



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Mason County

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

Published January 17, 2019

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**Office of the Washington State Auditor
Pat McCarthy**

January 17, 2019

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 independent audit report on the County'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, County operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

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

About the audit

This report contains the results of our independent accountability audit of Mason County from January 1, 2017 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 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, based on our risk assessment for the year ended December 31, 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Clerk's Office – cash receipting, bank reconciliations, collection of past due accounts, grant reimbursements, and monthly audit reports
- Inter-local agreements for servicing other entity's vehicles
- Sheriff's Office – fee schedule and use of road levy diversion funds
- Financial condition and fiscal sustainability
- Payroll – follow up on citizen concern and employee reimbursements
- Department of Community Development – cash receipting and permit fee revenue
- County Auditor – monitoring and use of restricted operations and maintenance revenue

- Self-insurance for unemployment
- Tracking and monitoring of theft sensitive assets and the capital asset inventory process
- Budget compliance

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The Clerk's Office did not have adequate internal controls or oversight of its financial operations to safeguard public resources.

Background

The Superior Court of Mason County collected about \$275,000 in revenue during 2017. As the fiscal officer of the Superior Court, the Clerk is responsible for developing effective office operations policies and procedures. As shown below, the Clerk's Office lacks important controls over accounting operations. Without these controls, the office cannot ensure funds are safeguarded. In addition, the risk of misappropriation, loss of public assets and noncompliance increases.

Description of Condition

The Clerk's Office did not have adequate internal controls over cash receipting, bank reconciliations, grant reimbursements, monthly audit reports, and the collection of past due accounts to properly safeguard public resources. We identified the following control deficiencies:

Cash receipting

Duties are not segregated. The Deputy Clerk receipts cash, makes deposits and is responsible for reconciling the bank account. All cashiers also use the same cash drawer to receipt payments.

Daily cash receipting reports were not consistently retained or run at the end of each day and there were unreconciled amounts in the receipting system.

Bank reconciliations

The Clerk's Office did not reconcile its bank account for the prior six months.

Grant reimbursements

The Clerk's Office was not aware of grant requirements, as a result, requested unallowable costs, and did not include all costs that should have been reimbursed from the grantor.

Monthly audit reports

The Clerk's Office did not create or review the audit reports suggested by the state Administrative Office of the Courts. The reports assist in identifying higher risk transactions that should be reviewed and support the reconciliation process. The six reports, which are available each month, ensure account balances are accurate and complete.

Collection of past due accounts

There is no policy or procedure to process and send past due accounts to collections. No past due accounts have been sent to collections since January 2017.

Cause of Condition

The Clerk's Office has not devoted sufficient time and resources to establish proper policies and procedures over financial operations. During 2017, the Clerk's Office experienced significant turnover in key positions including a new Clerk, Deputy Clerk and several support staff. No transfer of knowledge or processes were afforded to the incoming staff.

In addition, the Clerk's Office implemented a new software system, causing additional challenges and confusion for staff charged with implementing and maintaining key monitoring controls over financial processes.

Effect of Condition

Cash receipting

Without adequate segregation of duties or an independent review of deposits, there is an increased risk public funds may be lost or misappropriated without detection.

We attempted to agree daily receipt reports to deposits made to ensure all were made intact and in a timely manner. We reviewed 33 deposits covering four weeks and found that 12 deposits did not have a detailed system report to show what receipts were included in the deposit. Staff could not recreate reports for these deposits.

However, we were able to confirm that total monthly receipts from the receipting system after adjustments agreed to the total amount deposited for the month.

Bank reconciliations

At the time of our audit, we noted Clerk's Office staff had not reconciled bank statements since March 2018. During this time, there was no review of bank account activity to ensure all funds were properly accounted for.

The County hired a consultant and in December 2018 was able to reconcile the bank statements through November with some minor differences.

Grant reimbursements

We found the January through August 2018 monthly reimbursements were not submitted in a timely manner because they were all prepared in September. In addition, the following errors were noted:

- \$20,740 in benefit costs and \$5,759 in equipment costs that were eligible for reimbursement were not included and therefore not reimbursed.
- \$6,500 in office supplies were incorrectly included, because this was a budget amount and not actual costs.

Monthly audit reports

The recommended audit reports were not created for review on a monthly basis to ensure funds were properly safeguarded.

