



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Benton County Fire Protection District No. 4

For the period January 1, 2020 through December 31, 2023

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

December 12, 2024
Board of Commissioners
Benton County Fire Protection District No. 4
West Richland, 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. This report highlights significant risks presented by the District's lack of appropriate financial safeguards. The risks we identified have been realized to the District's financial loss, as detailed in the separate fraud report.

We appreciate your cooperation during this audit, which includes recommendations to prevent further losses. I strongly encourage you to follow those recommendations and to diligently work to meet the expectations of both state law and the public.

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 did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the District did not provide adequate controls over safeguarding of public resources in most of the areas we examined.

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

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

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 Benton County Fire Protection District No. 4 from January 1, 2020 through December 31, 2023.

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, 2023, 2022, 2021 and 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – gross wages, overtime and incentive payments
- Accounts payable – general disbursements, credit cards, travel expenditures, employee reimbursements and gift card purchases
- Procurement – public works and professional services
- Compliance with public works projects – change orders
- Tracking and monitoring of theft sensitive assets, such as fuel cards
- 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

Benton County Fire Protection District No. 4 January 1, 2020 through December 31, 2023

2023-001 The District lacked internal controls and procedures over its essential financial functions, including payroll and disbursements, to ensure safeguarding of public resources.

Background

Benton County Fire Protection District No. 4 provides fire and emergency medical services to about 22,000 people in the city of West Richland and the surrounding unincorporated areas. The District operates on an annual budget of about \$6.3 million. An elected, three-member commission govern the District. The Commissioners hire a Finance Manager to oversee the District's daily operations. The Finance Manager has key financial system access, which includes processing vendor and payroll disbursements and is also responsible for reconciling credit card and bank statements.

The District is responsible for designing, implementing and maintaining internal controls that provide reasonable assurances it safeguards public resources and uses them in compliance with applicable state laws and the *Budgeting, Accounting and Reporting System* (BARS Manual).

Description of Condition

The District's internal controls over payroll and disbursements were insufficient for preventing misappropriation of public funds.

Payroll

The District processes payroll monthly for all employees. The Finance Manager was responsible for processing payroll, issuing checks to employees, including herself, and requesting reimbursements from other third-party agencies for statewide mobilization services. The Commission did not oversee payroll to ensure amounts it paid align with expected pay and did not ensure the Finance Manager made all required payroll adjustments before processing payroll payments.

Disbursements

Duties were not segregated related to disbursements nor did anyone monitor the Finance Manager's activities. The Finance Manager position is responsible for preparing invoices, processing payments, writing checks and reconciling bank accounts. This allowed the same person to initiate payments without support or proper approvals and process these payments without Commissioner oversight. The Commissioners did not monitor bank activity to ensure disbursements were supported, accurate and legitimate. Additionally, there was no oversight of the Finance Manager's monthly reconciliations of accounting records to the bank accounts.

Credit Cards

District employees, including the Finance Manager, use District credit cards to make purchases when the District does not have a business account established with a vendor. In addition to using the District credit card to make purchases for miscellaneous supplies and arranging travel, the Finance Manager is responsible for reviewing credit card statements, obtaining original receipts for purchases from employees and processing payments. The Finance Manager is also responsible for completing monthly reconciliations of credit card statements, allowing the same person to initiate payments without support or proper approvals or Commissioner oversight. The Commissioners did not monitor credit card activity to ensure transactions were supported, accurate and legitimate.

Cause of Condition

The District trusted the Finance Manager and relied on her years of experience with the District rather than developing adequate internal controls over financial processes. The District did not create internal controls that include effective oversight and monitoring by the Commissioners of the Finance Manager position to prevent or detect misappropriation promptly.

Effect of Condition

The District reported a disbursement loss of \$774 to our office. We investigated and identified a further loss of public funds from disbursements and payroll, as noted under the Related Reports – Special Investigations section of this report.

Inadequate internal controls over the District's activities and a lack of proper oversight resulted in a \$88,573 misappropriation of public funds and \$28,243 in questionable transactions over the course of 12 years that the Commissioners did not detect.

This lack of monitoring also led the District to overbill third-party agencies by \$11,026 for state mobilization pay, and not request \$30,926 for reimbursement from these agencies until our audit. Further the District did not approve credit card transactions totaling \$17,879 and other accounts payable payments of \$3,684 in accordance with its policy.

