

Washington State Auditor's Office
Accountability Audit Report

**Vashon Maury Island Park and
Recreation District
King County**

Report Date
February 12, 2013

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WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

March 18, 2013

Board of Commissioners
Vashon Maury Island Park and Recreation District
Vashon, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your District to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Vashon Maury Island Park and Recreation District's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

TROY KELLEY
STATE AUDITOR

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King County
February 12, 2013**

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Audit Summary

Vashon Maury Island Park and Recreation District King County February 12, 2013

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Vashon Maury Island Park and Recreation District from January 1, 2010 through December 31, 2012.

We evaluated internal controls and performed audit procedures on the activities of the District. We also determined whether the District complied with state laws and regulations and its own policies and procedures.

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 noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Accounting/financial reporting
- Contracts/agreements
- Bond covenants
- Donations/fundraising
- Public works procurement
- Conflict of interest/ethics laws
- Financial condition
- Insurance and bonding
- Citizen hotline submissions

RESULTS

In most areas, the District complied with state laws and regulations and its own policies and procedures.

However, we identified conditions significant enough to report as findings:

- The Vashon Maury Park and Recreation District's financial condition has declined.
- The Commissioners of Vashon Park District did not comply with public works contracting laws.

We also noted certain matters that we communicated to District management. We appreciate the District's commitment to resolving those matters.

Description of the District

Vashon Maury Island Park and Recreation District King County February 12, 2013

ABOUT THE DISTRICT

The Vashon Maury Island Park and Recreation District was created in 1983 to operate a system of park and recreation facilities within the District. The District operates 18 parks, multiple community meeting facilities, a lighthouse leased from the federal government, three lodging facilities and multiple recreation facilities. In an agreement with the Vashon Island School District, the District is allowed to use the School District's property for sports and cultural activities. An elected, five-member Board of Commissioners governs the District. Board Members serve staggered, four-year terms. In the years under audit, the District received approximately \$1.1 million in revenue.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:

Joe Wald
Lu-Ann Branch
David Hackett
John Hopkins
Bill Ameling

DISTRICT CONTACT INFORMATION

Address: Vashon Maury Island Park and Recreation District
P.O. Box 1608
Vashon, WA 98070

Phone: (206) 463-9602

Website: www.vashonparkdistrict.org

AUDIT HISTORY

We typically audit the District's accountability for public resources every three years. The past three audits have been free of findings. We engaged this audit in September 2012 after receiving an inquiry through our Citizen Hotline and became aware that the District's financial health was declining. We also learned that since our last audit, the District experienced significant loss of important personnel. The District had three Executive Directors in three years.

Schedule of Audit Findings and Responses

Vashon Maury Island Park and Recreation District King County February 12, 2013

1. The Vashon Maury Island Park and Recreation District's financial condition has declined.

In 1983 the Vashon Maury Island Park and Recreation District was created to provide recreational facilities to the public. A five-member Board of Commissioners elected to four-year terms oversees the District. The District currently provides programs and services such as operating sports leagues, providing classes, and hosting large public events. Most of the District's revenues are from an annual property tax levy which has declined in recent years.

	2012	2011	2010
Levy amount	\$1,125,303	\$1,163,211	\$1,297,435
% change from prior year	-3%	-10%	

The most recent available financial statements are for 2011. We relied on King County Treasurer's reports for our analysis.

Our audit found:

The District ended 2012 with negative fund balance. The District's 2012 year-end \$77,716 cash balance comes entirely from \$200,000 bank loan proceeds.

In December 2012, the District did not have sufficient funds to repay a \$404,000 bank loan, make \$66,484 bond debt payments and pay about \$70,000 of outstanding bills. To meet its immediate cash needs, the District obtained a credit line from a bank and used \$200,000 of it.

We conclude:

When tax and other revenues fell short of projections, the Commissioners did not take timely action to adjust revenue expectations and reduce costs.

The District does not prepare timely annual financial statements and does not arrange for an audit of the financial statements. Annual audits of financial statements would have identified revenue shortfalls and would provide reliable assessment of financial condition for District management to make meaningful decisions.

The District is borrowing money to pay operating expenses and make debt payments. This financing structure is not sustainable in the long-term and exposes the District to higher risk of not meeting its financial obligations.

We recommend the Commissioners:

- Ensure complete and accurate annual financial statements are prepared timely. Financial statements allow management and others to have a complete picture of the District's finances – its annual cash receipts and expenditures, as well as year-to-year changes in assets and liabilities.
- Develop a formal long-term finance plan to that will allow it to provide programs and services with available resources without relying on bank loans.
- Monitor actual expenditures to ensure they remain within budget appropriations and within available resources.
- Adjust the finance plan if expected improvements are not achieved.

The District provides the following information related to the findings of this audit:

Prior to the audit, VPD began a comprehensive review of our accounting procedures and financial outlook. We found that our accounting practices, which were in place during prior audits, wholly failed to provide a timely or accurate picture of VPD's financial position and expenditures. As a Board, we were often left making decisions based on out-of-date, grossly incomplete, or mis-leading information. We were also slow to adjust to rapidly decreasing tax revenues.

We have already taken important steps to remedy this situation. First, we have adjusted district expenditures downward over the past six months. We have scrutinized discretionary expenditures, instituted a hiring freeze, instituted employee furloughs, eliminated certain positions, and imposed employee layoffs. We have also instituted operational reforms to decrease the need for full-time park staff, including off-loading registration and other duties to partner organizations, and adjusting our role in the Vashon Commons. We are currently examining other areas where the district can reduce costs, including the way it operates lodging facilities and the kayak center.

