

**Beacon Hill Water and Sewer District
Commissioners' Meeting Minutes
Friday, May 24, 2013**

President Branch called the special meeting to order at 3:06 pm on Friday, May 24, 2013 at the District office at 1121 West Side Highway in Kelso, Washington for the purpose of undertaking the exit interview for the Districts 2010-2011 audit. Those in attendance were:

Commissioners Ted Branch, Monte Roden and Dean Takko

Kim Adamson, General Manager

Alan Engstrom, Legal Counsel

Debbie Vela, Finance Administrator

Guests from State Auditor's Office (SAO), Tina Watkins, Lindsay Osborne and Mitchell Kelly

Ms. Watkins introduced audit staff and went over the meeting agenda.

Mr. Kelly went over the results of the Accountability Audit. He stated they had looked at the areas of billing and receipting, procurement, financial position, open public meeting requirements and payroll. According to Mr. Kelly, there were no identified concerns in those areas examined.

Ms. Osborne provided a background for the audit of the financial statements. She stated that SAO was aware there had been employee turnover and a former employee prepared the 2010 statements. Ms. Adamson stated that the employee prepared both the 2010 and 2011 statements.

Ms. Osborne said that major errors were identified in the statements related to lack of reporting of revenue while operating the water system for the PUD and recording the December 2010 water system ownership transfer in 2011. Commissioner Roden requested the auditor send a copy of their response to our comments to us before sending it to the paper. Ms. Watkins agreed to do so.

Mr. Engstrom asked if SAO now accepted our treatment of item C (ownership in water treatment plant) after District went to the federal Governmental Accounting Standards Board (GASB) for confirmation that the District reported correctly. Ms. Osborne stated that SAO has accepted this reporting method. Commissioner Branch expressed concern that District rate payers had to pay for the District to prove they were reporting correctly because SAO wouldn't accept the explanation at any step along the way. Why is the District responsible for SAO's not knowing what is correct? Ms. Osborne explained that SAO had conflicting opinions of what was correct so they were unclear. Ms. Adamson said the concern was that at each step in the escalating process the District provided support for their treatment which was rejected by SAO at each step. Ms. Watkins explained they wanted to get the determination correct for the District. Mr. Engstrom requested an explanation as to why conflicting info at SAO about what is correct is the financial responsibility of the rate payers.

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Commissioner Takko asked how SAO decides between a finding and a management letter. Ms. Watkins explained that there is some leeway in accountability audits but that if there are material issues in financial reporting it is automatically a finding.

Ms. Adamson stated that she had requested a financial breakdown of the hours billed to the District by SAO for the water treatment plant ownership issue and had received no response. She asked if she could obtain this information. Ms. Watkins said they would provide it. Commissioner Roden stated that the District is considering using a private auditing firm for future financial audits. Ms. Watkins requested the opportunity to provide information on the price difference between using SAO and using a private firm. Commissioner Roden stated that the additional costs may be worth it if the District avoids the major impacts to operations and management of the District while trying to respond to audit issues such as those discussed today.

Ms. Osborne asked if we could continue with the financial report information. She pointed out a section of the report that contains prior audit findings. Commissioner Roden asked for the RCW that requires them to include information of past findings in current reports. If there is not an RCW, he would like to know the motivation of including such information. Ms. Watkins was unsure of the requirements to report such information. Mr. Engstrom pointed out that there were only a few months between audits and the report along with the previous finding information makes it appear as if the District ignored the issues that arose in the previous audit for the two year period that would be expected between audits of the District. Ms. Watkins will check on whether the previous finding information has to be included.

Ms. Adamson expressed concern that the report doesn't provide an uninvolved third party a true picture of the District. It is her understanding that this is the true reason for the financial reports, but SAO's treatment doesn't provide an accurate description of the District. While Ms. Watkins and the rest of the audit staff verbally recognize the major changes the District undertook, replacing finance staff, bringing in multiple outside financial consultants, etc., this does not come through in the report. It appears the District had a finding, made minimal changes and had another finding two years later. In reality the District immediately took steps in the few months between actual audits and new finance staff completely recreated the 2010 and 2011 accounting and reporting in a few months' time. None of this comes through in the report in Ms. Adamson's opinion. Ms. Watkins thanked Ms. Adamson for her input and said she would read their comments again.

Ms. Osborne continued with the financial audit results. She stated that the material issues were corrected and that she was able to say the statements provide an accurate and true picture of the District's finances.

Commissioner Roden expressed concern that at the last audit he didn't get the feeling from audit staff that there would be a follow up opinion. Ms. Watkins stated she didn't expect to see one either, but that we are dealing with a new employee. Ms. Adamson stated again that the new employee did not initially prepare any of the financials involved in the auditing period. Commissioner Roden stated that the District didn't drag their feet. They took immediate steps to

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correct the situation following the last audit. Ms. Adamson said the HR issue was addressed, but that requires certain steps that take time. Those steps were taken during the few months between audits.

Ms. Adamson said she pulled the audit finding for another District that experienced over \$1M loss due to fraud on the part of their finance administrator. The audit finding for the following period, after replacing their finance administrator seemed more complimentary to them and their efforts to address the situation than our finding was to us. Ms. Osborne stated that in situations of fraud and criminal issues they are working under different requirements. Ms. Adamson asked if the Districts efforts would have been recognized more accurately if someone had been arrested. Ms. Watkins stated she was unaware of the finding Ms. Adamson was referring to but wished she would have discussed it prior to the exit conference. Ms. Adamson stated that she included her concerns about a fair and accurate picture in her formal response to the audit finding so it is part of the public record.

Mr. Engstrom requested clarification of the actual audit period. Ms. Watkins stated that the financial audit covered 2010 and 2011 and the accountability audit covered 2011 only.

With no further questions or comments, the meeting was adjourned at 4:07 pm.

The next meeting was scheduled for May 24, 2013 at 4:00 p.m. Due to the late time, it will be called to order following a short break.

Ted A. Branch, President

Dean A. Takko, Secretary

Monte J. Roden, Commissioner