

Washington State Auditor's Office
Accountability Audit Report

Sacheen Lake Water and Sewer District
Pend Oreille County

Report Date
June 16, 2014

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Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 28, 2014

Board of Commissioners
Sacheen Lake Water and Sewer District
Newport, 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 Sacheen Lake Water and Sewer 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

Table of Contents

**Sacheen Lake Water and Sewer District
Pend Oreille County
June 16, 2014**

Audit Summary.....	1
Description of the District.....	2
Schedule of Audit Findings and Responses.....	3

Audit Summary

Sacheen Lake Water and Sewer District Pend Oreille County June 16, 2014

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Sacheen Lake Water and Sewer District from January 1, 2010 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:

- Financial condition

RESULTS

We identified a condition significant enough to report as a finding:

- The District's financial condition puts it at risk of not being able to meet its financial obligations.

Description of the District

Sacheen Lake Water and Sewer District Pend Oreille County June 16, 2014

ABOUT THE DISTRICT

The Sacheen Lake Water and Sewer District provides water and sewer services to approximately 470 land owners of the Sacheen community in Pend Oreille County. A three-member Board of Commissioners governs the District. The Board focuses on the lake's water level, water quality, education on topics of importance that impact the lake, and care of Myers-Harter Sanctuary. The District operates on approximately \$60,000 from its annual maintenance and operations levy.

The District is currently taking steps to construct and develop a \$12 million community sewer system around the lake that uses current technology to adequately transport and treat waste and reduce the potential for water quality degradation and threats to public health.

DISTRICT CONTACT INFORMATION

Address: Sacheen Lake Water and Sewer District
 8272 Fertile Valley Road
 Newport, WA 99156

Contact: Sheila Pearman, District Manager

Telephone: (509) 447-4641

AUDIT HISTORY

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

Schedule of Audit Findings and Responses

Sacheen Lake Water and Sewer District Pend Oreille County June 16, 2014

1. The District's financial condition puts it at risk of not being able to meet its financial obligations.

Background

Currently, each one of the more than 470 land owners around Sacheen Lake is responsible for maintaining a wastewater disposal system. The current onsite septic systems, many of which use cesspools and seepage pits installed by each land owner, focuses on disposal rather than the treatment of wastewater. This type of system does not adequately treat the wastewater and increases the risk that groundwater or surface water will be contaminated.

A 1991 water quality diagnostic study conducted by Eastern Washington University recommended the installation of a sewer system and this recommendation is supported by the Northeast Tri County Health District, which monitors the current system. The District is taking steps to construct and develop a community sewer system around the lake that uses current technology to adequately transport and treat waste and reduce the potential for water quality degradation and threats to public health.

Description of Condition

The following factors indicate the District may have difficulty generating sufficient cash to pay its obligations:

- The District has limited cash reserves. The District's ending cash balance with the County Treasurer for 2010 to 2012 was:

	2010	2011	2012
Cash balance	\$11,363	\$2,229	\$18,529

- Opponents of the new system successfully challenged the District's formation of Local Improvement District (LID) No. 2 in Superior Court. Voters also successfully petitioned for a ballot measure to disincorporate the District. The ballot measure failed and the District successfully formed a smaller LID No. 3.
- The District is approved for \$8,580,000 in Public Works Trust Fund loans to construct a new wastewater treatment facility. Because the loan finances the

development of a new system, it is eligible for the deferral of loan payments for five years. The District has elected this deferral option.

- The District is required to pledge local matching funds of 5 percent as a condition of the Public Works Trust Fund loan.
- The District spent more than \$850,000 of the Public Works Trust Fund loan on preconstruction costs that cannot be repaid by LID assessments until the project is complete.
- Currently, the District's only other significant source of revenue is its annual maintenance and operations levy that generates approximately \$60,000 each year. Voters did not pass the levy in 2010 and the District had to delay some of its normal maintenance activities. In addition, these funds cannot be used to finance the wastewater treatment system.

Cause of Condition

While the majority of the property owners within the District's boundaries support the development of a wastewater treatment system, some disagree on the future of the District and its plans.

Effect of Condition

The District may encounter difficulties collecting some LID assessments, which are to fund a significant portion of the system's costs. If this occurs, the District may be in danger of not being able to repay its loan or collect the required matching funds.

Recommendation

We recommend the District Commissioners:

- Monitor the District's plans to develop and finance the new wastewater system to ensure the desired results are achieved.
- Establish a written comprehensive plan to address its financial condition and to ensure its ability to continue maintenance and operations and finance the system. The plan should be revised as needed to resolve financial issues.

District's Response

Yes, opponents did challenge LID #2 and we lost this challenge because of the way we calculated the land percentage to pass the LID. So we reduced the area to be served with sewer and also reduced the cost of the project, which reduces the individual property owner expense as well. LID #3 passed with 73% support of the included property owners who recognize that they will be assessed/charged to repay this project and provide for its daily operation.

The Board recognizes the cost of the project and the ability of the property owners to repay is paramount to our decision making process. When bids for the project came in over our budget the Board decided the project was too expensive to continue, so the project was stopped and placed on hold to develop a plan to reduce the amount the property owners could financially support.

Additional funding has been acquired through the generous support of Washington State Department of Ecology that reduces the project cost to our residents and the District is now going forward on a much improved financial footing.

We rearranged the project as follows:

The total project cost is now projected to be: \$12,200,000

<i>20 year loan from Public Works Trust Fund at 2% for</i>	<i>\$1,140,000</i>
<i>5% matching bond to support P WTF requirement of</i>	<i>60,000</i>
<i>20 year loan from the Department of Ecology at 0%</i>	<i><u>6,000,000</u></i>

The total amount to be repaid by assessing/charging property owners \$7,200,000

The balance will be paid by a \$5,000,000 grant from the Department of Ecology.

We do have low cash balances because historically we have managed a budget of about \$60,000 annually to fund District expenses, not a sewer facility. This annual funding will have nothing to do with the sewer project. We will assess/charge property owners within the project a separate amount to collect funds to repay the project debt and to operate the system. In addition, although the only other significant source of revenue for the District has been its annual maintenance and operations levy, the District has never used its ability to tax through RCW 57.20.110 for Limited Tax General Obligation, approximately \$35,000.

The Board feels that it has been and will continue to be fiscally responsible with the public's funds. The support received from our residents as well as the Legislature, through the Public Works Board, and the Department of Ecology would suggest that we are moving forward with an important project that will protect the public by protecting both lake water and drinking water quality.

Auditor's Remarks

We appreciate the District's commitment to monitor its financial condition. We look forward to working with the District on this issue.



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.

We 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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