



North Beach Water District

General Manager's Report to Board of Commissioners

Date: 3/10/2015

Re: Agenda Item 8C - 01/01/2011 - 12/31/2013 Audit

Report:

The Washington State Auditor's Office performed an Accountability audit on the District in February, 2015. District management and staff cooperated with State Auditors by providing them all requested data and making themselves available to answer questions and for interviews.

Please find attached:

Entrance Conference Agenda. Although the Entrance Conference did not formally take place the Auditors did communicate verbally all of the information to District management and staff.

Exit Conference Agenda. The Exit Conference was held on February 25, 2015. Audit Manager Angie Folkers and Assistant Audit Manager Corrine Schmid represented the Washington State Auditor's Office at the Exit Conference. William Neal, NBWD General Manager, Jack McCarty, NBWD Office Manager, and Glenn Ripley, NBWD Commissioner represented the District at the Exit Conference.

Purpose of the Exit Conference is to share with the District the audit results and draft reporting.

During the prior Accountability Audit the District received a Management letter relating to the Utility billing and receivables. Since that time the District purchased and implemented BIAS billing and accounting Software. The Auditors determined that Management Letter has been resolved.

Required communication regarding Financial Statements:

- There were no uncorrected misstatement in the audited financial statements.
- There were material misstatement in the financial statements corrected by management during the audit.

Audit Highlights:

- District Staff was always quick at providing documentation needed for the audit.

- The District implemented prior audit recommendations that were notable.

Next Scheduled Audit:

- 2015 - Accountability for Public Resources, Financial Statements, Federal Programs. (DWSRF loan requirements)

Accountability Audit Report. (Brief) In the areas audited, District operations complied with applicable requirement and provide adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

Management Letter. The District received a Management Letter for not correctly reporting the issuance and refinance of a bond in its general ledger and financial statements. Although management is not in complete agreement with State Auditors on the correct method of reporting unique and infrequent revenue, BARS 3.1.7.40 does provide support for State Auditors decision. The same reporting of refunding bond issuance revenue resulted in a management letter for Pacific County and other local governments in 2014.

All of the errors that were found and corrected during the audit, according to State Auditors, were a result of an ineffective secondary review process. Although management agrees that a secondary review process is beneficial, many of the errors identified by the auditors were made by the District's Accountant, acting as the District's secondary review, while compiling the District's annual reports for 2011 and 2012.

The auditors recommended the District dedicate necessary resources to implement three actions identified in the Accountability Audit Report. Management does not anticipate implementation of the recommended actions will create a financial burden on the District.

End of Report



Washington State Auditor's Office Entrance Conference

Integrity • Respect • Independence

Troy Kelley

Washington State Auditor

Director of Local Audit

Kelly Collins, CPA

(360)902-0091

Kelly.Collins@sao.wa.gov

Deputy Director of Local

Mark Rapozo

(360)902-0471

Mark.Rapozo@sao.wa.gov

Audit Manager

Angie Folkers

(360)725-5562

Angela.Folkers@sao.wa.gov

Assistant Audit Manager

Corrine Schmid

(360)725-5336

Corrine.Schmid@sao.wa.gov

www.sao.wa.gov

North Beach Water District

About our Office

The Washington State Auditor's Office's vision is government that works for citizens. Our goal is for government that works better, costs less and earns greater public trust.

The purpose of this meeting is to share our planned audit scope so that we are focused in the most significant areas. We value and appreciate your input.

Audit Scope

Based on our preliminary planning, we will perform the following audits:

- **Accountability audit** for the fiscal year 2013

We will assess for the management, use and safeguarding of public resources to ensure there is protection from misuse and misappropriation. In addition, we will evaluate whether there is reasonable assurance for adherence to applicable state laws, regulations and policies and procedures.

We plan to evaluate the following areas:

- Open Public Meetings Act
 - Internal controls over key accounting systems: utility billings and cash receipting
 - General revenues and expenditures
 - Financial condition
 - Bond compliance
 - Software conversion
 - Third party cash receipting
- **Financial statement audit** for the fiscal years 2011, 2012 and 2013
- The purpose of our financial statement audit will be to provide an opinion on whether your financial statements are presented fairly, in all material respects, in accordance with the applicable reporting framework. The audit does not attempt to confirm the accuracy of every amount, but does search for errors large enough to affect the conclusions and decisions of a financial statement user.

