



Office of the Washington State Auditor
Pat McCarthy

Assessment Audit Report

Adams/Lincoln County Fire Protection District No. 3

For the period January 1, 2021 through December 31, 2023

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

January 23, 2025

Board of Commissioners
Adams/Lincoln County Fire Protection District No. 3
Odessa, Washington

Report on Assessment Audit

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.

The attached report describes the procedures performed and conclusions for the areas we reviewed. We appreciate the opportunity to work with your staff, and value your cooperation during the assessment audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT SUMMARY

Results in brief

Based on the procedures performed, we identified areas where the District could make improvements. These recommendations are included as findings. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

About the assessment audit

This report contains the results of our independent audit of Adams/Lincoln County Fire Protection District No. 3 from January 1, 2021 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. State law (RCW 43.09.230) also requires local governments to prepare and submit certified annual reports to our Office summarizing such things as revenues received, collections made, amounts receivable or payable, expenditures made, and debt owed.

This assessment 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 at least once every three years. Assessment audits are risk-based, limited-scope reviews of small local governments, generally defined as local governments with less than \$300,000 in annual revenues. To help minimize audit costs, our work for this engagement was conducted off-site primarily using financial and other information provided by the District.

This assessment audit was limited to the following:

- Reviewing meeting minutes for compliance with the Open Public Meetings Act
- Inquiring as to internal controls over assets, revenues, and disbursements
- Verifying that annual reports submitted to our Office were complete and filed timely in compliance with state law
- Reviewing the District's annual revenues and expenditures for unusual transactions or trends
- Corroborating financial information reported by the District by comparing reported revenues, expenditures, and cash and investment balances to third-party sources
- Reviewing expenditures for indications of unusual activities, excessive Board of Commissioners compensation, conflicts of interest, or procurement requirements. Based on that review, we compared selected expenditures with supporting invoices and voucher approvals to verify their validity and completeness.
- Evaluating the District's financial information for indications of financial distress
- Tracking and monitoring of assets, such as equipment and vehicles, including surplus activities
- Compliance with interlocal agreements and lease and interlocal agreement terms

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Adams/Lincoln County Fire Protection District No. 3 January 1, 2021 through December 31, 2023

2023-001 **The District is unable to support its authority to operate as a combined entity.**

Description of Condition

The Adams/Lincoln Fire District provides joint operations and has three commissioners elected from Adams County and three commissioners elected from Lincoln County. The District operates as one government, providing fire protection services in both counties. Both counties levy taxes, and the District consolidates its resources in Lincoln County, where expenditures occur.

State law states that the board composition should consist of three, five or seven commissioners and requires all local governments to report to our Office and be independently audited.

The District is unable to support the operating structure as a combined entity, which directly impacts financial reporting and compliance with state laws.

Cause of Condition

The District has not dedicated resources to review its operating structure and governing body composition.

Effect of Condition

The District's supporting documentation regarding its organization and structure is inconsistent with its reporting to our Office as a single combined district, therefore we are unable to determine compliance with state laws. Without adequate documentation of its operating structure, the District cannot support the validity of its actions.

Recommendation

We recommend the District work with legal counsel to evaluate its structure and determine whether it is one joint government or two separate legal entities with a joint oversight board. If they are two separate legal entities, the Districts should ensure agreements adequately document the relationship and that both entities meet reporting and audit requirements set by state law.

District's Response

We have not been operating as a single district, but as 2 separate consolidated districts

We began to conduct 2 meetings the same night this last year and will continue to do so. We will also begin reporting separately.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Title 52 RCW, Fire Protection Districts

RCW 43.09.230, Local government accounting—Annual reports—Comparative statistics.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Adams/Lincoln County Fire Protection District No. 3 January 1, 2021 through December 31, 2023

2023-002 The District lacked adequate internal controls and monitoring over financial activities to ensure the safeguarding of public resources and compliance with state law.

Background

The District operates four stations in Adams and Lincoln counties and has about 20 vehicles. It had annual expenditures of approximately \$133,000, \$256,000 and \$231,000 in fiscal years 2021, 2022, and 2023, respectively.

