



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Mason County Fire Protection District No. 18

For the period January 1, 2016 through December 31, 2017

Published May 21, 2018

Report No. 1021303





Office of the Washington State Auditor
Pat McCarthy

May 21, 2018

Board of Commissioners
Mason County Fire Protection District No. 18
Hoodsport, 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 independent audit report on the District's compliance with applicable requirements and safeguarding of public resources for the 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

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, District operations did not comply with applicable state laws, regulations, or its own policies. Additionally, the District did not provide adequate controls over safeguarding of public resources.

As referenced above and described in the attached findings, we identified areas in which the District could make improvements.

We recommended the District establish a process to proactively identify, assess and respond to risks. We further recommended the District establish and follow internal controls to ensure:

- Receipted funds are recorded, promptly deposited, intact and reconciled by someone not involved in the receipting process
- Petty cash reimbursements are supported by adequate documentation and have a secondary review to ensure all expenses are for District purposes and allowable under District policy
- Adequate segregation of duties and monitoring over the general and payroll disbursement processes
- Written policies and procedures for disbursements and payroll are adequate to prevent misappropriation

Finally, we recommend the District ensure employees responsible for key internal controls receive adequate training to perform their duties effectively.

These recommendations were included with our report as findings.

About the audit

This report contains the results of our independent accountability audit of Mason County Fire Protection District No. 18 from January 1, 2016 through December 31, 2017.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the years ended December 31, 2017 and 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Financial condition and financial sustainability
- Self-insurance for unemployment compensation
- Severance package for the former fire chief
- Compliance with Open Public meetings requirements
- Petty cash – review of the District’s investigation of missing funds and policies
- Cash receipting – policies and compliance with requirements for prompt and intact deposits
- General disbursements and credit card activity
- Payroll – calculations of volunteer payments and commissioner compensation

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The District did not have adequate internal controls over cash receipting and petty cash to ensure adequate safeguarding of public resources.

Background

Mason County Fire Protection District No. 18 is located in Mason County and serves the Lake Cushman area. The District's total revenue was about \$362,000 and \$211,000 in 2016 and 2017, respectively.

District management is responsible for establishing effective internal controls to ensure compliance with state law and adequate safeguarding of public funds.

Description of Condition

The District's internal control systems were inadequate to ensure compliance with state laws and safeguarding of public resources. Our current audit identified the following control deficiencies:

Cash receipting

The District receives an average of \$14,000 a year in revenue other than taxes. The District did not record or have records of funds receipted, and did not have a reconciliation function to ensure receipted funds were adequately safeguarded from loss or misappropriation.

In addition, the District lacked adequate controls to ensure funds were deposited promptly in accordance with state law (RCW 43.09.240). Because there were not adequate controls or any records of cash receipted, we were not able to test cash receipting. There is a continued risk of loss or misappropriation for cash receipting.

Petty cash

The District had a petty cash fund of \$1,000 and total replenishments to the fund of about \$3,000 in 2016 and 2017.

The District identified a loss of \$666 in petty cash funds. We tested 42 petty cash expenditures and six monthly reimbursements for those expenses from 2016 and 2017. We noted the following:

- Three of the six monthly reimbursement amounts did not tie to supporting receipts. We identified a total of \$1,127 in petty cash expenditures that were unsupported or questionable.
- 17 petty cash expenses, totaling \$346, were used by or reimbursed to the petty cash custodian without a secondary review or approval.
- 14 petty cash expenses, totaling \$424, were not allowable because the District had not determined in its policy that they were a valid use of funds.

Cause of Condition

The District staff responsible for cash receipting and petty cash lacked adequate training and resources to establish adequate internal controls. In addition, District management did not dedicate sufficient resources or monitoring to ensure effective internal controls were established and consistently applied.

Effect of Condition

Without adequate internal controls in place to ensure compliance with state law and safeguarding of public resources, the District is at increased risk of noncompliance, fraud and abuse.

Noncompliance, fraud and abuse can result in loss of public trust, fewer resources available to perform services and inability to maintain the public assets entrusted to the District by its taxpayers.

Recommendation

We recommend the District establish a process to proactively identify, assess and respond to risks.

We further recommend the District establish and follow internal controls to ensure:

- Receipted funds are recorded, promptly deposited, intact and reconciled by someone not involved in the receipting process
- Petty cash reimbursements are supported by adequate documentation and have a secondary review to ensure all expenses are for District purposes and allowable under District policy

Finally, we recommend the District ensure employees responsible for key internal controls receive adequate training to effectively perform their duties.

District's Response

On December 31st, 2016 we had a change of district secretary and then the termination of our Fire Chief on January 13th, 2017. This all prompted considerable examination of our policies and procedures that were in place.

