



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Island County Fire Protection District No. 2

(North Whidbey Fire and Rescue)

For the period January 1, 2019 through December 31, 2021

Published August 7, 2023

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

August 7, 2023

Board of Commissioners
North Whidbey Fire and Rescue
Oak Harbor, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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.

Attached is 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 value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, District operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the District could make improvements. These recommendations are included with our report as a finding.

We also noted certain matters related to open public meetings that we communicated to District management and the Board of Commissioners in a letter dated August 1, 2023. We appreciate the District's commitment to resolving those matters.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of North Whidbey Fire and Rescue from January 1, 2019 through December 31, 2021.

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 Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the District's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2021, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – general disbursements, credit cards, and travel expenditures
- Payroll – leave balances and accruals, paid-time-off conversion, benefit deductions, and retirement contributions
- Surplus vehicles – disposition and receipt of sales proceeds

- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

North Whidbey Fire and Rescue January 1, 2019 through December 31, 2021

2021-001 The District did not have adequate internal controls over payroll and accounts payable to ensure disbursements were accurate and complied with state law and its own policies.

Description of Condition

North Whidbey Fire and Rescue provides fire protection services in the Oak Harbor area. The District has six full-time staff and about 90 volunteer firefighters and 11 volunteer officers. An elected, three-member Board of Commissioners governs the District, which is responsible for appointing a fire chief to oversee daily operations, volunteers and staff.

The District is responsible for designing and following internal controls that provide reasonable assurance it is safeguarding public resources and complying with state laws and policies.

In the two previous audits, we made recommendations to District management regarding payroll and accounts payable disbursements. However, the District's control structure over disbursements continues to be inadequate for ensuring staff only process valid transactions.

Payroll

The District processed payroll totaling \$1,141,554, \$1,358,413 and \$1,215,859 in 2019, 2020 and 2021, respectively.

Our audit found the District continues to lack controls for ensuring that monthly payroll, deductions, leave accruals, and leave buyouts are accurate, complete, and supported. Specifically, we noted the following:

- Employees' contracts do not clearly state whether they are paid hourly or on salary.
- Staff duties are inadequately segregated, and there is a lack of evidence that timesheets are approved by staff who are knowledgeable about the time employees have worked.

Accounts payable

District disbursements through warrants, credit cards and fuel cards totaled \$1,779,469, \$2,103,761 and \$1,965,231 in 2019, 2020 and 2021, respectively.

We continued to note the following control weaknesses:

- The District did not adequately review fuel card transactions to ensure purchases were reasonable and for allowable purposes.
- The District's controls were inadequate for ensuring staff followed policies designed to reduce the risk of paying for erroneous credit card transactions.
- The District did not update its purchasing or disbursement policies until 2021 to include items required by state law (RCW 42.24).

Cause of Condition

The District has experienced significant turnover, including staff responsible for entering, reviewing and approving critical information into the payroll and accounts payable systems. The Board of Commissioners relied on the staff in place to establish strong internal controls and did not take a more active role to ensure the District maintained an adequate control environment despite staff turnover.

Effect of Condition

Without adequate internal controls and monitoring, the District cannot ensure it is complying with state laws and its own policies, and safeguarding public funds. Inadequate oversight over disbursement processes also increases the likelihood a misappropriation might occur and not be detected promptly, if at all.

We identified the following weaknesses as a result of our testing.

Payroll

During the audit, we reviewed all payroll for employees and volunteers for the months of June 2019, August 2020 and July 2021. For leave balances, we identified six instances where paid time off accruals were not calculated based on District policy, whether too high or too low. There were also three instances where employees' allowable leave exceeded District policy. In one case, an employee's excess leave balance was carried forward for three years, without comment to indicate the excess had been identified or approved, as required by District policy.

The District also provided conflicting internal reports used to track leave balances. For one of the month's we reviewed, one employee's leave accrual was calculated

at both 6.48 and 10.43 hours for the month. Using the District's policies, the employee should have accrued only 3.87 hours for the month, therefore, both accruals were inaccurate and allocated more leave than earned to the employee's balance.

We also noted instances where it appeared that the prior Accounting Manager overpaid herself in her leave buyout, but then also underpaid herself during multiple payroll periods.

Further, the Department of Retirement Systems determined the District had underpaid retirement payments by \$2,297. The District's subsequent review identified improper changes made to the former Accounting Manager's payroll information, which led to the underpayment. The District did not have adequate controls to prevent and detect erroneous changes to the payroll system.

