



North Beach Water District

General Manager's Report to Board of Commissioners

Date: 6/17/2013

Re: State Auditor Exit Recommendations

The Washington State Auditor's Office (SAO) performed an accountability audit on North Beach Water District in 2013 for the period January 1, 2011 through December 31, 2012.

The SAO audit did not result in a finding¹ or reveal any material weakness on the part of the District employees or commissioners. The SAO did provide a management letter pertaining to the billing and accounting software used by the District. The management letter identified four areas of concern.

- ✚ Because of limitations within the billing program (RVS) customer account numbers were recycled when new customers were being added to the billing system. This was a practice that was brought to the District from Pacific Water. The general manager address this condition by instructing staff to consolidate all of the paper files chronologically. That work has been creating a lot of overtime for several months. Most of the electronically deleted information was still in the paper files but was not coupled to an account. The accounts are now organized by service address. As residents change their information stays in the file and is easily retrievable.
- ✚ The billing system did not require a user login. This condition made it impossible to identify which employee was responsible for specific transaction. This is a serious internal control failure. The new billing system (BIAS) will require all employees to log on to the billing system before they can make any transaction. BIAS will be the repository of all passwords and they will change frequently so it will be very difficult for some to log on using someone else's password.
- ✚ The billing system allowed users to create account adjustments without creating an audit trail. This condition

¹ An audit finding is defined as an area of potential control weakness, policy violation, or other issue identified during the audit.

left the District open to loss of District funds without any way of recording the loss. The billing system will not allow anyone to delete a transaction without leaving an audit trail.

- ✦ The billing system data could be manipulated. As an example, in April 2012 an employee somehow deleted all of the customer transactions for April 2012 from the billing system. The billing system's programmers were not able to explain how that happened and they were unable to retrieve the deleted information. BIAS assures me that it will be impossible for an employee to delete any data from the BIAS software.

These conditions would have resulted in a finding if not for the fact that the general manager had identified the problems, reported the problems to the SAO and had taken steps to correct the conditions.

The SAO also made provided recommendations to the District during the exit interview.

- ✦ SAO recommended the District develop a policy that provides clear, specific guidance to employees and supervisors over the use of District cellular telephones.

The general manager will present a cellular telephone policy for the Board of Commissioners consideration in the coming months.

- ✦ SAO recommended the District develop a Small and Attractive Asset policy. Small and attractive assets include items that are easily and regularly lost due to theft or careless handling such as cordless drills and saws, flashlights, tools, generators, air compressors, ect.

The general manager will present a Capital Asset Policy that includes a Small and Attractive Asset clause in the policy for the Board of Commissioners consideration in coming months.

- ✦ The SAO recommended the District implement procedures to ensure employees are complying with the District's policy regarding computer usage.

The general manager is investigating IT providers who will install and maintain a firewall and other hardware that will provide greater controls on computer use as well as provide protections and efficiencies for the District's systems and provide protocols for the retention of electronic communications for record retention resulting in greater compliance with record retention and public records access rules.

Washington State Auditor's Office
Accountability Audit Report

North Beach Water District
Pacific County

Report Date
April 22, 2013

Report No. 1009882

Issue Date
June 3, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

June 3, 2013

Board of Commissioners
North Beach Water District
Ocean Park, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your District to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the North Beach Water District's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Pacific County
April 22, 2013**

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Audit Summary

**North Beach Water District
Pacific County
April 22, 2013**

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the North Beach Water District from January 1, 2011 through December 31, 2012.

We evaluated internal controls and performed audit procedures on the activities of the District. We also determined whether the District complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Open public meetings
- Controls over utility billing and cash receipting
- Gifting of public funds
- Small and attractive assets
- Payroll

RESULTS

In most areas, the District complied with state laws and regulations and its own policies and procedures.

However, we noted certain matters that we communicated to District management. We appreciate the District's commitment to resolving those matters.

Description of the District

North Beach Water District Pacific County April 22, 2013

ABOUT THE DISTRICT

The North Beach Public Development Authority was formed in October 2004 by the authority of Pacific County. The purpose of the Public Development Authority was to acquire two private water companies in the north beach area. The Public Development Authority acquired the two private water companies and began water operations during 2006. The Authority transferred ownership to the North Beach Water District as of January 1, 2009.

An elected, three-member Board of Commissioners governs the District. For the years under audit, the District had seven employees and an annual operating budget of approximately \$1.2 million.

ELECTED OFFICIALS

These officials served during the audit period:

| | |
|-------------------------|--|
| Board of Commissioners: | Brian Sheldon Gwen Brake R.D. Williams |
|-------------------------|--|

APPOINTED OFFICIALS

| | |
|-----------------|-----------|
| General Manager | Bill Neal |
|-----------------|-----------|

DISTRICT CONTACT INFORMATION

| | |
|----------|--|
| Address: | North Beach Water District P.O. Box 618 Ocean Park, WA 98640 |
| Phone: | (360) 665-4144 |
| Website: | www.northbeachwater.com |

AUDIT HISTORY

We audit the District every other year. In the 2005-2006 audit, the District received a finding for its noncompliance of prevailing wage requirements. This finding has been resolved. The District has been free of accountability findings since 2007.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Washington State Auditor
Troy Kelley**

May 17, 2013

Board of Commissioners
North Beach Water District
Ocean Park, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the North Beach Water District from January 1, 2011 through December 31, 2012. We believe our recommendations will assist you in improving the District's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to District officials and personnel. If you have any further questions, please contact me at 360-725-5377.

This letter is intended for the information and use of management and the governing body. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Angie Cady, Audit Manager

Attachment

Management Letter
North Beach Water District
January 1, 2011 through December 31, 2012

Utility billing and adjustments

The District collected utility revenue totaling \$1,486,492 in 2011 and \$1,555,548 in 2012. We identified the following concerns relating to the District's internal controls over utility billing and adjustments:

- When all available customer account numbers in the billing system were used and a new account number was needed, inactive account numbers were reused by deleting all previous customer account information and adding the new customer information. The District did not maintain documentation of the deleted accounts. Deleting detailed utility transactions compromises the District's ability to provide customers information about their accounts. This practice is also a possible violation of public record retention laws.
- The billing system did not require a user login. If a misappropriation had occurred, the District could not assign responsibility.
- The system had the ability to create adjustments to customer accounts which did not show up on the adjustment reports and allowed these adjustments to be made with no review or approval.
- The District's software had the ability to be manipulated. For example, activity for the month of April 2012 was deleted from the system. Manipulating the system jeopardized the District's ability to monitor billing activity.

Without adequate internal controls over utility billing and adjustments the District will not be able to prevent or detect a loss of public funds timely, if at all.

As of March 2013 the District changed its software to improve internal controls over utility billing.

We recommend the District:

- Maintain documentation for deleted accounts to provide accurate account information to its customers and ensure compliance with record retention laws.
- Create a user login in the utility billing system to assign responsibility for all transactions.
- Perform an independent review over all adjustments to ensure they are accurate and appear reasonable.
- Ensure there are adequate safeguards in its software system so data cannot be manipulated or deleted.