



Washington State Auditor's Office

Troy Kelley

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Accountability Audit Report

Mason County

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

Published April 13, 2015

Report No. 1013972





Washington State Auditor Troy Kelley

April 13, 2015

Board of Commissioners
Mason County
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 County 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 County'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
OLYMPIA, WA

TABLE OF CONTENTS

Audit Summary	4
Schedule Of Audit Findings And Responses	5
Status Of Prior Audit Findings	8
Related Reports	10
Information About The County	11
About The State Auditor’s Office.....	12

AUDIT SUMMARY

Results in brief

In most areas we audited, County operations complied with applicable requirements and provided adequate safeguarding of public resources. The County 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 County could make improvements.

We recommended the Board of Commissioners establish a formal financial plan to address how it plans to repay the Belfair Sewer debt and closely monitor and evaluate the Belfair Sewer fund's financial activities.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to the County Commissioners in a letter dated March 3, 2015 related to the Equipment Rental and Revolving Fund.

About the audit

This report contains the results of our independent accountability audit of Mason County from January 1, 2013 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 County'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:

- Assessor
- Hotel/motel use of restricted funds
- Third party cash receipting
- Belfair Sewer – financial condition
- Belfair Sewer – loans and liens
- Health department
- Investments
- Treasurer's trust
- Equipment Rental and Revolving Fund

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2013-001 The Belfair Sewer Fund's financial condition puts it at risk of not being able to meet its financial obligations.

Background

The Belfair Sewer began operations in 2012, with customers charged \$96 per month for each Equivalent Residential Unit (ERU). The project was financed through loans issued by Department of Ecology and a General Obligation Bond. As of the end of 2013, the Belfair Sewer Fund had \$12.4 million in debt outstanding.

Description of Condition

The Sewer is not generating enough revenues to pay back the debt. In 2012, the County contracted with a consultant to assess their options. Without the transfer of money from other funds, the Belfair Sewer Fund would have an estimated shortfall of approximately \$750,000 in 2014.

Using the assumptions of 1 percent growth, no changes in rates, and 2 percent increase in operating expenses, the fund is estimated to be short each year by approximately \$500,000 to \$870,000 until the debt is paid off in 2032. The higher the rate of growth, the lower the shortfall will be.

In addition, the County is in dispute resolution with the contractor for the plant. The Dispute Resolution Board issued an Interim Recommendation finding the County potentially owes the contractor approximately \$1.4 million.

Cause of Condition

At the time the project was approved, growth was at 9 percent. The feasibility study used a 5 percent growth in ERUs, which appeared conservative at that time. However, growth stalled and has only been approximately 1 percent.

The project initially included more ERUs in Phase I than actually materialized. In addition to the lack of growth, the number of ERUs that would be generated by business was over-estimated and some property owners were exempted from hooking up.

Only phase one of the four phases has been implemented. Phase two was initially planned to be online in 2013 but has not yet been started.

The project exceeded initial cost estimates as the scope of the project changed.

Effect of Condition

The Belfair Sewer Fund may not be able to repay the \$12.4 million of debt.

Recommendation

We recommend the Board of Commissioners take action to:

- Establish a formal financial plan to address how it plans to repay the debt.
- Closely monitor and evaluate the Belfair Sewer Fund's financial activities to ensure the plan is being followed and the desired results achieved. The Commissioners should revise the plan as needed to resolve its cash flow issues.

County's Response

In response to the State Auditor's Findings the Belfair Sewer Fund's financial condition being at risk of not being able to meet its financial obligations we offer the following statement of the action that is being taken to resolve the issue:

With the assistance of the citizen advisory committee commissioned last year to investigate funding and cost saving alternatives, the Mason County Board of Commissioners have developed a financial plan designed to adequately fund the operation and maintenance of the system and provide adequate funding of the debt service.

It includes:

- 1. Selling a Bond funded from the County's Investment Pool to pay the construction settlement costs and to use as matching funds for Grants from the Department of Ecology to construct Phases 2, 3 and 4 and expand ERU's, increasing revenues.*
- 2. Utilize the Rural County's Sales and Use Tax and REET 2 Tax to supplement the Sewer Fund in its payment of the debt service.*
- 3. Review the feasibility of establishing a County Wide Sewer and Utility District with the assistance of a Community Utility Advisory Committee and review previous recommendations of the use of a LAMIRD (Limited Area of More Intense Rural Development) to expand the scope of the sewer's utilization.*

4. *Review annually the status of the plan forecast to actual costs and adjust rates and costs accordingly.*

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank them for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

STATUS OF PRIOR AUDIT FINDINGS

The status of findings contained in the prior years' audit reports of Mason County is provided below:

1. The County Assessor's controls over personal property were not adequate to ensure the County collects all tax revenue due.

Report No. 1011025, dated December 3, 2013

Background

The Assessor's Office did not have adequate controls to identify all businesses with personal property subject to taxation. In addition, if the Assessor's Office requested a property listing for a business not in its records, and the business did not file it, the business was not added to the Assessor's records and was not penalized.

Status

This condition has been improved. The Assessor's Office has improved their tracking of businesses contacted. The number of businesses recorded increased by 225 or 21 percent from our prior audit. The Assessor's Office is also adding penalties to delinquent accounts.

2. The Belfair Sewer Fund's financial condition puts it at risk of not being able to meet its financial obligations.

Report No. 1011025, dated December 3, 2013

Background

The Sewer is not generating enough revenue to pay back the \$13.6 million debt issued to finance the project.

Status

The Board of Commissioners has not established a formal financial plan to address how it plans to repay the debt. This finding is repeated in the current audit.

3. The Equipment Rental and Revolving Fund did not charge funds equitably.

Report No. 1011025, dated December 3, 2013

Background

Beginning in 2010, the rates developed through cost allocation plans were not applied equitably. From 2010 through 2012, the Board of Commissioners reduced the amount owed for most Current Expense departments and eliminated those charges in 2013. In addition, we noted other inequities, including a one-time cash out of vehicles and an excessive markup of Road Fund materials.

Status

This finding has been partially resolved.

- The Equipment Rental and Revolving Fund revised its rates for 2014 and charged all departments in accordance with the plan.
- An interfund loan was established to repay the \$348,672 vehicle cash out over three years.
- The 2015 adopted budget includes repayment of the excessive markup of \$483,237 for Road Fund materials.
- While there is agreement to correct the \$2,911,752 underpaid by departments not charged full rates, a formal plan has not been adopted.

RELATED REPORTS

Financial

The County did not have adequate controls to prepare accurate financial statements for the audit period. Our opinion on the County's financial statements and compliance with federal grant program requirements will be provided at a later date in a separate report, which will include the County's financial statements.

That report will include a finding for a material weakness in internal controls over financial reporting.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal programs. However, due to the lack of accurate financial statements, the financial statement and single audit report will be issued at a later date. That report will include a federal finding regarding controls over financial statement preparation and noncompliance with the Single Audit deadline.

INFORMATION ABOUT THE COUNTY

Mason County serves approximately 61,800 citizens. The County operates under an elected, three-member Board of Commissioners which is responsible for the adoption of the annual budget and establishment of local ordinances and policies. Additional elected officials include Assessor, Auditor, Clerk, Coroner, Prosecutor, Sheriff, Treasurer and judges for the District and Superior Courts.

Nearly 350 County employees provide an array of services including public safety, District and Superior Courts, health, water and sewer utilities, solid waste transfer sites, planning, roads, public works, building, fair, parks and other general governmental services. For 2013, the County had an annual budget of approximately \$85 million.

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Information current as of report publish date.

Audit history

You can find current and past audit reports for Mason County 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.

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