Second, we have adopted a lean 2013 budget, which we anticipate will be the first of a three year plan to provide key public services, eliminate debt, and rebuild our reserve funds. The budget operates within available 2013 revenues and provides a cushion for unforeseen expenses. Under this budget, VPD has five FTE employees, which is a substantial decrease from prior years. The budget also looks to enhanced revenue, including institution of a facility access fee under a policy recently adopted by the Board.

Finally, VPD has bolstered its accounting systems and adopted policies necessary to support those systems. Under a December 2012 policy, the Board is receiving monthly reports on expenditures, debt, and cash flow. We have retained an accountant, who is tracking budget compliance and reforming our accounting systems. In hiring our new GM, a primary goal of the board was to hire a candidate with substantial expertise in financial systems. We were able to attract our number one candidate for the position.

Schedule of Audit Findings and Responses

Vashon Maury Island Park and Recreation District

King County

February 12, 2013

2. The Commissioners of the Park District did not comply with public works contracting laws.

In 2009, the District Board voted to construct a complex of new playing fields. Because the District has not undertaken large construction projects in the past, it encountered multiple issues.

Our audit found:

Incomplete records

The District could not locate many of the records we requested for the audit. For example, the District could not provide us with documentation that demonstrates that required public work project specifications, cost estimates and drawings were prepared, or adequate documentation to show that it followed small works roster procedures. Additionally, it did not have documentation of consultant qualifications, proper voucher supporting documentation, documentation of significant decisions and documentations of controls over the project.

When we examined records the District could provide, we found inadequate controls over and noncompliance with public works procurement requirements.

Fields construction project

Availability of funds to meet grant match requirements: The project depended on grant funding from the Washington State Recreation and Conservation Office. To receive the \$500,000 grant, the District was required to have \$628,876 in matching funds. In March 2009, the District signed the grant acceptance letter and certified that the matching funds were ready and available for the project. The District did not have the matching funds on hand. The District received the grant funds and proceeded with the project. As of December 2011, the District still needed to raise \$463,975 to meet the match requirement. The Board did not reduce spending on other programs while it continued with this project which resulted in depleting all of its available resources.

Design and specifications of public works project: District construction projects are subject to public works requirements, including bid laws. For projects subject to competitive bidding, state law requires that plans, specifications and cost estimates are prepared before selection of the contractor. The District stated an individual had volunteered to prepare the required documents, but did not have documentation to show that was done.

- Procurement of fields public works project: The Board decided the District would act as a general contractor for the project, even though it had no prior experience

managing government construction projects. In order to award the work to companies located on Vashon Island, the District Board decided to split the work into smaller pieces. Board meeting minutes describe Board members' intent to split the work into pieces under \$200,000 in order to award contracts using the small works roster. To accomplish this, the Board hired a construction consultant with no prior experience managing government construction projects, who prepared at least 16 "bid packages", each under \$200,000, for various types of work. State law (RCW 39.04.155(4)) prohibits bid-splitting.

Further, the District awarded a bid package for earth-moving work to the highest of the two bidders, contrary to state law. The District asked bidders to record on the bid sheet the amount of any donation they were willing to make. The bid sheet shows that the District used the value of the winning bidder's promised \$26,000 in-kind donation toward the project to reduce his \$301,200 bid and awarded the \$275,200 contract. The District could produce no evidence that it knew what that donation would be or that it would receive it.

Additionally, the winning bidder could not obtain a performance bond as required by state law (RCW 39.08.010). Instead, the District retained a portion of a progress payment. Retainage in lieu of a bond is only allowed for projects that cost \$35,000 or less, and requires retainage of 50 percent of the total contract price.

Noncompliance with bid requirements can result in a higher risk that the District would be paying for goods or services which were not intended, not needed, of inferior quality, or both.

We conclude:

- The Commissioners were unaware of or chose not to follow state public works laws.
- The construction project discussed above was inappropriately broken up into smaller "bid packages" with the intent of avoiding competitive bid requirements.
- Because the District did not prepare plans, specifications and cost estimates as required, it is now having difficulty getting one of the contractors to complete his work. In addition, that contractor did not provide a performance bond, which limits the District's ability to ensure the work is completed.

We recommend:

- The Board familiarize itself with state bid laws. Board members and/or staff should participate in training provided by local government associations and others. It also should seek guidance from those with experience in public works projects when engaging in construction projects.
- Board members should provide oversight and monitoring of District personnel, contractors, and users to ensure compliance with state law.

When performing our audit we considered the following requirements:

RCW 39.04 Public Contracts and Indebtedness
RCW 39.08 Contractor's bond

The District provides the following information related to the findings of this audit:

The VPD Board shares many of the concerns that are raised in the audit report regarding the VES capital fields project. It appears that the departure of key staff, including former Executive Director Wendy Braicks, greatly hampered the ability of VPD to respond to audit questions and the ability of your office to audit this project. The records of the project were not well-maintained and created some substantial confusion regarding the project. As a result of these issues, we believe that the audit findings are incorrect with regard to the award of the earth-moving contract to the lowest bidder, the cash available for project purposes, and the bond posted by the bidder. These errors are of little consequence, however, because the larger conclusion of the audit that VPD did not manage this project as well as it should have is apparent.

We look to greatly improve this situation as we complete this project over the next several years within budgeted amounts. Working with state granting authorities, the Board is compiling a work plan to move toward completion of the VES project. The anticipated expenditures are within amounts budgeted for 2013. In completing the remaining work, VPD will pay close attention to the issues raised in the audit report in order to ensure compliance with applicable state laws and construction practices. The board looks forward to completing this project in a way that satisfies audit requirements.



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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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