The District is responsible for designing, implementing and maintaining internal controls that ensure compliance with state law and the *Budgeting, Accounting and Reporting System* (BARS) Manual to safeguard public resources. District management is also responsible for the integrity and retention of the original invoices, receipts and other documents necessary to prove the validity of every transaction relating to the use and disposition of public funds and property.

Description of Condition

The Board of Commissioners lacked internal controls to ensure that it safeguarded public resources. Specifically, the District:

- Was unable to fully support payments totaling more than \$15,000. This included a reimbursement to a Commissioner for about \$4,500 and a service payment to their business of about \$6,500.
- Did not retain adequate support for the \$6,000 sale of a surplus vehicle
- Paid the Fire Chief about \$4,750 for labor and was unable to identify whether the payment was a payroll payment or for additional contract services. Further, the District could not provide documentation for the authorization of these hours or evidence of when the Fire Chief worked.

The District was unable to provide contracts and agreements for audit. Specifically:

- The District's storage lease for the local public hospital's ambulance expired December 31, 2018
- The District shares facilities and operating activities with the town of Odessa's volunteer fire department; however, there is no written contract governing this relationship

Additionally, the District has not established policies governing asset management or surplus. Its inventory and tracking processes are informal, and documentation is limited to insurance listings for major assets.

Cause of Condition

The District did not dedicate the necessary resources to establish proper controls to retain adequate original supporting documentation, including contracts, and did not adequately monitor financial activity.

Effect of Condition

The District's lack of control and oversight of its operations increases the risk that misappropriation or misuse of public resources could occur and not be prevented or detected in a timely manner, if at all.

Recommendation

We recommend the District establish:

- Controls to ensure it retains documentation to support expenditures, assets and disposal
- Contracts and agreements to evidence commitments and safeguard District interests
- Procedures to govern financial activities, direct day-to-day operations of District personnel, and safeguard resources. Procedures are best documented in board approved policies.

District's Response

The commissioner reimbursement was for the survey of property for a potential new station. He paid it out of his pocket so it wouldn't be delayed. We provided emails confirming the payment to the surveyor.

The district provided proof of the \$6,000 for the surplus vehicle.

The money paid to the chief for labor was voted on by the commissioners, and the payments included approximately three months of labor. The chief will be keeping better track of his hours and will provide it via an app, which tracks hours worked.

There is a new storage lease for the local public hospital district, executed by both parties.

The district found and provided the contract between the county and the Town's volunteer fire department

The commissioners consistently discuss surplus items during the meetings and they are listed in the minutes.

Auditor's Remarks

We appreciate the steps the District is taking to resolve these issues. However, we remind the District of their responsibility to establish controls to adequately safeguard resources. We reaffirm our finding and will follow up on the District's corrective action during the next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting – Uniform system of accounting

Budgeting, Accounting and Reporting System (BARS) Manual, 3.1.3, Internal Control

BARS Manual, 3.1.4, Original Supporting Documentation

BARS Manual, 3.3.8, Capital Asset Management

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Adams/Lincoln County Fire Protection District No. 3 January 1, 2021 through December 31, 2023

2023-003 The District lacked adequate internal controls over financial reporting to ensure compliance with state law requiring timely, accurate, and complete annual report submissions.

Background

Federal and state agencies, the Board of Commissioners and the public rely on the information included in financial statements and reports to make decisions. The District is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance its financial reporting is reliable.

State law (RCW 43.09.230) requires the District to submit an annual report with accurate, summarized financial information and supporting schedules to the State Auditor's Office within 150 days after the end of its fiscal year. The *Budgeting, Accounting and Reporting System* (BARS) Manual, Section 4.1.6, requires local governments to correct errors and omissions in annual reports, including those identified during an audit.

Description of Condition

The District did not submit the required annual reports to our Office within 150 days of fiscal year-end. The District filed its 2021 and 2022 annual reports 420 and 55 days late, respectively.

The District consistently omitted balances held at Adams County that averaged about \$20,000. Further, 2023 expenditures did not agree with County reports by a difference of about \$77,000. The District did not correct these errors.

The District's annual report did not provide complete and accurate supplemental reporting.

Cause of Condition

The District relies on contract services for annual report filing, and did not dedicate resources necessary to ensure it submitted reports on time. The District did not have adequate monitoring to identify discrepancies and omissions in its reporting.

