



**Washington State Auditor's Office**

**Troy Kelley**

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## **Accountability Audit Report**

# **Mason County Fire Protection District No. 5**

**For the period January 1, 2012 through December 31, 2013**

**Published October 30, 2014**

**Report No. 1012846**





## Washington State Auditor Troy Kelley

October 30, 2014

Board of Commissioners  
Mason County Fire Protection District No. 5  
Shelton, Washington

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office 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.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY  
STATE AUDITOR

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the District could make improvements. The District is at risk of not being able to meet its financial obligations. We recommended the following:

- Establish a formal written comprehensive plan to fully address the District's financial condition.
- Closely monitor and evaluate the District's financial position to ensure the plan is followed and the desired results are achieved.
- Revise the plan as needed to resolve any ongoing financial issues.
- Take prompt action to manage operations within available resources.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to the District management in a letter dated October 15, 2014, related to the Advanced Expense Account. We appreciate the District's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of Mason County Fire Protection District No. 5 from January 1, 2012 through December 31, 2013.

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.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Revenue analysis
- Financial condition
- Petty cash and imprest funds, including the Advance Expense Fund
- Insurance/risk management
- Procurement (bidding/prevaling wage)
- Use of restricted funds

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### 1. The District is at risk of not being able to meet its financial obligations.

#### *Description of Condition*

During the current audit, we identified the following concerns with the District's financial condition:

#### Cash Balance

The chart below shows the District's unreserved ending cash balance declining since 2010:

|      |           |
|------|-----------|
| 2010 | \$923,265 |
| 2011 | \$481,907 |
| 2012 | \$133,520 |
| 2013 | \$132,506 |

#### Current Expense Expenditures

The District's Current Expense Fund expenditures exceeded revenues for three of the last four years, attributing to the decline in ending cash balances:

| Current Expense Fund | 2010        | 2011        | 2012        | 2013        |
|----------------------|-------------|-------------|-------------|-------------|
| Revenues             | \$4,760,761 | \$4,636,255 | \$4,866,706 | \$6,082,567 |
| Expenditures         | \$4,618,414 | \$5,047,157 | \$5,225,720 | \$5,998,617 |
| Excess (Deficit)     | (\$142,347) | (\$410,901) | (\$359,014) | \$83,950    |

The surplus of revenue shown in 2013 is reserved for the District's Self-Insurance program expenses.

#### Emergency Medical Services

The Current Expense Fund includes the District's emergency medical services (EMS) activity. EMS expenditures also exceeded revenues for the last four years, attributing to the decline in ending cash balances:

| EMS Activity       | 2010        | 2011        | 2012        | 2013        |
|--------------------|-------------|-------------|-------------|-------------|
| Revenues           | \$1,009,489 | \$1,413,201 | \$1,023,675 | \$1,041,993 |
| Expenditures       | \$1,573,349 | \$1,814,746 | \$1,624,494 | \$1,575,200 |
| Excess / (Deficit) | (\$563,860) | (\$401,545) | (\$600,819) | (\$533,207) |

### Line of Credit

The District took out a line of credit in 2013 and has consistently drawn from it to meet its financial obligations including payroll and general expenditures. The maximum allowable balance is \$800,000. Currently, the outstanding balance is \$799,832.

### Registered Warrants

In addition to a line of credit, the District had to temporarily borrow funds from the Mason County Treasurer in the form of registered warrants. Borrowed funds were repaid with subsequent property tax revenues. The District used the borrowed funds to pay general expenditures and payroll.

|                           | 2012         | 2013         | 2014        |
|---------------------------|--------------|--------------|-------------|
| Total Registered Warrants | \$287,347.57 | \$246,483.75 | \$63,805.16 |

### ***Cause of Condition***

The District has been operating its EMS activity at a significant loss for several years, which attributes to the declining financial condition. In addition, the District has not taken the steps necessary to reduce its annual expenditures, including payroll, so that it is not operating at a loss each year.

### ***Effect of Condition***

The District's declining financial condition has caused the District to obtain bank loans at an additional cost to taxpayers. In addition, the District is at risk of not being able to meet financial obligations at current service levels.

### ***Recommendation***

We recommend the District:

- Establish a formal written comprehensive plan to fully address its financial condition.
- Closely monitor and evaluate the District's financial position to ensure the plan is followed and the desired results are achieved.
- Revise the plan as needed to resolve any ongoing financial issues.
- Take prompt action to manage operations within available resources.

### ***District's Response***

*We acknowledge the concerns noted in the State Auditor's report; as discussed during our meetings, we have short and long term plans to improve the fire district's financial stability.*

*We are moving forward with the elimination of a staff position due to retirement as well as other daily operational changes to reduce expenses.*

*Long term revenue enhancements plans include running an EMS Levy in 2015 at \$.50 per thousand dollars of assessed valuation, potential RFA/ annexation with the City of Shelton; as growth in the City and the District continue, Administration may have to consider potential impact fees to developments and our search for on-going grant opportunities for new equipment will continue. An annual Maintenance and Operations Levy may have to be considered to continue to operate at current levels.*

*In the event that elections and other revenue-enhancing activities do not provide the results necessary to continue at the current service levels, the Administration is aware that cuts to service, by way of staffing reductions and facilities closures, will be necessary.*

*We will be using the Ganser / BIAS Budget Planner program to give our Board of Fire Commissioners a realistic and objective view of projected revenue and expenses. We are reviewing Monthly, Year to Date and the Status of projected budgets on a regular basis with the Board (at the regular meetings).*

### ***Auditor's Remarks***

We appreciate the District's commitment to resolving this issue. We will review the condition during our next audit.



## RELATED REPORTS

### **Financial**

Our opinion on the District's financial statements is provided in a separate report, which includes the District's financial statements.

That report includes a finding for a material weakness in internal controls over financial reporting regarding financial statement preparation.

## INFORMATION ABOUT THE DISTRICT

Mason County Fire Protection District No. 5 provides property protection and emergency medical services for the residents of a 157 square-mile semi-rural area in Mason County. An elected, three-member Board of Commissioners governs the District. The Board appoints a Fire Chief to oversee the District's daily operations as well as its approximately 30 employees and 31 volunteer firefighters.

Property taxes and patient fees are the primary sources of revenue. In fiscal year 2012, the District expended approximately \$5.3 million and in fiscal year 2013, the District expended approximately \$6.8 million.

| Contact information related to this report |  |
|--|--|
| Address:                                   | Mason County Fire Protection District No. 5<br>P.O. Box 1910<br>Shelton, WA 98584-5022 |
| Contact:                                   | Tim McKern, Fire Chief   |
| Phone:                                     | (360) 432-5171   |
| Website:                                   | <a href="http://www.mason5.org">www.mason5.org</a>                                     |

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for Mason County Fire Protection District No. 5 at <http://portal.sao.wa.gov/ReportSearch>.

## 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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

| Contact information for the State Auditor's Office |  |
|--|--|
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