



Office of the Washington State Auditor Pat McCarthy

March 13, 2018

Jack McCarty, Office Manager
North Beach Water District
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Ocean Park, WA 98640

We are pleased to confirm the audits to be performed by the Washington State Auditor's Office for the North Beach Water District. This letter confirms the nature and limitations of the audits, as well as responsibilities of the parties and other engagement terms.

State Auditor's Office Responsibilities

Financial Statement Audit

The State Auditor's Office agrees to perform an audit of the financial statements of the North Beach Water District as of and for the fiscal years ended December 31, 2016 and 2015, prepared in accordance with the cash basis *Budgeting, Accounting and Reporting System Manual* (BARS). Our audits will be conducted with the objective of our expressing opinions on these financial statements.

We will perform our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. Since we do not review every transaction, our audit cannot be relied upon to identify all misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we will express no such opinion.

Although our audit is not designed to provide an opinion on the effectiveness of internal control over financial reporting, we are required to report any identified significant deficiencies and material weaknesses in controls. We are also required to report instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the accuracy of financial statements, or any instances of material abuse that come to our

attention. Abuse is defined by *Government Auditing Standards* as involving behavior that is deficient or improper, or misuse of authority or position for personal financial interests. As the determination of abuse is subjective, *Government Auditing Standards* do not require auditors to detect instances of abuse.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the standards identified above.

Our responsibility is to express in a written report an opinion on the financial statements based on the results of our audit. We cannot provide assurance that an unmodified opinion will be expressed. We may modify or disclaim an opinion on your financial statements if we are unable to complete the audit or obtain sufficient and appropriate audit evidence supporting the financial statements. If our opinion is other than unmodified, we will fully discuss the reason with you prior to issuing our report. Further, in accordance with professional standards, we may add emphasis-of-matter or other-matter paragraphs to the report for matters that, in our judgment, are relevant to understanding the financial statements or our audit.

We will also issue a written report (that does not include an opinion) on issues identified during the audit related to the District's internal control over financial reporting and on compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*.

The District prepares supplementary information that accompanies the financial statements, which is required by the BARS Manual. We agree to perform auditing procedures on this information, with the objective of expressing an opinion as to whether it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Accountability Audit

In accordance with RCW 43.09.260, we will perform an accountability audit for the fiscal years ended December 31, 2016 and 2015, of the District's compliance with applicable state laws, regulations, policies and procedures, and safeguarding of public resources in areas representing the highest risk of fraud, loss, abuse, or noncompliance.

Areas will be selected for audit using a risk-based approach and will be identified in the audit entrance conference.

Upon completion of our audit we will issue a written report describing the overall results and conclusions for the areas we examined.

Reporting Levels for Audit Issues

Issues identified through the auditing process will be communicated as follows. Failure to appropriately address audit issues may result in escalated reporting levels.

- **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, or a synopsis of it, will be published in the audit report. Professional auditing standards define the issues we must report as findings with regard to non-compliance with a financial statement effect and internal controls over financial reporting.

- **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** address control deficiencies or non-compliance with laws or regulations that have an insignificant or immaterial effect on the audit objectives, or errors with an immaterial effect on the financial statements. These issues are informally communicated to management, but do not warrant the attention of those charged with governance and are not referenced in the audit report.

Client's Responsibilities

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis *Budgeting, Accounting and Reporting System Manual (BARS)*; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Our audit does not relieve management or the governing body of their responsibilities.

Management is also responsible for:

- Selecting and applying appropriate administrative and accounting policies.
- Establishing and maintaining effective internal controls over financial reporting, compliance, and safeguarding of public resources.
- Designing and following effective controls to prevent and detect fraud, theft, and loss.
- Ensuring compliance with laws, regulations and provisions of contracts and grant agreements.
- Making all financial records and related information available to us.
- Correcting the financial statements based on the results of our audit.
- Identifying and providing copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented.
- Promptly reporting to us knowledge of any fraud, allegations of fraud or suspected fraud involving management, employees or others, in accordance with RCW 43.09.185.
- Providing us with a management representation letter, on the District's own letterhead, that confirms certain representations, both express and implied, which we will request at the conclusion of our audit. This letter includes representations regarding legal matters. A separate letter may be needed from the District's legal counsel.
- Following up and taking corrective action on all audit findings, including, when applicable, preparing a summary schedule of prior audit findings and a corrective action plan on the District's own letterhead.
- Preparing the following supplementary information and providing us with certain written representation concerning the supplementary information.
 - Schedule of Liabilities in accordance the BARS Manual
- Including the auditor's report on the supplementary information in any document that both contains the supplementary information and indicates that the auditor reported on the supplementary information.
- Either presenting the supplementary information with the audited financial statements or, if the supplementary information will not be presented, making the audited financial

statements readily available to users of the supplementary information no later than the date the supplementary information and auditor's report thereon are issued.

Management will provide the State Auditor's Office with the information required for performing the audit and is responsible for the accuracy and completeness of that information. Management will notify the State Auditor's Office when any documents, records, files, or data contain information that is covered by confidentiality or privacy laws, such as HIPAA.

All misstatements identified by the audit will be discussed with management. Material misstatements corrected by management and all uncorrected misstatements will be communicated at the exit conference, as required by professional auditing standards.

Management's Written Representations

At the conclusion of our audit, we will also request certain written representations from you about the audit, including items discussed above.

Estimated Audit Costs and Timeline

We estimate the cost of the audit work to be \$10,950, plus estimated charges for travel time of, travel costs, and other expenses, if any, with work expected to commence by March 19, 2018. Invoices for these services will be prepared and presented each month as our audit work progresses.

We anticipate our reports, which will be addressed to the District's governing body and published on our website www.sao.wa.gov to be available to you and the public as outlined below. These estimates are based on timely access to financial information and no significant audit reporting issues. The estimated cost and completion date may change if unforeseen issues arise or if significant audit issues are identified necessitating additional audit work. We will promptly notify you if this is the case.

Report	Date*
Independent Auditor's Report on Financial Statements	May 2018
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	May 2018
Independent Auditor's Report on Accountability	May 2018

**Report Issuance Dates Are Estimates Only*

The audit documentation for this engagement, which may contain confidential or sensitive information, is the property of SAO and constitutes a public record under Chapter 42.56 RCW. Subject to applicable laws and regulations, appropriate individuals, as well as audit documentation, will be made available upon request and in a timely manner to appropriate auditors and reviewers, District's management and governing body, and federal agencies, for purposes of a public records request, a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities.

The audit documentation for this engagement will be retained for a minimum of five years after the report release (publish) date in accordance with the public records retention schedule established by the Washington Secretary of State.

