

Washington State Auditor's Office
Accountability Audit Report

**Vashon Maury Park and Recreation
District
King County**

Report Date
January 21, 2014

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January 27, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

January 27, 2014

Board of Commissioners
Vashon Maury Park and Recreation District
Vashon, 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 Vashon Maury Park and Recreation 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

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King County
January 21, 2014**

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Audit Summary

Vashon Maury Park and Recreation District King County January 21, 2014

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Vashon Maury Park and Recreation District from January 1, 2013 through December 31, 2013.

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
- Cash receipting
- Capital assets
- Rental agreements
- Contracting
- Grant agreement

RESULTS

In most areas, the District complied with state laws and regulations and its own policies and procedures.

However, 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 financial obligations and maintain current service levels.

We also noted certain matters that we communicated to District management. We appreciate the District's commitment to resolving those matters.

Description of the District

Vashon Maury Park and Recreation District King County January 21, 2014

ABOUT THE DISTRICT

The Vashon Maury Park and Recreation District was created in 1983 to operate a system of park and recreation facilities within the District. The District operates 18 parks, multiple community meeting facilities, a lighthouse leased from the Coast Guard, three lodging facilities and multiple recreation facilities. In an agreement with the Vashon Island School District, the District is allowed to use the School District's property for sports and cultural activities. An elected, five-member Board of Commissioners governs the District. Board Members serve staggered, four-year terms. For the year under audit, the District received approximately \$1.3 million in revenue.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:

Joe Wald
Lu-Ann Branch
David Hackett
John Hopkins
Bill Ameling

APPOINTED OFFICIALS

General Manager

Elaine Ott

DISTRICT CONTACT INFORMATION

Address: Vashon Maury Park and Recreation District
P.O. Box 1608
Vashon, WA 98070

Phone: (206) 463-9602

Website: www.vashonparkdistrict.org

AUDIT HISTORY

We typically audit the District's accountability for public resources every three years. The past three audits covering 2001 through 2009 have been free of findings. In 2012 we reported two findings: the first on the District's decline in financial health; and the second on lack of planning, management and oversight on a contract to construct the District's VES fields.

Schedule of Audit Findings and Responses

Vashon Maury Park and Recreation District King County January 21, 2014

1. **The District's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.**

Background

In 1983 the Vashon Maury Island Park and Recreation District was created by the Islanders of Vashon and Maury Island to provide recreational opportunities and facilities to the public. The District is funded through a property tax levy approved every four years by Islanders' vote. The mission and goal of the Park District is overseen by a board of five commissioners, who serve four-year terms to guide the community agency. The Park District works closely with several volunteer stewardship groups who oversee the use, development, and planning for 18 Island parks.

Description of Condition:

During the prior audit, we communicated financial condition concerns to the District. Although the District has taken steps to significantly reduce expenses by adopting a lean budget for 2013, its financial condition continues to decline as noted below:

	2013*	2012	2011	2010	2009
Total revenue	\$1,320,000	\$1,433,077	\$2,500,725	\$2,239,352	\$1,815,382
Revenue from levy	\$ 993,000	\$1,125,303	\$1,163,211	\$1,294,823	\$1,003,310
Total cap & operating expense	\$1,060,000	\$1,413,983	\$3,111,036	\$2,107,431	\$1,680,916
Total debt service	\$491,941	\$132,967	\$84,745	\$36,522	\$36,522
Ending cash balance	\$56,000	\$147,189	\$60,601	\$333,113	\$201,193
Pct of debt to revenue	37.3%	9.2%	3.3%	1.6%	2.0%

*Estimated

The District continues to experience steadily declining revenues since 2010 as a result of declining levy dollars. Beginning in 2013, the debt service load is putting a financial burden on the District's ability to meet normal operational expenditures. Total debt service as a percentage of revenues has grown to 37.3% and will remain high until the debt is paid off.

The debt consists of:

- Two bonds which mature in 2015 and 2018 with outstanding balances of \$184,334 and \$149,839 respectively.
- A short term line of credit with a current outstanding balance of \$150,000 on December 31, 2013, whereby the district is authorized to withdraw up to \$400,000.
- A \$40,455 five-year installment loan payable through 2018.

