



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Mason County

For the period January 1, 2016 through December 31, 2016

Published November 16, 2017

Report No. 1020147





Office of the Washington State Auditor
Pat McCarthy

November 16, 2017

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,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Audit Summary	4
Schedule Of Audit Findings And Responses	6
Summary Schedule Of Prior Audit Findings	9
Related Reports	11
Information About The County	12
About The State Auditor’s Office.....	13

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 most areas we examined.

However, we identified areas in which the County could make improvements.

We recommended the County:

- Closely monitor and evaluate the Belfair Sewer and Rustlewood water and sewer funds' financial activities to ensure the plans are being followed and the desired results achieved. The Board should revise the plans as needed to resolve any cash flow issues.
- Establish a formal financial plan to address how it plans to improve Rustlewood water and sewer's financial condition.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to County management in a letter dated November 6, 2017, related to general fund financial condition, budget compliance and Sheriff's Office restricted funds. We appreciate the County's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of Mason County from January 1, 2016 through December 31, 2016.

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:

- Cash receipting – treasurer’s office, parks and recreation, and transfer station
- Safeguarding of small and attractive assets
- Contracts/agreements
- Open public meeting minutes
- Budget compliance
- Veterans assistance fund
- County and sewer utility financial condition
- Payroll/personnel
- Procurement (bidding/prevaling wage)
- Jail financial operations/custody of evidence
- Use of restricted funds
- Cost allocation plan
- Belfair sewer loans and utility collections
- Fuel cards

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The Belfair Sewer and Rustlewood Water and Sewer funds' declining financial condition puts the utilities at risk of not being able to meet their financial obligations.

Background

The Belfair Sewer Fund began operating in 2012, charging customers \$96 a month for each Equivalent Residential Unit (ERU). The Belfair Sewer project was financed through loans issued by Department of Ecology and a general obligation bond. At the end of 2016, the Belfair Sewer Fund had \$11.3 million in outstanding debt.

The Rustlewood Water and Sewer Fund began operating in the early 1970s, charging customers \$96 per month for each ERU. The Rustlewood Water and Sewer project was financed through loans issued by Department of Ecology and a general obligation bond. At the end of 2016, the Rustlewood Water and Sewer Fund had \$1.2 million in outstanding debt.

The County received a finding in the prior audit regarding the declining financial conditions of the Belfair Sewer Fund and the Rustlewood Water and Sewer Fund.

Description of Condition

Belfair Sewer Fund

Belfair Sewer Fund has not generated enough revenues to pay back its debt. The County subsidized the Sewer Fund with \$1 million dollars in Real Estate Excise Taxes (REET) and sales tax funds to help make the capital and debt payments. Without this support, the Belfair Sewer Fund would have had an estimated shortfall of about \$605,000 at the end of 2016.

Rustlewood Water and Sewer Fund

The fund has not generated enough revenue to cover expenses and has been spending down fund balance between \$74,883 to \$139,719 in each of the last three years. The utility piping is from the 1970s and is at the end of its useful life. The fund does not generate enough revenue or have the reserves to be able to make the capital improvements needed.

Cause of Condition

Belfair Sewer Fund

In 2012, the Belfair Sewer Fund project planned for more ERUs in Phase 1 than actually materialized.

The County created a financial plan in 2015 to improve the Belfair Sewer Fund's financial condition. This plan included expanding the number of customers in 2018 to make the sewer self-sustaining, but the County has not been able to begin this phase of the construction due to lack of funds. The 2015 financial plan has not been adjusted to reflect actual activity.

Rustlewood Water and Sewer Fund

The County was not aware of the declining financial condition of the Rustlewood Water and Sewer Fund. Before this, there was no monitoring or financial plan for the water and sewer system's financial position to ensure the aging system would be able to continue.

The County has not adopted a formal financial plan for Rustlewood Water and Sewer, but the county-wide capital plan, which is currently in draft form, includes plans for capital improvements to the water and sewer system. The County plans to use REET funding to add water meters and change the rate structure to charge for water usage instead of a flat monthly fee. However, meters are not expected to be installed until 2018, and the transition to usage-based billing will take additional time after installation of the meters. In the meantime, the County has chosen not to raise the system's flat rates.

Effect of Condition

Belfair Sewer Fund

If the Belfair Sewer Fund's financial position continues to decline, the Utility will not be able to repay the \$11.3 million of debt, pay for significant maintenance or repairs, nor support its operations without continuing subsidies from REET and sales tax monies.

Rustlewood Water and Sewer Fund

If Rustlewood's Water and Sewer Fund financial condition continues to decline, the Utility will not be able to support its operations without additional funding and it does not have sufficient reserve funds to pay for maintenance or repairs as needed.

Recommendations

We recommend the Board of County Commissioners:

- Establish a formal financial plan to address how it will improve Rustlewood Water and Sewer's financial condition
- Closely monitor and evaluate the Belfair Sewer Fund and Rustlewood Water and Sewer fund financial activities to ensure the plans are followed and the desired results achieved. The Board should revise the plans as needed to resolve any cash flow issues.

