursements, nor did the governing body approve expenses as required by state statute. We tested 101 vendor payments from 2018, totaling \$59,465. The District could not provide adequate supporting records for 75 of these vendor payments, totaling \$36,989.

The District partially reimbursed Commissioners for costs that had both a District business purpose and non-business purpose. No specific method was used to determine how the following expenses should have been allocated:

Cellphone and internet costs	\$1,635
Postage and copy paper	\$ 135
Printer toner	\$ 467

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

The District lacked adequate internal controls to ensure disbursements were reviewed, supported and for allowable business purposes. Further, District Commissioners did not adequately understand applicable state laws, including for record retention, and requirements of the *Budgeting, Accounting and Reporting System* (BARS) manual.

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

Without having adequate internal controls in place to ensure compliance with state law and safeguarding of public resources, the District is at increased risk of noncompliance, fraud and abuse. Further, by not including Board approval of disbursements in the meeting minutes, the District did not comply with state law.

## ***Recommendations***

We recommend the District:

- Develop and implement policies and procedures to include a review process to ensure expenditures are supported and for allowable purposes and the records are kept
- Determine an allocation method for items that are for both business and personal purposes
- Ensure meeting minutes document Board approval of all voucher payments

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

*We have taken responsibility of correcting the un-known problems of the 2018 audit presented to us on 7/30/2020.*

*The minutes of all meetings forward will include the new procedures that we are now aware of.*

*The Equipment repair & purchase of new equipment will be in the minutes and voted on as requested.*

*Cell phones, internet, copy paper, toner and postage are necessities for the operation of the District.*

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

The District's corrective actions will be reviewed during our next audit. We appreciate the District's commitment to resolving this issue and thank the District for its cooperation and assistance during the 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. This section shall not apply in the following cases...

5) The employment of any person by a municipality for unskilled day labor at wages not exceeding two hundred dollars in any calendar month.

(6)(a) The letting of any other contract in which the total amount received under the contract or contracts by the municipal officer or the municipal officer's business does not exceed one thousand five hundred dollars in any calendar month.

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.

BARS 3.8.5.40 Expenditures – Voucher Certification and Approval, requires indication of the governing body approval for payment of claim vouchers and payroll be entered in the minutes.

RCW 43.09.230 Local government accounting – Annual reports, requires every local government to prepare, certify and file their financial reports within one hundred fifty days after the close of each fiscal year.

RCW 43.09.260 Local government accounting—Examination of local governments—Reports—Action by attorney general.

The examination of the financial affairs of all local governments shall be made at such reasonable, periodic intervals as the state auditor shall determine. However, an examination of the financial affairs of all local governments shall be made at least once in every three years, and an examination of individual local government health and welfare benefit plans and local government self-insurance programs shall be made at least once every two years.

BARS 3.1.4 Accounting principles and internal control – Original supporting documentation, requires local governments to obtain and ensure the integrity and retention of the original vouchers, receipts, and other documents to isolate and prove the validity of every transaction relating to the receipt, use and disposition of public funds or property. This requirement extends to all accounting entries.

BARS 3.1.4.30 Accounting principles and internal control – Original supporting documentation, requires local governments to establish internal controls ensuring the integrity of data supporting public transactions, which should include policies and procedures ensuring completeness, accuracy and availability of the data.

RCW 42.30.035 Open Public Meetings Act – Minutes, requires the minutes of all regular and special meetings except executive sessions of such board, commissions, agencies or authorities shall be promptly recorded and such records shall be open to public inspection.

RCW 43.09.2855 Local governments – Use of credit cards, requires a local government to adopt a system for (a) the distribution of credit cards; (b) the authorization and control of the use of credit card funds; (c) the credit limits available on the credit cards; (d) payment of the bills; (e) Any other rule necessary to implement or administer the system under this section.

BARS 3.6.1 Revenues – Cash receipting, requires deposits to be made at least once every 24 hours unless the treasurer of the local government granted an exception where such daily deposits would not be administratively feasible, however, deposits shall not be made less frequently than weekly.