Levels of Reporting

Findings

Findings formally address issues in an audit report. Findings report significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations contracts or grant agreements. You will be given the opportunity to respond to a finding and this response will be published in the audit report.

Management Letters

Management letters communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other issues with significance to the audit objectives. Management letters are referenced, but not included, in the audit report.

Exit Items

Exit items address control deficiencies or non-compliance with laws or regulations that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. These issues are informally communicated to management.

Other Information

Confidential Information

Our Office is committed to protecting your confidential or sensitive information. Please notify us when you give us any documents, records, files, or data containing information that is covered by confidentiality or privacy laws.

Audit Costs

The cost of the audit is estimated to be approximately \$ 7,100; plus travel.

Expected Communications

During the course of the audit, we will communicate with Jack McCarty, Office Manager on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed.

Please let us know if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect Jack to keep us informed of any such matters.

At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

Customer service survey

When your report is released you will receive a customer service survey from us. We value your opinion(s) on our audit services and hope you provide us feedback.

Loss Reporting

Local governments are required to immediately notify our Office in the event of a known or suspected loss of

public resources or other illegal activity. These notifications can be made on our website at <http://portal.sao.wa.gov/saoportal/public.aspx/LossReport>.

Emerging Issues

Some of the emerging issues affecting local governments are the following:

Change to the Open Public Meetings Act

During the 2014 legislative session, the Legislature added regular meeting agenda posting requirements to Chapter 42.30 RCW. The new section requires public agencies subject to the OPMA to "make the agenda of each regular meeting available online no later than 24 hours in advance of the published start time of the meeting." Entities that have no web site or those that employ less than 10 full-time equivalent employees are not subject to this new requirement.

The effective date of this new section of RCW 42.30 was June 12, 2014. Meetings that occur on or after June 12, 2014 must comply with this requirement.

Open Government Training Act, Effective July 1, 2014

- Every member of a governing body of a public agency must complete training requirements on the Open Public Meetings Act.
- Every local elected official and every local government Public Records Officer must receive records training concerning the Public Records Act and Records Management and Retention laws
- Training must be completed within 90 days of assuming office, assuming their duties or taking the oath of office.
- In addition, every member of a governing body and the Public Records Officer must complete "refresher" training at intervals of no more than four years as long as they remain in office.

Training resources are available on our website at

<http://www.sao.wa.gov/generalinfo/Pages/Open-Government.aspx>

Additional information and on-line training is available at the Office of the Attorney General's website at

<http://www.atg.wa.gov/OpenGovernmentTraining.aspx>

New GASB Pension Standards

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

- Effective for the year ended December 31, 2015
- Establishes standards of financial reporting for governments that provide pension benefits including those provided through the State's plans
- Replaces statement 27
- Net pension liability moves from a note disclosure to being reporting in the financial statements (Schedule 9 for cash basis reporters)
- Department of Retirement Systems is working to provide member employers in the State's plans with the information they will need
- BARS manual will be updated to include guidance and suggested disclosures

Grant Reform

Significant changes have been made to grant administrative requirements, cost principles and audit requirements. The effective date is December 26, 2014. (audits of 2015 calendar year)

- Single audit threshold increases to \$750,000
- New requirements apply to new awards and additional funding to existing awards made after December 26, 2014 (contact your grantor for additional information)

Resources:

- <https://cfo.gov/COFAR/> 3 free youtube videos and PowerPoint presentations

Available Resources

The Washington State Auditor's Office also has many resources available throughout the year.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

Local Government Performance Center

The Performance Center is a resource for local governments that need to solve problems, reduce costs, and improve the value of their services to citizens. The Center offers training and tools to help local governments improve performance and effectiveness.



Washington State Auditor's Office Exit Conference

Integrity • Respect • Independence

Troy Kelley

Washington State Auditor

Director of Local Audit

Kelly Collins, CPA

(360)902-0091

Kelly.Collins@sao.wa.gov

Deputy Director of Local Audit

Mark Rapozo, CPA

(360)902-0471

Mark.Rapozo@sao.wa.gov

Audit Manager

Angie Folkers

(360)725-5562

Angela.Folkers@sao.wa.gov

Assistant Audit Manager

Corrine Schmid

(360)725-5336

Corrine.Schmid@sao.wa.gov

www.sao.wa.gov

North Beach Water District

About our Office

The Washington State Auditor's Office's vision is government that works for citizens. Our goal is for government that works better, costs less and earns greater public trust.