County's Response

Mason County continues to annually review the status of the Belfair Sewer Utility and has had extensive meetings to discuss options in mitigating the financial condition of the utility. Belfair Sewer was able to pay back the General Fund, in 2017, the \$1,200,000 loan the Utility received in 2016 from the proceeds of the Department of Commerce grant for \$1,500,000. The BOCC continues to look at options to refinance the utility debt but is unable at this time to do so as rates are not beneficial. The BOCC is also looking at invigorating the economic environment in Belfair with the expectation that additional growth will occur.

The BOCC is in discussions with the Puget Sound Industrial Complex at the Bremerton Airport regarding expansion capabilities for the utility into the industrial complex in the near future. Additionally, the BOCC keeps reviewing the possibility of increasing ERU rates to mitigate the cash shortfall

Until additional growth or expansion in Belfair materializes the fund will be supplemented from REET and Sales and Use Tax Funds.

The Rustlewood utility is also reviewed annually and has REET and Sales Use Tax Funds contributing to its cash flow until additional revenues or continued expense reductions can bring the cash outflows in line with resources.

Auditor's Remarks

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Mason County January 1, 2016 through December 31, 2016

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Mason County. The State Auditor's Office has reviewed the status as presented by the County.

Audit Period: January 1, 2015- December 31, 2015	Report Ref. No.: 1018459	Finding Ref. No.: 2015-001
Finding Caption: The Belfair Sewer and Rustlewood Sewer funds' financial condition puts the utilities at risk of not being able to meet their financial obligations		
Background: Belfair and Rustlewood Sewer are not generating enough revenues to pay back the debt incurred for each sewer. If Belfair and Rustlewood Sewer's financial position continues to decline the utilities may not be able to support its operations without additional funding or pay for significant maintenance or repairs as needed.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="display: flex; align-items: center;"> <input type="checkbox"/> Fully Corrected </div> <div style="display: flex; align-items: center;"> <input checked="" type="checkbox"/> Partially Corrected </div> <div style="display: flex; align-items: center;"> <input type="checkbox"/> Not Corrected </div> <div style="display: flex; align-items: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: The County has had extensive meetings with the BOCC and Utility Staff to develop a plan that addresses the financial condition of both Belfair and Rustlewood. Both utilities have had funds from REET and Sales Use Tax Funds supplement their cash flow and fully support.		

Audit Period: January 1, 2015 through December 31, 2015	Report Ref. No.: 1018459	Finding Ref. No.: 2015-002
Finding Caption: The County lacked adequate controls over the collection of past due utility accounts and Belfair Sewer loan agreements		
Background: The County did not have a formal policy for the collection of past due utility accounts. Liens were not being filed timely for past due utility accounts. The County did not have loan agreements for outstanding Belfair Sewer Connection loans.		

Status of Corrective Action: (check one)

☒ Fully Corrected
 ☐ Partially Corrected
 ☐ Not Corrected
 ☐ Finding is considered no longer valid

Corrective Action Taken:

In 2017, the County wrote a procedure addressing the handling of past due utilities and began following the Chapter 13 Utility Code, delinquent charges and liens. In following the procedure and Chapter 13 Utility Code, the Public Works Department teamed with the Treasurer's Office and sent out foreclosure notices to those utility clients three years or more behind on utility bills as of April 30, 2017. This process has proved to be very effective. Utility accounts with balances 90 plus days past due decreased from \$330,690 on December 31, 2015 to \$157,205 on September 30, 2017. The Public Works Department is adhering to this process, and has also followed up with the Prosecuting Attorney's Office on the Belfair Sewer Loan Agreements.

Audit Period:

January 1, 2015- December 31, 2015

Report Ref. No.:

1018459

Finding Ref. No.:

2015-003

Finding Caption:

The County lacked adequate controls over cash receipting at its solid waste transfer stations.

Background:

The County lacked adequate controls over cash receipting at its solid waste transfer stations. We recommended the County strengthen controls over cash receipting at the solid waste transfer stations to ensure public funds are adequately safeguarded from loss or misappropriation.

Status of Corrective Action: (check one)

☒ Fully Corrected
 ☐ Partially Corrected
 ☐ Not Corrected
 ☐ Finding is considered no longer valid

Corrective Action Taken:

The County has taken measures to increase its internal controls over cash receipting at its solid waste transfer stations by implementing a cash handling procedure, limiting employee access to the solid waste transfer station safe, and using separate change funds for each solid waste attendant. An administrative staff member recounts, reconciles, and prepares the cash deposit, and the solid waste manager or administrative staff member who did not prepare the deposit, takes the cash deposit to the bank. The bank deposit is reconciled in a timely manner, overages and shortages are followed up on monthly, voids are reviewed for reasonableness in a timely manner, and surprise cash counts are periodically performed. The County is also in the process of implementing Paradigm software at its Shelton Solid Waste Station, which will automate much of the processes that are currently manually done.

RELATED REPORTS

Financial

Our opinion on the County's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the County's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

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 2016 the County had an annual budget of approximately \$91 million.

Contact information related to this report	
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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.

Contact information for the State Auditor's Office	
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