



Assessment Audit Report

Naches Union Irrigation District

For the period January 1, 2019 through December 31, 2021

Published August 15, 2022

Report No. 1031005



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

August 15, 2022

Board of Directors
Naches Union Irrigation District
Yakima, Washington

Report on Assessment Audit

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.

The attached report describes the procedures performed and conclusions for the areas we reviewed. We appreciate the opportunity to work with your staff, and 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

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.

AUDIT SUMMARY

Results in brief

Based on the procedures performed, we identified areas where the District could make improvements. These recommendations are included with our report as a finding. In other areas we reviewed, nothing came to our attention that caused us to believe the District was not in substantial compliance with applicable state laws, regulations, and its own policies or had not provided adequate 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.

About the assessment audit

This report contains the results of our independent audit of the Naches Union Irrigation District from January 1, 2019 through December 31, 2021.

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. State law (RCW 43.09.230) also requires local governments 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 Office of the Washington State Auditor 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 Directors compensation, conflicts of interest, or procurement requirements. Based on that review, we compared selected expenditures with supporting invoices and voucher approvals to verify their validity and completeness.
- Evaluating the District's financial information for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Naches Union Irrigation District January 1, 2019 through December 31, 2021

2021-001 The District lacked adequate internal controls and monitoring over operations to ensure compliance with state ethics laws, the Open Public Meetings Act, and accurate annual report filing.

Background

A three-member Board of Commissioners manages the District, and a private company performs all of its operations. This company leads operations and maintenance for one main irrigation ditch and two subsystems created off the private company's main system. The District is one of these subsystems, operating on assessment revenues of \$42,000 in 2019 and 2020 and \$67,000 in 2021.

State law (RCW 42.23) prohibits municipal officers from having a beneficial interest in contracts. The law defines beneficial interest as a financial interest in a contract to which the government or agency is a party, if the officers participate in awarding the contract or are responsible for the agreement by virtue of the office they hold.

The Washington Open Public Meetings Act (OPMA) requires the District to hold discussions and make business decisions, including voucher approvals and resolutions, in an open public forum. The OPMA also requires the District to adequately document its meetings. Additionally, irrigation districts serving less than 5,000 acres are required to meet quarterly (RCW 87.03.115).

State law (RCW 43.09.230) requires the District to submit an accurate annual financial report to the State Auditor's Office. The annual financial report includes summaries of financial information and supporting schedules.

Description of Condition

The private company, which one of the Commissioners partially owns, performs the District's canal operations under an informal and undocumented arrangement. As part of this arrangement, the District is responsible for paying one-third of the private company's operating costs. The District reimburses the private company periodically for its portion of the operating costs; these payments are the District's only expense. A hired accountant monitors the private company and District's financial activity and the reimbursement payments, which are in the form of a receivable the District owes to the private company. The hired accountant also creates reimbursement requests; however, this person did not request reimbursements from the District timely during the audit period. The District paid

the Commissioner-owned company \$17,200, \$19,600 and \$46,200 for fiscal years 2019, 2020 and 2021, respectively. The hired accountant requested reimbursements annually for 2019 and 2020 and biannually for 2021.

Additionally, the District should hold open public meetings at least quarterly. The District discusses activity informally throughout the year, but does not consistently hold meetings open to the public. During the 36-month audit period, only one of the District's 12 quarterly meeting was open to the public and had recorded minutes.

These issues were reported as a finding in the prior audit.

Cause of Condition

Based on their interpretation of the Governor's Proclamation 20-25, which restricted in-person gatherings due to the COVID-19 pandemic, the Commissioners concluded the District was not required to hold open public meetings. As a result, the District did not address the conflict of interest created by the arrangement with the Commissioner-owned private company, nor worked to improve its controls based on our recommendations in the prior audit finding.

Effect of Condition

District Commissioners did not comply with the Code of Ethics for Municipal Officers laws and the OPMA. When the District does not properly conduct and record open public meetings, it has no official record of the business it conducted. This limits transparency and the public's knowledge and understanding of the District's operations, including related-party transactions, spending activity, and timely expenditure approvals. Because the private company's hired accountant did not request reimbursements from the District timely, we could not determine accurate annual expenditures in the District's annual report.

Recommendation

We recommend the District:

- Improve controls over its operations to ensure compliance with state ethics laws and the OPMA
- 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
- Document any conflict of interest, even in the presence of an exception, in the meeting minutes, as state law requires

Ensure meetings are open to the public and that minutes are recorded, including documentation of timely expenditure approvals, as state law requires. This will improve the accuracy of the District's annual report data.

