



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Wolf Creek Irrigation District

(Wolf Creek Reclamation District)

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

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

May 22, 2023

Board of Directors
Wolf Creek Reclamation District
Winthrop, 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 value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	5
Information about the District.....	9
About the State Auditor's Office.....	10

AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, District operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided 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 a finding.

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 Wolf Creek Reclamation 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.

This 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. 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 years ended December 31, 2021, 2020 and 2019, 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, fuel cards, and employee reimbursements
- Payroll – Director compensation
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Annual report filing – timeliness and completeness
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Wolf Creek Reclamation District January 1, 2019 through December 31, 2021

2021-001 The District lacked adequate internal controls over disbursements.

Background

The Wolf Creek Reclamation District supplies water for more than 800 acres of irrigated land in Winthrop. A three-member Board of Directors governs the District, and one of the Directors also manages its day-to-day operations. The District spent about \$62,000, \$39,000 and \$51,000 in 2019, 2020 and 2021, respectively.

Directors of irrigation districts shall receive compensation for each day spent for their actual attendance at official meetings or performance of other official duties, but payments may not exceed \$12,288 each year, as per state law (RCW 87.03.460).

State law (Chapter 42.23 RCW) 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. Furthermore, state law (RCW 42.23.030(6)(a)) may allow an exception for contracts up to \$1,500 in a calendar month. If a governing body member were to have an interest in such a contract, they should abstain from voting in open public meetings. Further, this conflict should be documented in the District's meeting minutes.

The District is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance public resources are safeguarded in compliance with applicable state laws and the *Budgeting, Accounting and Reporting System* (BARS) Manual.

Description of Condition

The District compensates its Directors on an annual basis; however, state law only allows payment for each day spent in attendance at official meetings or performance of other official duties.

During the three-year period under audit, we identified payments exceeding \$45,000 benefitting the managing Director. These payments exceeded limits set by state law and occurred without the District establishing written contracts and agreements. These payments included:

- Annual compensation of \$12,400 paid to the managing Director for the annual pay as a member of the Board and a monthly wage for overseeing the District's day-to-day operating duties
- \$5,750 in April 2021 to the managing Director to reimburse him for repairs to his personal heavy equipment used in District operations
- \$2,500 in December 2021 for additional work approved in an open public meeting; however, the District could not provide documentation to substantiate the basis for this payment

The managing Director, as the custodian of the District's fuel card, incurred charges exceeding \$10,000 during the audit period. The District does not have written policies or procedures governing use of the card, lacks an independent reviewer, and did not maintain adequate supporting documentation for these charges to prove their valid business use, such as mileage tracking logs, receipts or other forms of support. Furthermore, our audit also identified an additional \$1,300 payment that did not have adequate supporting documentation.

Cause of Condition

The District has not dedicated resources necessary to establish controls over its disbursements or conflict of interests with compensating a Director as an employee. Further, the District did not take action to address prior audit recommendations regarding these activities.

Effect of Condition

Internal controls are critical for demonstrating the District monitors its financial activity, complies with state law and the BARS Manual, and ensures safeguarding of public resources. The lack of control and oversight of the District's finances and operations increases the risk that misappropriation or misuse of public resources could occur and not be prevented or detected in a timely manner, if at all. Due to the lack of adequate controls, the Board did not comply with state ethics laws for municipal officers. Furthermore, without maintaining adequate supporting documentation, the District cannot support the valid business purpose of all the payments it has made.

Recommendation

We recommend the District:

- Establish written employment contracts with personnel outlining salary and responsibility expectations, and ensure contracts do not exceed maximums set by state law
- Document any conflicts of interest in the meeting minutes, as required by state law
- Ensure Directors abstain from voting on contracts or payments from which they have a direct benefit
- Establish policies and procedures governing its fuel card program to ensure adequate documentation and independent review of charges
- Improve recordkeeping to ensure documentation retained adequately details all goods and services transacted, as well as supports the valid business purpose of all payments

District's Response

The Directors do most of the maintenance work without additional pay. Which saves the District a lot of money where it's an old system that requires a lot of maintenance work. All three directors have gas cards now which they use for parts runs and maintenance on the ditch work. We live in a small town and the cost of fuel is always high. A lot of the time the Directors have to drive 100 to 200 miles for parts and pipe.

The Chairman Director doesn't vote on any direct benefit for himself. The other 2 directors make a motion and is seconded then they vote. All the recommendations made are being taken into consideration and will make necessary improvements. I keep all invoices in my records. Also, the district will start making more resolutions, and keep better minutes of the 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

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

RCW 42.23.30 – Interest in contracts prohibited – Exceptions.

RCW 42.23.70 – Prohibited acts.

RCW 87.03.460 – Compensation and expenses of directors, officers, employees.

Budget, Accounting and Reporting System (BARS) Manual, Section 3.1.3 – Internal Control

BARS Manual, Section 3.1.4 – Original Supporting Documentation

BARS Manual, Section 3.8.4 – Purchase Cards

INFORMATION ABOUT THE DISTRICT

Wolf Creek Irrigation District, doing business as Wolf Creek Reclamation District, began operation in 1921 to supply water for approximately 805 acres of irrigated land in the Winthrop area, including the Methow Valley School District, and irrigation and domestic supply for Sun Mountain Resort. An elected, three-member Board of Directors oversee the District's daily operations as well as its three part-time employees.

The District collected revenues of approximately \$48,500, \$51,000 and \$66,000 in fiscal years 2019, 2020 and 2021, respectively. The District's primary revenue source is operating special assessments.

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 Wolf Creek Reclamation 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.

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