Recommendation

We strongly recommend the District develop and implement internal controls over all essential financial functions to ensure oversight and monitoring to safeguard public resources. At a minimum, the District should:

- Ensure payroll amounts are supported by time worked and perform an independent review of all payroll payments to ensure it makes all required payroll adjustments before processing
- Request all reimbursements for state mobilization pay from third party agencies promptly
- Ensure someone independent of the payment processes performs a secondary review of all District bank accounts and credit card statements to ensure payments are supported and are legitimate expenditures of the District
- Complete monthly bank and credit card reconciliations in a timely manner Commissioners' review
- Develop and implement policies and procedures over the District's essential financial functions including payroll and vendor disbursements and bank and credit card reconciliations

District's Response

We appreciate the thoroughness of the audit conducted on Benton County Fire District #4 and the findings that highlight areas where internal controls and procedures over our financial functions, particularly payroll and disbursements, require strengthening. We take these findings seriously and have implemented a comprehensive corrective action plan to address the identified weaknesses and ensure the safeguarding of public resources. Below is an outline of the actions we have taken and will continue to improve upon:

1. Lack of Oversight of the Finance Manager's Activities

We acknowledge the report's finding that the District lacked adequate oversight of the Finance Manager's activities. To address this, we have implemented the following measures:

- ***Segregation of Duties:*** Responsibilities for payroll, reimbursements, and other financial processes have been redistributed among staff to ensure that no single individual has unchecked authority over multiple stages of a transaction.
- ***Management Review:*** All timecards are now reviewed and approved by the Fire Chief prior to processing.
- ***Internal Audits:*** Periodic internal audits of financial transactions have been introduced to ensure compliance with established controls, with findings reported to the Board of Commissioners.

2. Full Access to the Accounting System

We recognize the risks associated with the Finance Manager having unrestricted access to the accounting system, which enabled payroll and reimbursements to be processed without oversight. To mitigate this risk, we have implemented:

- ***Dual Approval Process:*** All payroll transactions, benefits, and reimbursements now require dual approval prior to processing.
- ***Audit Trail Monitoring:*** The accounting system offers an audit trail feature that tracks and monitors all user activities, including changes to records and transactions. This ensures accountability and provides a clear record of any unauthorized actions.

3. Lack of Oversight in Credit Card Transactions

The report highlighted insufficient controls over credit card purchases, payments, and reconciliations, which allowed for unauthorized expenditures. In response, we have taken the following steps:

- ***Revised Reconciliation Process:*** *Credit card reconciliations are now handled by a separate staff member. Supporting documentation for all purchases is required for approval.*
- ***Monthly Review:*** *A monthly review of credit card transactions is conducted by the administration team to ensure compliance with District policies.*

Organizational Improvements Post-Fraud Discovery

Since the fraud was identified, the District has made significant improvements to strengthen financial operations and foster a culture of accountability:

- ***New Personnel:*** *We have hired a Finance Manager with over 30 years of experience in fire service business operations and an Administrative Assistant with more than 15 years of similar experience. Both individuals bring expertise in cross-training and the importance of segregation of duties.*
- ***Employee Manual:*** *The recently established employee manual provides clear, consistent policies and procedures for non-union employees. By standardizing guidelines for payroll, benefits, and administrative functions, the manual promotes uniformity across operations and ensures alignment with the District's financial and organizational objectives.*
- ***Enhanced Training Programs:*** *All administrative and finance personnel will participate in ongoing training on financial controls, fraud prevention, and ethical standards. This ensures staff are equipped to identify and mitigate potential risks and reinforces a culture of accountability and vigilance.*

We are committed to maintaining robust internal controls and safeguarding public funds. The measures outlined above are just the beginning of our ongoing efforts to strengthen our financial systems and ensure that our operations align with the best practices for transparency, accountability, and integrity.

Auditor's Remarks

We thank the District for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

Budgeting, Accounting and Reporting System (BARS Manual), 3.1.3.30, states in part, “The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

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

Budgeting, Accounting and Reporting System (BARS Manual), 3.8.5, Voucher Certification and Approval

RCW 43.09.200, Local government accounting – Uniform system of accounting

RCW 42.24.080, Municipal corporations and political subdivisions – Claims against for contractual purposes – Auditing and payment – Forms – Authentication and certification

RCW 43.09.240, Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections

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 management's override of internal controls and complete and accurate financial reporting.

Special investigations

We issued a report on a fraud investigation report on activities at the District. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Benton County Fire Protection District No. 4 was formed in 1953 and incorporated in 1954 to provide fire protection and fire suppression services and emergency medical services for citizens of central east Benton County. This service area covers about 52 square miles which encompasses the city of West Richland and surrounding unincorporated areas adjacent to the City of Richland and Benton City.

An elected, three-member Board of Commissioners governs the District. The District operates with a staff of about 30 full-time employees and about 25 volunteers. The District received revenue of about \$5.0 million, \$5.7 million, \$6.2 million and \$6.9 million in 2020, 2021, 2022 and 2023 respectively. The District reported expenditures of about \$10.1 million, \$5.0 million, \$5.1 million and \$6.8 million in 2020, 2021, 2022 and 2023 respectively. The District had \$5 million of capital expenditures as part of its total \$10 million of expenditures in 2020 due to receiving a bond in 2018 for capital projects. Benton County Treasurer serves as the Treasurer for the District.

Contact information related to this report

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Website:	www.bcfcd4.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for Benton County Fire Protection District No. 4 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.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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