District's Response

As part of its essential operations, the Naches Union Irrigation District (NUID) contracts with the Glead Canal Company for the Glead Canal Company (GCC) to provide certain maintenance and operational services through one of the GCC's employees. This employee provided services to the NUID, GCC and the Lower Wapatox (LW), all being entities that provide irrigation services to its patrons. This individual provides "ditch rider" services, which include monitoring all canals and taking on any maintenance or repair duties that may arise. This GCC employee is essential to the operations of the NUID, GCC and LW. One board member of the NUID is also a board member of the GCC. Although funds are paid to the GCC by the NUID under this agreement, the GCC is an entity that does not operate for profit, but rather serves as the irrigation company for its patrons. The relationship of the board member to the GCC is known by all members of the NUID board and has been ratified by those members of the board which are not also members of the GCC. As it is only one member of the board that also serves on the GCC board, the remaining two board members of the NUID are sufficient to ratify the agreement. The GCC does not operate for a profit and its officers are non-salaried. As such, the NUID views this as a Remote Interest contract as permissible pursuant under RCW 42.23.040.

As for the lack of public meetings, with the changes in the requirements in the Washington Open Public Meetings Act (OPMA) enacted due to the COVID pandemic, confusion arose as to the revised requirements. This was the cause for the failure in the required OPMA and related record keeping for those meetings, as well as public notice. This practice has been clarified for the board. Moving forward, the board will be conducting meetings in compliance with the current obligations under the OPMA, with notification to the public being provided prior to those meetings and including the ability for the public to participate in those meetings, whether it be in person, by phone or video conference, as determined by the board, with said notice being provided in the publication that shall occur prior to those meetings.

As provided above, with the open meeting that will be occurring for the NUID moving forward, the board shall present for discussion any and all contracts related to its operations. This will allow for transparency related to operations and ensure accurate record keeping for all transaction to be entered into by the NUID. This documentation would include disclosure of the terms of any contracts, as well as disclosure of any potential or actual conflict that may exist and disclosure of any exemption to the conflict. These open meetings will also include the disclosure of expenses incurred and timely payment of said amounts. This will also provide for requests for timely invoicing of all expenses incurred by the NUID, regardless of the source. This will eliminate the untimely invoicing as alleged to have previously occurred. Additionally, minutes shall be kept of those meetings to provide a written record of all transactions occurring during those meetings.

Auditor's Remarks

We thank the District for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

RCW 42.23 – Code of Ethics for Municipal Officers – Contract Interests

RCW 42.30 – Open Public Meetings Act

RCW 87.03.115 – Organization of board – Meeting – Quorum

RCW 43.09.230, Local government accounting – Annual reports – Comparative statistics.

**Naches Union Irrigation District #180
901 Summitview Avenue Suite 260
Yakima, WA 98902**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Naches Union Irrigation District
January 1, 2019 through December 31, 2021**

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2017 through December 31, 2018	Report Ref. No.: 1025562	Finding Ref. No.: 2018-001
Finding Caption: The District controls over its operations were not adequate to ensure compliance with state ethics laws and the Open Public Meetings Act		
Background: District canal operations are performed under an informal and undocumented arrangement with the private company, which is partially owned by one of the Commissioners. The District is one of three canals/ditches operated by the private company. The District is responsible for one-third of the private company's operating costs and reimburses the private company quarterly for the District's portion of the operations costs. The District's only expense is the expenses it pays to the private company. As Secretary for the District, the Commissioner monitors payments and all activity and creates reimbursement requests. A different Commissioner approves the reimbursement requests. The District paid the Commissioner-owned company \$16,706 and \$44,166 for fiscal years 2017 and 2018, respectively. In addition, the District is required to hold open public meetings at least quarterly. The District holds informal meetings throughout the year, which are not open to the public. During the 24-month audit period, only one of the eight quarterly meetings was open to the public and had recorded minutes.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"><div><input type="checkbox"/> Fully Corrected</div><div><input checked="" type="checkbox"/> Partially Corrected</div><div><input type="checkbox"/> Not Corrected</div><div><input type="checkbox"/> Finding is considered no longer valid</div></div>		
Corrective Action Taken: <i>Started with a meeting to discuss actions that were going to be taken than Covid-19 shut everything down per Proclamation by the Governor.</i>		

INFORMATION ABOUT THE DISTRICT

Naches Union Irrigation District provides operation and maintenance of an irrigation system for the Naches area in Yakima County.

An elected, three-member Board of Directors governs the District. The District receives approximately \$42,000 in annual revenue primarily from special assessments.

Contact information related to this report

Address:	Naches Union Irrigation District 901 Summitview Suite 260 Yakima, WA 98902
Contact:	Fran Burton, Bookkeeper
Telephone:	(509) 654-7777

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Naches Union Irrigation District at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov