



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Public Utility District No. 1 of Kitsap County

For the period January 1, 2022 through December 31, 2023

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

September 19, 2024

Board of Commissioners
Public Utility District No. 1 of Kitsap County
Poulsbo, 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 those selected areas, District operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

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 Public Utility District No. 1 of Kitsap County from January 1, 2022 through December 31, 2023.

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, 2023 and 2022, 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 receivable – utility billing, adjustments and collections
- Payroll – gross wages
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

RELATED REPORTS

Financial

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Public Utility District No. 1 of Kitsap County provides water and fiber internet infrastructure utilities throughout Kitsap County. The District also owns and operates a membrane bioreactor (MBR) wastewater treatment facility in Port Gamble, which currently treats up to 60,000 gallons of wastewater per day. The District owns and operates 52 Group A and B water systems. In 2023, the District continued its management of 28 Group A and Group B water systems as it began the customer notification process to transition from an ownership and management model to an ownership only model. As of June 2024, the District manages 12 water systems, of which 11 are in negotiations with the District for potential consolidation. One system is consolidating with the District via the LUD process, 14 systems have opted to contract with other providers for management of their systems, and 1 system has chosen to consolidate with another municipality via the ULID process. In all, the District provides some level of domestic water service to customers via approximately 16,000 service connections. In addition, the district maintains a county-wide water resource monitoring program and provides education on water resource planning and conservation.

The District's Telecom utility operates a high-speed open access fiber optic network called KPUD Fiber and has installed approximately 750 miles of broadband telecommunications throughout the county. The District works with retail service providers to provide state-of-the-art connectivity opportunities for Kitsap County residents, including internet, video, telephone, and other diverse business services. In September 2022, the District's Port Gamble wastewater treatment plant received a reclaimed water permit, allowing the use of effluent from its MBR treatment facility for irrigation purposes. The effluent from the MBR contains low concentrations of bacteria, total suspended solids, biochemical oxygen demand, and phosphorus, facilitating high quality effluent near drinking water standards. This reclaimed water helps recharge local groundwater supplies and stream flows.

An elected, three-member Board of Commissioners governs the District. The Board appoints a General Manager to oversee the district's daily operations as well as its approximately 81 employees. Its main sources of revenue include water usage fees, property taxes, and wholesale telecommunications services. The district operated on annual revenues of \$17.8 million and \$15.9 million for fiscal years 2023 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 Public Utility District No. 1 of Kitsap County 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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