



Office of the Washington State Auditor  
Pat McCarthy

## **Accountability Audit Report**

# **Cascade Valley Water District**

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

*Published January 18, 2024*

Report No. 1033346



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

January 18, 2024

Board of Commissioners  
Cascade Valley Water District  
Moses Lake, 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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## 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 did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the District did not provide adequate controls over safeguarding of public resources in most of the areas we examined.

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 the Cascade Valley Water 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 – Commissioner and contracted operator payments
- Utility billing – billing and adjustments
- Cash receipting – timeliness and completeness of deposits, including collections made through a third party
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Cascade Valley Water District January 1, 2019 through December 31, 2021

**2021-001 The District did not have adequate controls over customer billing and receipting to ensure safeguarding of public resources.**

#### *Background*

The Cascade Valley Water District is governed by a three-member Board of Commissioners. The District's water billing generated revenues of about \$112,500 in 2019 and about \$120,500 annually in 2020 and 2021.

District management is responsible for designing, implementing, and maintaining internal controls that provide reasonable assurance that public resources are safeguarded. In our previous audits, we communicated concerns over cash receipting, customer billing and adjustments.

The District has received recommendations in the prior two audits over customer billing and receipting issues; however, corrective action has not been taken.

#### *Description of Condition*

The District is responsible for establishing adequate controls over utility billing to ensure customer billings are accurate and payments received are adequately safeguarded during the collection process. Our audit identified the following deficiencies:

##### *Utility billing and adjustments*

- The District did not have written policies or procedures outlining billing rates, additional charges, or other expectations of the billing process, such as account adjustments and collections.
- Accounting system reports are not made available to the Board in order to effectively monitor billing, including miscellaneous fees.
- The Board did not independently monitor adjustments made to customer accounts to ensure all adjustments were supported, valid, approved and reasonable.

### *Cash receipting*

- The District did not have a written policy or procedures for cash receipting.
- The District allowed customers to drop off payments to employees of a small local business in the area. The District did not have a contract in place with the business for this arrangement. In the previous audits, we recommended the District eliminate this practice or obtain a locked drop-box to properly secure customer payments. The current practice increases the risk of loss.
- The District did not document reconciliation of receipts to deposits and the Board did not monitor the reconciliation process.

### *Cause of Condition*

Despite prior audit recommendations, the Board did not dedicate sufficient resources and has not established oversight procedures over contracted activities. The District had limited staff available to segregate duties.

### *Effect of Condition*

Without adequate internal controls, the District puts public funds at risk of misappropriation, misuse or loss that would not be detected by management timely, if at all. Specifically, we noted the following:

- We could not determine whether additional charges to customers, such as tree removal or meter replacements, were appropriate.
- Our audit identified adjustments, crediting customer accounts \$837; however, without a policy over adjustments we were unable to determine whether the adjustments were appropriate.
- The District did not collect all funds owed from customers. The District secretary had an outstanding balance of about \$600 prior to the audit period; however, the District was not actively seeking payment for the amount due and the Secretary continued to receive water services. The amount due was paid to the District in April of 2023, after our inquiry.
- One inactive customer account had an outstanding balance of \$2,555 in 2019; however, the outstanding balance was not carried forward to the 2020 and 2021 customer ledgers. Payment was not collected.

## ***Recommendation***

We recommend the District strengthen internal controls to safeguard public resources. Specifically, we recommend the District:

- Adopt written policies and procedures over cash receipting, billing and adjustments.
- Seek training on its billing software to produce reports for effective monitoring and oversight.
- Adequately segregate duties or establish compensating controls to increase oversight of billing and cash receipting.
- Eliminate the practice of allowing payments to be dropped off at the local business on behalf of the District.
- Document the monthly reconciliations between the County Treasurer's receipts and its accounting system to ensure all payments collected are deposited. This reconciliation should be reviewed by someone independent of the billing and receipting process.

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

*We have been and will continue to adjust bills for users on a need basis. We will keep better track in the minutes.*

*We discontinued using the coffee stand effective October 1, 2023. We have no plans to set one up anywhere.*

*We are not a big enough entity to warrant hiring personnel to oversee and double check everything. We go over all billing and deposits at monthly meetings.*

*Since we do not have access to any monies the District has and no bank account or checking account it can be pretty hard to commit fraud. It is a volunteer board that puts in a good deal of time and effort to ensure the adequate running of the District and maintaining of an old system. Since no monies were found to be lost we think we are doing a pretty good job.*

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

The State Auditor's Office understands the challenges that small, rural governments face. Nonetheless, elected officials for every government in Washington, no matter the government's size, have an important responsibility

to not only steward the public's resources but also ensure transparency in operations.

We reaffirm our finding and will review the status of the District's corrective action during our next audit.

