



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Public Utility District No. 1 of Klickitat County

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

Published February 3, 2022

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

February 3, 2022

Board of Commissioners
Public Utility District No. 1 of Klickitat County
Goldendale, 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

Americans with Disabilities

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, District operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

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

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 Klickitat County from January 1, 2020 through December 31, 2020.

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 year ended December 31, 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:

- Payroll – gross wages, leave balances and accruals, leave cash outs, bonus and incentive payments
- Procurement – public works and purchases
- Accounts payable – general disbursements
- Compliance with state grants

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Public Utility District No. 1 of Klickitat County January 1, 2020 through December 31, 2020

2020-001 The District lacked adequate controls in place for ensuring compliance with state procurement laws.

Background

District management is responsible for designing, implementing and maintaining internal controls for ensuring compliance with state laws. Missing or inadequate internal controls can hinder the District's ability to comply with state laws. Procurement laws are intended to promote openness in government and prevent fraud, collusion and favoritism when awarding public contracts. In 2020, the District awarded 10 public works contracts totaling \$1,568,470.

State law requires the District to perform responsible bidder checks prior to awarding a contract for a public works project. These checks are designed to ensure contractors are properly licensed and registered with the state, have liability insurance, pay workers' compensation to the state, pay prevailing wages, and are not prohibited from working on state contracts.

Description of Condition

The Legislature added a new responsible bidder requirement to state law effective July 2017, which requires governments to obtain a signed statement from the bidder certifying its compliance with established criteria to be considered a responsible bidder. The District did not ensure it updated its policies and procedures to include the additional requirement when conducting responsible bidder checks for contracts related to the District's construction projects.

Cause of Condition

District officials were not aware of the changes to state responsible bidder requirements regarding obtaining sworn statements from contractors certifying that they have not violated labor laws in the last three years.

Effect of Condition

Since the District did not obtain signed certifications, it cannot ensure it awarded the 10 contracts entered into during the audit period to responsible bidders.

Recommendation

We recommend the District comply with state laws regarding public works projects and competitive bidding by ensuring all contractors meet responsible bidder requirements before awarding a contract.

District's Response

In response to your recommendation, the District will modify procedures for public work contracts to obtain a sworn statement from contractors certifying that they have not violated labor laws in the last three years.

The District is diligent in performing numerous responsible bidder checks prior to awarding contracts for public works projects and going forward will adhere to all criteria identified within RCW 39.04.350 and the "Evaluation checklist for public contracts" published by the Office of the Washington State Auditor in September 2020.

The District required the 10 contractors awarded public works contracts to qualify for our works roster, which requires verification through Labor and Industries by staff and then approval by our commissioners. After the project is completed and prior to retainage release, contractors were again assessed for compliance with prevailing wage standards through Labor and Industries.

The District asserts these efforts provide reasonable assurance that contractors awarded public works contracts between 2017 and 2020 are; properly licensed and registered with the state, had liability insurance, paid workers' compensation to the state, paid prevailing wages, and were not prohibited from working on state contracts.

Auditor's Remarks

We thank the District for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

Chapter 39.04 RCW – Public Works

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Public Utility District No. 1 of Klickitat County (the District) consists of the electric system, nine water systems and five wastewater systems. The District also operates an additional water and wastewater system that are owned by other public entities. The District's service area covers approximately 1,680 square miles in Klickitat County. The District also serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2020, the District had 13,545 electric, 1,216 water and 1,270 wastewater customers.

An elected, three-member Board of Commissioners governs the District. The Board appoints management to oversee the District's operations as well as its approximately 85 employees. For 2020, the District had annual operating revenue of approximately \$62.3 million, mostly from the operation of the electric system.

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 Klickitat 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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