Effect of Condition

Delays in the availability of complete financial reports prevent District officials, the public and other interested parties from obtaining timely information. Such delays and inaccuracies also hinder public transparency and our Office's efforts to compile statistical and financial information that the Legislature and other parties use.

Recommendation

We recommend the District establish internal controls to ensure timely, accurate, and complete financial reporting in accordance with state law.

District's Response

The District's secretary was in contact several times during 2021, 2022, 2023, and 2024 seeking assistance with the yearly audits. It wasn't until 2023 when substantial assistance was obtained.

The district does not omit balances held by Adams County. Those funds are transferred twice per year into Lincoln County in June and December.

The District receives the expenditures reports through the Treasurer's office, so we don't know why the Auditor believes the reports don't match. There was an error, which was immediately corrected, where the county issued a check that should have been issued by Adams County.

The District relies on the Secretary to conduct the annual filings, there is no contracted third party.

Auditor's Remarks

We appreciate the steps the District is taking to resolve these issues. However, we remind the District of their responsibility to prepare timely, accurate and complete financial reporting. We reaffirm our finding and will follow up on the District's corrective actions during the next audit.

Applicable Laws and Regulations

RCW 43.09.230, Local government accounting – Annual reports – Comparative statistics

Budgeting, Accounting and Reporting System (BARS) Manual 4.1.6, Reporting Requirements and Filing Instructions for Special Purpose Districts

BARS Manual 4.8.14, Assessment Questionnaire (Schedule 22)

**Lincoln County Fire District No. 3
and
Adams County Fire District No. 3**

Lincoln Co. Commissioners

Steven Braun
Matthew Kagele
William A.J. Bell

Adams Co. Commissioners

Dalles Deife
Jon Fink
Brad Greenwalt

Victoria S. Iverson, Secretary
Roger Sebesta, Fire Chief
P.O. Box 667
Odessa, WA 99159
Phone: (509) 982-2656

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Adams/Lincoln County Fire Protection District No. 3
January 1, 2021 through December 31, 2023**

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

Audit Period: January 1, 2017 through December 31, 2020	Report Ref. No.: 1029857	Finding Ref. No.: 2020-001
Finding Caption: The District lacked adequate internal controls over financial reporting for ensuring compliance with timely annual report submissions.		
Background: The District filed its 2018, 2019 and 2020 annual reports 823, 425, and 106 days late, respectively. Data for the 2017 report was provided 1,095 days late, which exceeded system limits for filing and therefore could not be compiled in Local Government Comparative Statistics (LGCS). The District's failure to respond impeded our Office's ability to audit the government in a timely manner, as state law requires.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"><div><input type="checkbox"/> Fully Corrected</div><div><input type="checkbox"/> Partially Corrected</div><div><input checked="" type="checkbox"/> Not Corrected</div><div><input type="checkbox"/> Finding is considered no longer valid</div></div>		
Corrective Action Taken: <i>The District filed late annual reports because the Secretary was working solo as a practicing Attorney and didn't have a legal assistant to help with daily duties. She finally was able to hire someone to help with legal and fire district duties.</i>		

INFORMATION ABOUT THE DISTRICT

Adams/Lincoln County Fire Protection District No. 3 provides fire protection services to the town of Odessa and the surrounding area. The District provides its services both to its own jurisdiction in Lincoln County, as well as to the lands included within Adams County Fire Protection District No. 3.

The District is governed by a three-member Board of elected Commissioners, with the additional three Commissioners of Adams County Fire Protection District No. 3 sitting in on management discussions, decisions, and operations of the jointly operated Districts.

The District operated on annual revenue of about \$259,000 in 2021, \$233,000 in 2022, and \$202,000 in 2023, primarily from property tax collections.

Contact information related to this report

Address:	Adams/Lincoln County Fire Protection District No. 3 P.O. Box 667 Odessa, WA 99159
Contact:	Victoria Iverson, Secretary
Telephone:	(509) 982-2656
Website:	https://odessawa.org/fire-department

Information current as of report publish date.

Audit history

You can find current and past audit reports for Adams/Lincoln County Fire Protection District No. 3 at <https://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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