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

*Budgeting Accounting and Reporting System (BARS) Manual – Accounting Principles and Internal Control section 3.1.3*

*Budgeting Accounting and Reporting System (BARS) Manual – Accounting Revenues Cash Receipting Deposits section 3.6.1.20*

RCW 43.09.200 Local government accounting – Uniform system of accounting



## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Cascade Valley Water District January 1, 2019 through December 31, 2021

#### **2021-002    The District lacked adequate internal controls and monitoring over disbursements to ensure the safeguarding of public resources and compliance with state law, including the Open Public Meetings Act.**

##### *Background*

The Cascade Valley Water District is governed by a three-member Board of Commissioners. The District's water billing generated revenues of about \$112,500 in 2019 and \$120,500 annually in 2020 and 2021. The District's operating expenditures were about \$68,000, \$54,000 and \$66,000 in 2019, 2020 and 2021, respectively.

Customers rely on the District to establish effective internal controls to safeguard public resources, and to ensure compliance with state laws and policies. During our audit, we found the District did not have effective internal controls over general disbursements. The lack of internal controls hinders the District's ability to prevent or detect errors or misappropriation, and ensure compliance with laws and policies.

The District is subject to the state's Open Public Meetings Act (OPMA), which requires the District to take minutes for all public meetings. Official District business conducted by the Board includes, but is not limited to, approval of expenditures and contracts, discussions, reviews, evaluations and final actions.

We gave the District multiple recommendations over disbursements and OPMA compliance in previous audits; however, management has not taken corrective action.

##### *Description of Condition*

We identified several deficiencies in internal control over disbursements. Specifically, the District:

- Did not have contracts in place for service providers, and lacked adequate support for disbursements
- Did not have policies or procedures over disbursements

- Did not accurately fill out claim payment requests, which are sent to the County Treasurer to process payments. Specifically, payment batches and voucher numbers were omitted.
- Did not document voucher numbers in the minutes, and omitted some payments from the minutes
- Did not ensure the Board reviewed the reconciliation of approved payments to the County Treasurer's report

### *Cause of Condition*

Despite prior audit recommendations, the Board did not dedicate sufficient resources and has not established oversight procedures for contracted financial activities. The District also had limited staff available to segregate duties during the audit period.

### *Effect of Condition*

Our audit found the District paid someone about \$10,000 for operating services from 2019 through 2021 without a contract to define the services being provided. In addition, the District has paid its secretary \$300 annually without a contract for services.

The District also pays the contracted operator a monthly allotment for postage, and reimburses them for other miscellaneous expenses. We found about \$1,300 of reimbursements did not include adequate supporting documentation to determine what the expenses were for.

The intent of the OPMA is to ensure the public has access to government deliberations and actions. Because Board minutes were illegible and did not include required information, the District has an insufficient record of the business it conducted, and the public does not have sufficient information about what took place in District meetings. We found the Board approved about \$53,000 of payments from 2019 through 2021, but the payments were not documented in the minutes.

### *Recommendation*

We recommend the District:

- Establish contracts for people working for the District, which should define the scope of work and payment terms
- Establish policies and procedures over disbursements

- Retain supporting documentation for reimbursements to the contracted operator
- Properly identify payment batches and voucher numbers on the claim payment requests sent to the County Treasurer
- Review reconciliations between approved payments to the County Treasurer's report
- Properly document all the Board's actions and payment approvals in the meeting minutes
- Ensure minutes contain legible and sufficient information to demonstrate compliance with the OPMA's requirements

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

*The public is welcome at board meetings on the last Monday of the month. Notice is on every bill. If it falls on a holiday, notice is sent out for change of date.*

*We have never had voucher numbers and we sign every payment request sent to the County.*

*We are a small entity and use help on an on-call basis. The minutes taker being paid \$300 per year on a handshake has been acceptable to the Board for many years.*

*We will try to be better on the minutes documentation and get more detailed information down.*

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

We reaffirm our finding. We will follow up on these issues during the District's next audit.

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

*Budgeting, Accounting and Reporting System (BARS) 3.8.5, Voucher Certification and Approval*

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.

RCW 42.30.010, Legislative declaration.

RCW 42.30.020, Definitions.

RCW 42.30.035, Minutes.

## INFORMATION ABOUT THE DISTRICT

The Cascade Valley Water District was established in the 1950s to provide water to customers residing within the Cascade Valley.

An elected, three-member Board of Commissioners governs the District. The District has one contracted service provided who performs most District operations. The District's operating expenditures were approximately \$68,000, \$54,000 and \$66,000 in 2019, 2020 and 2021, respectively.

Contact information related to this report	
Address:	Cascade Valley Water District P.O. Box 274 Moses Lake, WA 98831
Contact:	Sharon Ladd, Operator
Telephone:	(509) 760-9044

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Cascade Valley Water 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](http://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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