Collection of past due accounts

Without a policy and procedure, the County did not have a clear process to ensure past due accounts have been sent to collections. The County did not send any of the \$71,803 in accounts that became past due since January of 2017 to collections. The County has potentially lost revenue.

Recommendations

We recommend the Clerk's Office staff are adequately trained to perform assigned duties. More specifically, the Office should:

- Review daily cash receipting reports to ensure amounts receipted agree to deposits and retain proper documentation
- Segregate cash receipting duties from reconciliation activity to reduce the risk of misappropriation
- Reconcile the monthly bank statement to ensure all activity is properly accounted for
- Review grant reimbursement requests by someone who understands allowable grant costs
- Create and review the monthly audit reports to help ensure public funds are properly safeguarded
- Establish policies and procedures over sending past due accounts to collections to ensure an adequate attempt is made to collect funds due to the County

County's Response

The Clerk's Office would like to thank the State Auditor's Office for the time and patience during this audit.

The Clerk's Office has been through several significant changes in the last two years to include appointment of a new clerk, a change in the court management software from our legacy system "SCOMIS" to the new web based "ODYSSEY", and extensive staff changes and turnover.

In May 2017, the office moved forward with ODYSSEY. Unfortunately during the implementation period, we experienced high staff turnover with system implementations, new processes and staff that required extensive training, and we were not as effective in keeping up to date with our day to day processing.

With the assistance of an outside accounting firm and county Auditor's and Treasurer's Office, as well as a new segregated cash receipting process, we will be able to get cash receipting and bank reconciliations current by February 2019. Having a better understating of the ODYSSEY system we can now run and audit, daily and monthly reports and safeguard funds. With the assistance of the county Budget Office the Grant reimbursements will be generated monthly and with the correct allowable costs. In addition, I will be traveling to neighboring counties to review their procedures on collection of outstanding and delinquent accounts and implementing a new process in the Clerk's Office.

With the implementation of these safeguard and process changes we anticipate the audit finding will be resolved by next year's audit.

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.

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.



**MASON COUNTY
MISSION**

The mission of Mason County Government is to provide essential & mandated services which will preserve & benefit the health, safety & welfare of the general public in a professional and courteous manner through the effective and equitable management of available public resources.

Mason County recognizes that its employees & volunteers are the foundation upon which these services are provided.

MASON COUNTY DEPARTMENT OF PUBLIC WORKS

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SHELTON, WASHINGTON 98584
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Mason County January 1, 2017 through December 31, 2017

This schedule presents the status of findings reported in prior audit periods.

Audit Period: 1/1/2016-12/31/2016	Report Ref. No.: 1020147	Finding Ref. No.: 1				
Finding Caption: 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 utilities do not generate enough revenue to cover expenses without the County subsidizing the funds with Real Estate Excise Taxes and sales tax funds. The utilities also do maintain any reserve funds to maintain a positive cash balance or funds to pay for unanticipated expenses.						
Status of Corrective Action: (check one) <table border="0"><tr><td><input type="checkbox"/> Fully Corrected</td><td><input type="checkbox"/> Partially Corrected</td><td><input checked="" type="checkbox"/> Not Corrected</td><td><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>			<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input checked="" type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid
<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input checked="" type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>For the Belfair Sewer System, the County has received \$515,000 from the Legislature to design a sewer collection system expansion in partnership with the City of Bremerton, who has committed \$1,000,000 to help with the design. The collection system would serve the north part of the Belfair UGA and the Puget Sound Industrial Center and provide additional customers to the Belfair Sewer System, improving the financial viability of the system. Construction would occur in 2022 and 2023 in conjunction with the SR 3 Freight Corridor Project with new sewer customers in 2024 and 2025.</i> <i>For the Rustlewood System the County is installing water meters on all connections and a sewer main lining project will be completed in 2019. These projects will improve the performance of the systems, but REET funds will still be needed to pay for debt and capital projects for Rustlewood for the foreseeable future.</i>						

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>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding inadequate controls in place to ensure accurate reporting of fiduciary funds.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report includes a federal finding regarding inadequate internal controls to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements. 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 2017, the County had an annual budget of approximately \$91.3 million.

Contact information related to this report

Address:	Mason County 411 N. 5th Street P.O. Box 400 Shelton, WA 98584
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Telephone:	360-427-9670 X472
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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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
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