RCW 85.06.380 Commissioners—Compensation and expenses

In performing their duties under the provisions of this title the board and members of the board of drainage commissioners may receive as compensation up to ninety dollars per day <<updated limit is \$128/day>> or portion thereof spent in actual attendance at official meetings of the district, or in performance of other official services or duties on behalf of the district: PROVIDED, That such compensation shall not exceed eight thousand six hundred forty dollars in one calendar year <<updated limit is \$12,288/year>>

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2018-003 The District did not comply with statutory financial reporting requirements to demonstrate accountability for its operations.**

#### ***Background***

The Board of Commissioners, state and federal agencies, and the public rely on the information included in financial 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 local governments in Washington to provide a summary of their financial activity to our Office each year within 150 days of their fiscal year end. State law (RCW 43.09.260) also requires the State Auditor to examine the financial affairs of every local government at least once every three years.

The three-member Board is responsible for District operations and compliance with state laws. The current Commissioners have served on the Board, with varying terms, since 2005 or longer.

The District received disclaimer letters for fiscal years 2009 through 2017 because the District did not file its annual reports for those years.

#### ***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 year 2018. The District did not submit annual reports or respond to subsequent requests for information for the prior years.

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

The District did not dedicate the necessary resources to ensure it submitted its annual reports on time or at all.

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

The District filed its 2018 annual report 110 days late. The District did not file for any years prior to 2018. As a result, we could not conduct audits for those years as required by state law (RCW 43.09.260). Failure to submit financial reports limits access by the public, state and federal agencies, and other interested parties to financial and other information about the District. Additionally, without submitting required reports or responding to our audit inquiries and requests for financial documentation, the District cannot demonstrate accountability for its operations.

### ***Recommendation***

We recommend the Commissioners prepare and submit timely annual financial reports to our Office and provide records needed for an audit to be performed, as required by state law. We encourage Commissioners to contact our Office for any assistance needed in meeting these reporting requirements.

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

*We have taken responsibility of correcting the un-known problems of the 2018 audit presented to us on 7/30/2020.*

*The future audits will be done in a timely manner.*

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

The District's corrective actions will be reviewed during our next audit. We appreciate the District's commitment to resolving this issue and thank the District for its cooperation and assistance during the audit.

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

RCW 43.09.230 states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government . . . (3) a classified statement of all receipts and expenditures by any public institution; . . . together with such other information as may be required by the state auditor . . . .

RCW 43.09.240 states in part:

Every public officer and employee of a local government shall keep all accounts of his or her office in the form prescribed and make all reports required by the state auditor. Any public officer or employee who refuses or willfully neglects to perform such duties shall be subject to removal from office in an appropriate proceeding for that purpose brought by the attorney general or by any prosecuting attorney.

RCW 43.09.260 states, in part:

(1) The examination of the financial affairs of all local governments shall be made at such reasonable, periodic intervals as the state auditor shall determine . . .

(5) On every such examination, inquiry shall be made as to the financial condition and resources of the local government; whether the Constitution and laws of the state, the ordinances and orders of the local government, and the requirements of the state auditor have been properly complied with; and into the methods and accuracy of the accounts and reports.

(6) A report of such examination shall be made and filed in the office of state auditor, and one copy shall be transmitted to the local government. A copy of any report containing findings of noncompliance with state law shall be transmitted to the attorney general. If any such report discloses malfeasance, misfeasance, or nonfeasance in office on the part of any public officer or employee, within thirty days from the receipt of his or her copy of the report, the attorney general shall institute, in the proper county, such legal action as is proper in the premises by civil process and prosecute the same to final determination to carry into effect the findings of the examination . . . .

RCW 42.20.100 states:

Whenever any duty is enjoined by law upon any public officer or other person holding any public trust or employment, their willful neglect to perform such duty, except where otherwise specially provided for, shall be a misdemeanor

## INFORMATION ABOUT THE DISTRICT

Pierce County Drainage District No. 23 provides operation and maintenance for a stormwater drainage system in Fife.

A three-member Board of Commissioners governs the District. The District receives approximately \$176,000 in annual revenue primarily from special assessments.

<b>Contact information related to this report</b>	
Address:	Pierce County Drainage District No. 23 2124 63rd Avenue E. Fife, WA 98424-228
Contact:	David Lamberson, Commissioner
Telephone:	(253) 922-2426

*Information current as of report publish date.*

### **Audit history**

You can find current and past audit reports for Pierce County Drainage District No. 23 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(564) 999-0950
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>