Accounts Payable

Our audit found that staff did not compare fuel card purchases to actual receipts to ensure transactions were for a valid business purpose. We also found instances where staff did not enter odometer readings or entered them incorrectly, which made it appear that several gallons of fuel were used to drive only one mile. The District did not retain documentation to support that staff performed any level of review of fuel card purchases. In addition, since the District did not collect or use actual receipts, we could not determine the validity of the transactions.

We also noted one instance where staff knowingly circumvented controls to split a purchase into two transactions to avoid the credit card approval processes. The District has a transaction limit for credit cards and anything exceeding this requires specific Board approval or making the payment via check which would be approved through the accounts payable process.

Recommendation

We recommend the District:

- Implement procedures to ensure payroll payments, leave accruals, usage, and balances (including leave buyouts) are adequately monitored and supported for all employees
- Implement procedures to ensure changes to the payroll system are only for valid purposes and properly approved
- Evaluate and improve its internal control process for reviewing transactions to ensure purchases are only for allowable business purposes and within District processes

- Ensure credit and fuel card purchase documentation includes a review of itemized receipts to verify all transactions comply with state law (RCW 43.09.185)

District's Response

North Whidbey Fire and Rescue would like to thank the audit team at Washington State Auditor's Office in Bellingham for their professionalism and thorough investigation of its records during the financial and accountability audit for the 2019-2021 period. The district is aware of its reporting and recording deficiencies, and the inadequacies that resulted from experiencing significant turnover rates in key management positions during the audit period. Additionally, the district realizes that not every material weakness is due to significant turnover, but that its lack of internal controls, management review, employee knowledge and training, updated policies, and proper implementation of policies and procedures has contributed significantly to its performance regarding state law recording and reporting requirements.

In an effort to improve its processes of financial and accountability measurements, the district has reviewed the auditor's recommendations and will implement the following controls:

Payroll

- *Timecards will be reviewed and signed by the fire chief and accounting manager for all employees.*
- *Payroll review totals will be separated by distribution and accrual categories for an easier and more thorough review process.*
- *An accrual tracker will be created and updated monthly after every payroll period.*
- *A periodic review of the payroll system audit trail will be completed regularly to ensure all changes are valid and authorized.*
- *Payroll policies will be updated, and periodic internal payroll audits will be performed to ensure accuracy and compliance.*

Accounts Payable

- *All transactions shall be verified by receipts and reviewed and approved by the fire chief and board of commissioners.*
- *The purchase policy will be updated, and the district will ensure all personnel authorized to make purchases have a thorough understanding of the policy and transaction requirements.*

- *The accounting manager shall review all credit card purchases, reconciling all purchases with a receipt and purchase order to ensure all purchases are in accordance with district policy.*
- *Fuel card transactions are currently tracked under a new process in accordance with district policy. Odometer readings must be entered prior to fuel being dispensed. All transactions are reviewed and approved by the fire chief monthly.*

As North Whidbey Fire and Rescue makes every effort to implement the aforementioned controls, the board of commissioners and management will continue to seek processes and procedures that will ensure performance improvement and state compliance within the areas of financial and accountability recording and reporting requirements.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District 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.

RCW 43.09.2855, Local governments – Use of credit cards.

RCW 43.09.185, Loss of public funds – Illegal activity – Report to state auditor's office.

Budgeting, Accounting and Reporting System (BARS) Manual, 3.1.3.3, Internal Control

BARS Manual – Accounting, Expenditures, Purchase Cards, Sections 3.8.4

RELATED REPORTS

Financial

Our opinion on the District's financial statements is provided in a separate report, which includes the District's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

That report includes a finding for a significant deficiency in internal controls over financial reporting regarding preparation and presentation of the financial statements.

INFORMATION ABOUT THE DISTRICT

Founded in 1950, North Whidbey Fire and Rescue (NWFR) covers 55 square miles and protects a population of over 15,000. NWFR has approximately 90 volunteer firefighters and 11 volunteer officers. NWFR responds to medical emergencies, water rescues, high angle rescues, motor vehicle accidents, fire and statewide wildland fires from its seven stations strategically placed from Libby Road to Deception Pass.

An elected, three-member Board of Commissioners governs the District. Board Members serve staggered, six-year terms. The Board appoints a Fire Chief to oversee the District's daily operations as well as its employees and volunteers. For fiscal years 2019, 2020 and 2021, NWFR reported revenues of \$1,940,260, \$2,328,324 and \$2,871,770, respectively.

Contact information related to this report

Address:	North Whidbey Fire and Rescue 770 N.E. Midway Blvd . No. 201 Oak Harbor, WA 98277-2664
Contact:	Natasha Spydell, Accounting Manager/Board Secretary
Telephone:	(360) 675-1131
Website:	www.nwfr.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for North Whidbey Fire and Rescue at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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