The District did not establish a formal financial plan to address cash flow issue as recommended in our prior audit.

Cause of Condition

The district incurred higher than expected construction costs for the VES field project from 2010 through 2013. Additionally, there was no approved project budget for comparison to actual as these costs were incurred. Total project costs incurred in that time period were \$2,073,595. These costs were financed through available reserves at the time, and two bond issues totaling \$700,000. While these costs were being incurred, revenue was declining from the voter approved levy.

Effect of Condition

As a result of the high debt service load, the district will be unable to build adequate cash reserves to meet normal operating expenditures in the foreseeable future. This inadequate cash flow required the short term line of credit.

The District continues to borrow money to pay operating expenses and make debt payments. This financing structure is not sustainable in the long-term and exposes the District to higher risk of not meeting its financial obligations.

Recommendation

We continue to recommend the District:

- Closely monitor budget to actual revenue and expenditures on monthly basis
- Develop a formal long-term financial plan that will allow the district to provide programs and services with available resources, without relying on short term line of credit.
- Adjust the financial plan if expected improvements are not achieved.

District's Response

The Vashon-Maury Island Park District appreciates the useful information you have provided. Unfortunately, with a new executive director and a hard deadline to complete the VES project, so as to earn the balance of the RCO grants, we were not able to respond to your previous recommendation. However, we are committed to developing a formal, long-term financial plan to provide programs and services without relying on a short term line of credit. We pledge to deliver a copy of our plan to you no later than June 30, 2014.

Further, we dispute the "Percent of Debt to Revenue" findings. Our total debt service has actually been reduced this year over last year. Consider our actual Percent of Debt to Revenue has improved from 23.8% in 2012 to 22.1% in 2013 (see Attachment A). And our financial projections for 2014 see this downward trend continuing.

Auditor's Remarks

All yearly revenue, expense, and debt service figures for 2009 through 2012, were taken from the financials submitted by the Park District to the State Auditor's Office. Debt service totals only represent principal and interest payments made in a given year and do not include outstanding loan balances.

Also, the 2013 debt service total is not overstated by \$50,000. It includes \$350,000 paid back on the line of credit. This amount was obtained through analysis of 2013 advances and payments maintained in the district financial office.

We appreciate the District's cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Status of Prior Audit Findings

Vashon Maury Park and Recreation District King County January 21, 2014

The status of findings contained in the prior years' audit reports of the Vashon Maury Park and Recreation District is provided below:

1. The Vashon Maury Island Park and Recreation District's financial condition has declined

Report No. 1009342, dated February 12, 2013

Background

When tax and other revenues fell short of projections, the Commissioners did not take timely action to adjust revenue expectations and reduce costs.

The District is borrowing money to pay operating expenses and make debt payments. This financing structure is not sustainable in the long-term and exposes the District to higher risk of not meeting its financial obligations.

Status

This Finding is unresolved and has been repeated.

2. The Commissioners of the Park District did not comply with public works contracting laws.

Report No. 1009342, dated February 12, 2013

Background

In 2009, the District Board voted to construct a complex of new multi-use playing fields. Because the District had not undertaken large construction projects in the past, it encountered multiple issues.

The District could not locate many of the records requested for audit, such as public work project specifications, cost estimates and drawings. There was no documentation of controls over project oversight.

The District entered into a grant with the Washington State Recreation and Conservation Office, to partially fund the project, which required a local match. The District was unable to provide support for the local match.

For projects subject to competitive bidding, the District did not have documentation to show it was in compliance with state requirements.

Additionally, a performance bond was not obtained for a general contractor on the project.

Status

This Finding has been resolved to the extent possible. To the extent it has not been resolved, we have repeated a financial condition Finding. In summary, the VES field project is essentially completed. District staff involved with project management and compliance are no longer employed. Missing documentation will remain missing. A new general manager was hired in early 2013 and is working to ensure contract compliance going forward. The District is now complying with RCO grant terms, and provided necessary information to support the local match. A performance bond was obtained with US Bank on remaining general contractor. A monthly budget for the field project is prepared for review at board meetings. The general manager and maintenance supervisor will be attending contract training in January 2014.



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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