



Office of the Washington State Auditor
Pat McCarthy

Assessment Audit Report

Black Lake Special District

For the period January 1, 2020 through December 31, 2021

Published October 20, 2022

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

October 20, 2022

Board of Commissioners
Black Lake Special District
Olympia, 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,

Pat McCarthy, State Auditor
Olympia, WA

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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.

We noted certain matters related to annual report filing inaccuracies that we communicated to the District's management and Board of Commissioners in a letter dated October 5, 2022. We appreciate the District's commitment to resolving those matters.

About the assessment audit

This report contains the results of our independent audit of the Black Lake Special District from January 1, 2020 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 Commissioners 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. We further verified that selected expenditures complied with applicable procurement requirements.
- Evaluating the District's financial information for indications of financial distress
- As a result of citizen concerns reported to our office, we evaluated the District's compliance with state laws for procurement and potential conflicts of interest and communicated the results of our evaluation with the District related to these topics. The results of our review are included in the attached finding.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Black Lake Special District January 1, 2020 through December 31, 2021

2021-001 The District did not have adequate controls in place to comply with state procurement laws for public works projects.

Background

The Black Lake Special District was established in 2014 under RCW 85.38. The purpose of the District is to improve and maintain Black Lake's water quality. The District had annual revenues of \$170,000 and \$1.5 million during fiscal years 2020 and 2021, respectively. In 2021, the District received \$1.4 million in bond revenue to treat algae bloom in the lake.

State law (RCW 85.38.190) requires diking and drainage districts to use a formal competitive bidding process for all public works projects more than \$5,000. Under RCW 39.04.010, "public work" includes all work, construction, alteration, repair or improvement other than ordinary maintenance, executed at the cost of the state or of any municipality. The statute excludes "ordinary maintenance," which is defined in WAC 296-127-010(7)(b)(ii) as work not performed by contract and on a regularly scheduled basis (e.g., no less frequently than once per year), to service, check or replace items that are not broken. The statute also excludes work not performed by contract that is not regularly scheduled but is required to maintain the asset so that repair does not become necessary.

Description of Condition

During the audit period, the District contracted with a vendor to perform alum treatment in the lake. Our audit found the District incorrectly evaluated the project as ordinary maintenance since it did not improve the value of the lake and treatment was considered necessary. However, this treatment is not performed annually or by the District's own staff, therefore, it does not qualify as ordinary maintenance and should have been competitively bid.

Cause of Condition

Management did not understand state laws defining public works projects and ordinary maintenance, which caused the District to incorrectly evaluate the project.

Effect of Condition

The District did not perform competitive bidding when it used \$1.4 million in bond revenue to contract with a vendor to perform alum treatment in the lake. State bid laws are designed to protect public resources; since the District did not follow them, it cannot be sure it obtained the services at the lowest cost, or that all interested contractors were given an opportunity to provide quotes or bids.

Recommendation

We recommend the District establish controls to ensure compliance with state law when procuring public works projects.

District's Response

We agree with Finding 2021-001. A formal competitive bidding process shall be used for public works projects valued at more than \$5,000 which are not ordinary maintenance. The BLSD "Resolution #17-02 Policies and Procedures Manual, Article 11 – Purchasing Policy" shall be modified to define "public work" and the requirements for competitive bidding. The modifications shall be adopted by the Governing Board.

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 the next regular audit.

Applicable Laws and Regulations

RCW 85.38.190 – Construction of improvements—When public bidding not required—Use of district employees or volunteers.

RCW 39.04.010 – Definitions.

WAC 296-127-010(7)(b)(iii) – Definitions.

INFORMATION ABOUT THE DISTRICT

The Black Lake Special District is a limited purpose local government separate from city, town, or county government. Revenue raised under the District is used to protect and enhance Black Lake in terms of plant management and water quality, as well as address emerging issues related to managing the lake in accordance with the IAVMP and best interests of the property owners within the district.

The District is governed by a three member Board of Commissioners. The purpose of the District is to serve the public welfare by improving and maintaining the water quality of Black Lake for local homeowners, those with lake access, visitors, fish, and wildlife. The goal is to maintain a healthy and ecological balance in the lake so that it may be enjoyed by swimmers, boaters, fishermen, and campers.

The District received approximately \$170,000 and \$1,500,000 in annual revenue during fiscal years 2020 and 2021, respectively, primarily from special assessments. The large increase in revenues in fiscal year 2021 is related to Bond funding received to treat algae bloom in the lake.

Contact information related to this report

Address:	Black Lake Special District 120 State Avenue NE, #303 Olympia, WA 98501
Contact:	Lake Stintzi, Commissioner
Telephone:	(360) 867-8814

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Black Lake Special 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.

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