Mason County Fire District 18 adopted many new policies on March 31st, 2017. The petty cash policy was included in this grouping. The Cash receipting policy has been instituted in accordance with RCW 43.09.240

We now have a detailed review and audit of all payments made to our volunteers and procedures set in place to monitor warrants and credit card transactions.

Prior to our onsite audit, most of the issues noted had been addressed. The recommendations from the State Auditor's office regarding findings noted will be implemented where appropriate.

Auditor's Remarks

We want to thank the District for its assistance throughout the audit and the steps it is taking to address the issues. The District's status of corrective actions will be reviewed during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting, gives the state auditor the authority to formulate, prescribe and install a uniform system of accounting and reporting for all local governments.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control defines internal control, describes its purpose, and specifies each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

RCW 43.09.240 – Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections, describes the timely depositing requirements for local governments.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-002 The District did not have adequate controls over payroll and disbursements to ensure expenditures were adequately supported and for District business.

Background

Mason County Fire Protection District No. 18 is located in Mason County and serves the Lake Cushman area. The District's operating expenditures totaled about \$225,000 and \$250,000 in 2016 and 2017, respectively.

District management is responsible for establishing effective internal controls to ensure public funds are adequately safeguarded.

Description of Condition

We identified the following deficiencies in internal controls:

Payroll

- There was not a detailed review of payments to volunteers and commissioners by someone independent of the payroll process to ensure payments were correctly calculated and adequately supported.

Disbursements and credit cards

- There was not a detailed review of warrants or credit card transactions by someone independent of the disbursement process to ensure accuracy and compliance with District policy.
- The District did not have a process in place to ensure adequate support was retained for all purchases and warrants paid.

Cause of Condition

The District staff responsible for payroll and disbursements lacked adequate training and resources to establish adequate internal controls. In addition, District management did not dedicate sufficient resources or monitoring to ensure effective internal controls were established and consistently applied.

Effect of Condition

Payroll

The District primarily consists of volunteer firefighters who are paid, based on points earned, on a quarterly basis. In addition, Commissioners are compensated \$114 for each meeting, once a month.

We tested payments to volunteers and noted the District did not have records to support the four quarterly volunteer payments in 2016.

We also tested eight months, or 57 meetings, for Commissioners and noted the District:

- Did not have meeting activity logs for four months
- Did not have adequate support for six of the meetings to verify they were for legitimate District business

We also noted that Commissioners who also serve as volunteers receive compensation for responding to calls and attending drills in addition to their Commissioner compensation. The District was not able to demonstrate payments to volunteers were made with the intent to reimburse expenses; therefore, compensation to Commissioners for volunteer services might be unallowable (RCW 52.14.010).

Disbursements and credit cards

We reviewed 68 disbursement transactions and 29 credit card transactions and identified the following:

- Four disbursement transactions, totaling \$2,741, did not have adequate supporting documentation.
- Eight credit card transactions, totaling \$374, did not have adequate supporting documentation to ensure each purchase was allowable under state law and district policy, and that each transaction was for District use.
- The District was not able to provide the 2016 December-January credit card statement.

Recommendation

We recommend the District:

- Establish written policies and procedures for disbursements and payroll and ensure monitoring is adequate to prevent misappropriation
- Ensure adequate segregation of duties and monitoring over the general and payroll disbursement processes

Finally, we recommend the District ensure employees responsible for key internal controls receive adequate training to effectively perform their duties.

District's Response

On December 31st, 2016 we had a change of district secretary and then the termination of our Fire Chief on January 13th, 2017. This all prompted considerable examination of our policies and procedures that were in place.

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Prior to our onsite audit, most of the issues noted had been addressed. The recommendations from the State Auditor's office regarding findings noted will be implemented where appropriate.

Auditor's Remarks

We want to thank the District for its assistance throughout the audit and the steps it is taking to address the issues. The District's status of corrective actions will be reviewed during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting; Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

The *Budgeting, Accounting, and Reporting System Manual* (BARS), 3.14, Accounting Principles and Internal Control outlines the local government's responsibility for obtaining and retention of original vouchers, receipts and other documents.

RCW 43.09.2855 – Local governments; Use of credit cards requires local governments to adopt a system for the distribution of the credit cards, the authorization and control of the use of credit cards, the credit limits available on the credit cards, payment of the bills, and any other rule necessary to implement or administer the system outlined in the RCW.

INFORMATION ABOUT THE DISTRICT

Mason County Fire Protection District No. 18 has served the Lake Cushman area of Mason County since 1977. The District primarily consists of volunteer firefighters but does have a paid fire chief and secretary.

An elected, three-member Board of Commissioners governs the District. During fiscal years 2016 and 2017, the District received approximately \$350,000 in revenues, primarily from property taxes.

| 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 Fire Protection District No. 18 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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