The purpose of this meeting is to share our audit results and draft reporting. We value and appreciate your participation.

Audit Scope

We performed the following audits for your District:

- **Accountability audit for 2013**
- **Financial statement audit for 2011, 2012 and 2013**

Financial Statement required communications

In relation to our report, we would like to bring to your attention:

- There were no uncorrected misstatements in the audited financial statements.
- There were material misstatements in the financial statements corrected by management during the audit. These are discussed in detail in the financial reporting management letter.

Status of Prior Management Letter items

Prior Management Letters	Resolved	Unresolved
Utility billing and receivables	X	

Recommendations not included in the Audit Reports**Management Letters**

Management letters communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other items significant to our audit objectives. Management letters are referenced, but not included, in the audit report.

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Concluding Comments**Report Publication**

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/saoportal/Login.aspx>

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$7,100 plus travel expenses and actual audit costs will approximate that amount.

Customer Service Survey

When your report is released you will receive a customer service survey from us. We value your opinion on our audit services and hope you provide feedback.

Audit Highlights

- District staff is always quick at providing documentation needed for the audit.
- The District implemented prior audit recommendations that were notable.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in 2015 and will cover the following general areas:

- Accountability for Public Resources
- Financial Statements
- Federal Programs

The estimated cost for the next audit based is \$11,340 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Accountability Audit Report

North Beach Water District

Pacific County

For the period January 1, 2011 through December 31, 2013

PRELIMINARY DRAFT - Not Disclosable Under RCW 42.56.280

PRELIMINARY DRAFT

Published
Report No.



AUDIT SUMMARY

Results in brief

In the areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

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, 2013.

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.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Open Public Meetings Act
- Internal controls over key accounting systems: utility billings and cash receipting
- General revenues and expenditures
- Financial condition
- Bond compliance
- Software conversion
- Third party cash receipting

RELATED REPORTS

Financial

Our opinion on the District's financial statements is provided in a separate report, which includes the District's financial statements.

PRELIMINARY DRAFT - Not Disclosable Under RCW 42.56.280

INFORMATION 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 \$1.5 million.

Contact information related to this report	
Address:	North Beach Water District PO Box 618 Ocean Park, WA 98640
Contact:	Jack McCarty, Office Manager
Telephone:	(360) 665-4144
Website:	www.northbeachwater.com

Information current as of report publish date.

Audit history

You can find current and past audit reports for the North Beach Water District at <http://portal.sao.wa.gov/ReportSearch>.



**Washington State Auditor
Troy Kelley**

February 25, 2015

Board of Directors
North Beach Water District
Ocean Beach, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial statement audit of the North Beach Water District from January 1, 2011 through December 31, 2013. 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's officials and personnel. If you have any further questions, please contact me at (360) 725-5562.

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,

A handwritten signature in cursive script, appearing to read "Angie Folkers".

Angie Folkers, Audit Manager

Attachment

Management Letter
North Beach Water District
January 1, 2011 through December 31, 2013

Financial Reporting

During our audit of the District's financial statements, we determined the District did not correctly report the issuance and refinance of a bond in its general ledger or financial statements. As a result, revenues were underreported by \$2,651,726 and expenditures were underreported by \$2,631,900. This transaction was flagged as a potential error during the District's submission of its annual report to our Office however the District did not have procedures in place to review the identified error. Further, the District did not adequately research or obtain technical support for this unique and infrequent transaction.

The District also had several other errors on its financial statements, notes and supporting schedules; these were the result of an ineffective secondary review process.

All of the the errors identified during the audit were corrected in the District's final financial statements.

We recommend the District dedicate then necessary resources to perform the following:

- Establish procedures to properly review identified errors during the submission of its annual report.
- Adequately research and obtain technical support to ensure proper accounting treatment and reporting for unique transactions.
- Ensure the person responsible for reviewing the financial statements, notes and supporting schedules has an adequate understanding of reporting requirements. The District may wish to consider the use of a checklist or other reviewing tool for this purpose.