



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Union Gap Irrigation District

For the period January 1, 2020 through December 31, 2022

Published March 11, 2024

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

March 11, 2024

Board of Directors
Union Gap Irrigation District
Wapato, 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.

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

We also noted certain matters related to procurement that we communicated to District management and the Board of Directors in a letter dated March 11, 2024. We appreciate the District's commitment to resolving those matters.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

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 Union Gap Irrigation District from January 1, 2020 through December 31, 2022.

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, 2022, 2021 and 2020, 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, credit cards and employee reimbursement
- Payroll – gross wages
- Procurement – public works, purchases and professional services

- Financial condition – reviewing for indications of financial distress
- Open public meetings – compliance with minutes, meetings and executive session requirements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Union Gap Irrigation District January 1, 2020 through December 31, 2022

2022-001 The District did not have adequate internal controls over payroll to safeguard public resources, resulting in misuse of public funds.

Background

The Union Gap Irrigation District was established in 1915 to provide irrigation water to landowners in Parker Heights in Yakima County. The District serves about 860 customers and annually provides 3,222 acres of water. An elected, three-member Board of Directors governs the District. The Board appoints a Manager to oversee the District's daily operations, as well as its three full-time employees and one part-time Bookkeeper.

The *Budgeting, Accounting and Reporting System* (BARS) Manual requires governments to develop internal controls that adequately safeguard public resources. As such, management is responsible for designing, implementing and maintaining internal controls to ensure the District's payroll disbursements are accurate and allowable under state law.

Description of Condition

In March 2023, a drainage district in Yakima County reported to our Office that it was concerned its Bookkeeper was overdrawing funds that were not approved by the governing body, and submitting the same expenses for reimbursement to multiple governments for which she was providing bookkeeping services. Separately but related to these concerns, our Office identified unusual payroll disbursements to the same Bookkeeper during the current accountability audit of Union Gap Irrigation District.

Our Office investigated these disbursements, and we found the Bookkeeper misappropriated \$1,626 from the District. As noted under the Related Reports – Special Investigations section of this report, we reported this payroll misappropriation in Fraud Investigation Report No. 1034315, which was issued March 11, 2024.

Our audit and the fraud investigation identified control deficiencies related to the District's payroll processes. Specifically, the District:

- Lacked written payroll and leave policies, did not track vacation leave when staff earned or used it, and did not ensure that used sick leave was accurately reflected in the payroll system. The District was unable to provide a report of employees' vacation leave balances.
- Lacked a contract with the Bookkeeper to establish pay terms and employment expectations
- Failed to adequately segregate duties and instead consolidated financial duties to one person. This limited the oversight necessary for ensuring the safeguarding of public resources and adequate monitoring of financial activity.
- Lacked an independent review of the District Manager's timesheet, and did not perform a detailed review of payroll for other employees

Additionally, the District Manager was responsible for reviewing the timesheet for the Bookkeeper, who processed payroll. He was aware of, but did not report, the Bookkeeper's payroll misappropriations, which included modifying her withholdings.

The Manager left full-time employment with the District in October 2023 (transitioning to part-time employment in a consulting capacity). The Bookkeeper left in December 2023.

Cause of Condition

The District has not devoted sufficient time and resources to ensure it has adequate controls, segregation of duties, and effective oversight in place for its payroll disbursements.

During our fraud investigation, the Bookkeeper acknowledged modifying her payroll withholdings, and said that she had told the former District Manager she was doing this. We interviewed the former District Manager on November 1, 2023, who said he was aware of the Bookkeeper's payroll misappropriations. However, he did not inform the Board or report this to the State Auditor's Office, as required by state law. He said he did not inform the Board and our Office because he believed the Bookkeeper was a trustworthy employee and would not intentionally misappropriate funds.

Effect of Condition

During the regularly scheduled audit, we noticed several instances where the Bookkeeper's payroll appeared to have been modified to remove required withholdings, including Social Security, Medicare and other federal taxes. After reviewing the District's payroll records, we identified 13 payments, totaling \$10,800, which had been modified. Nine out of the 13 payments were not recorded in the District's accounting system. Since we do not have the Bookkeeper's personal tax information that would be required to calculate the correct withholdings, we cannot substantiate the amount that should have been withheld.

We expanded our review of the District's payroll and found the following:

- In January 2019, 2020 and 2021, the Bookkeeper calculated her pay for the prior year's work at the updated current-year rates, resulting in misappropriation of \$63 in aggregate.
- In November 2022, the Bookkeeper received \$632 in additional pay, which we determined was questionable due to lack of support.
- In May 2023, the Bookkeeper issued extra paychecks totaling \$6,301 labeled as "backpay" to two former employees, one being the former District Manager. We found these disbursements to be questionable because they lacked support to show they were legitimate and did not receive Board approval.
- In June 2023, the Bookkeeper cashed out 50 hours of sick leave for \$1,563. We reviewed the Bookkeeper's leave balance and found it was overstated by 46.43 hours due to unsupported adjustments that she had made. Because District policy does not allow sick leave cash-outs, we determined the full amount to be misappropriation.
- In December 2021, the Bookkeeper used 2.33 hours of sick leave but did not reduce it from her balance.
- In December 2022, the former District Manager approved 50 hours of additional pay for the Bookkeeper, but it was not supported by an itemized timesheet.

Inadequate internal controls over the District's payroll disbursements and a lack of proper oversight resulted in a misappropriation of public funds. We reported in Fraud Investigation No. 1034315 that the Bookkeeper misappropriated \$1,626 from the District. We also found \$6,933 in questionable disbursements.

Recommendation

We recommend the District improve its internal controls over payroll to ensure it adequately safeguards public funds from loss or misappropriation. Specifically, the District should:

- Establish effective internal controls through written policies and procedures. This includes adequately segregating duties, which should involve monitoring financial activity and requiring meaningful, independent reviews by people who are not directly involved in performing certain functions or activities.
- Ensure all employees have a written contract establishing pay terms and employment expectations

District's Response

The District did not provide a response.

Auditor's Remarks

We thank the District's officials and personnel for their assistance and cooperation throughout the audit. We will follow up on the District's internal controls during the next audits.

Applicable Laws and Regulations

RCW 42.24.080 – Municipal corporations and political subdivisions – Claims against for contractual purposes – Auditing and payment – Forms – Authentication and certification.

RCW 43.09.200 – Local government accounting – Uniform system of accounting.

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30

RELATED REPORTS

Special investigations

We issued a report on a misappropriation of public funds at the District. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

The Union Gap Irrigation District was established in 1915 to provide irrigation water to landowners in Parker Heights in Yakima County. The District serves approximately 860 irrigation water customers and annually provides 3,222 acres of water.

An elected, three-member Board of Directors governs the District. The Board appoints a Manager to oversee the District's daily operations as well as its three full-time employees and one part-time secretary. The District's main source of revenue comes from assessment fees levied on irrigation water customers. The District had revenues of about \$922,729, \$642,589 and \$824,913 in 2020, 2021 and 2022, respectively.

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 Union Gap 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.

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