



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Mason County Fire Protection District No. 12

For the period January 1, 2017 through December 31, 2020

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

September 20, 2022

Board of Commissioners
Mason County Fire Protection District No. 12
Matlock, Washington

Report on Accountability

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.

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 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 the areas we examined.

As referenced above, we identified areas where the District could make improvements. These recommendations are included with our report as findings. We recommend the District establish internal controls to ensure compliance with state law and the safeguarding of public funds from loss or misappropriation in the following areas:

- Conflict of interest and code of ethics
- Open Public Meetings Act
- Annual filing of financial reports
- Use of District vehicle
- Disbursements
- Payroll
- Cash receipting

Additionally, as noted under the Related Reports – Special Investigations section of this report, we examined certain matters and reported them 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 Mason County Fire Protection District No. 12 from January 1, 2017, through December 31, 2020.

The District's operating expenditures increased from almost \$154,000 in 2017 to \$260,200 in 2020, after voters approved a levy lid lift in 2018. A three-member Board of Commissioners governs the District. The Board appoints a Fire Chief to oversee its daily operations, which includes handling payroll, disbursements, cash receipting and tracking District assets. The Fire Chief is under the supervision and authority of the Board. The Board also appoints a Secretary to assist the Fire Chief with these daily operations. The Secretary is under the supervision and authority of the Chief. The District is served by about 10 volunteer firefighters.

District 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. The Board, as governing body, has ultimate responsibility for ensuring adequate controls are in place, even if it delegates the primary responsibility of designing, implementing and maintaining internal controls to management.

Historically, the District's audits have been two-year, limited-scope assessment audits due to its limited revenues and clean audit history. In February 2020, we began contacting the Fire Chief to ask her to submit the District's 2018 and 2019 annual financial reports so we could audit fiscal years 2017 through 2019. The District submitted these annual reports in October 2020, at which time we began a limited assessment audit. During the audit, we asked the Fire Chief multiple times for supporting records such as credit card statements, invoices and receipts. Many of our requests, made by email or telephone, were unanswered. When the Fire Chief did send us documents, she sent records that had been created by the District's own internal computer system, and were therefore not source documents that allow us to independently verify expenditures were valid and allowable business expenditures. After months of delays or unanswered requests for records, as well as the ongoing difficulty communicating with District officials and employees, we determined the risk to public assets had increased. We expanded the audit in September 2021 from a limited assessment audit to a more in-depth and expanded-scope accountability audit for fiscal years 2017 through 2020.

We conducted this audit 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. The audit involved obtaining evidence about the District's use of public resources, its compliance with state laws and regulations and its own policies and procedures, and an examination of its internal controls over such matters. The procedures we performed were based on a risk assessment.

Based on that risk assessment for the years ended December 31, 2020, 2019, 2018 and 2017, the areas we examined were those representing the highest risk of fraud, loss, abuse or noncompliance. We examined the following areas during this audit period:

- Conflict of interest and code of ethics
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Annual report filing – timeliness and completeness
- Compliance with Fire Chief employment contract terms – District vehicle and insurance benefits
- Accounts payable – general disbursements, travel expenditures and employee reimbursements
- Payroll – wages paid and leave cash outs

- Cash receipting – collection of charges for services, timeliness and completeness of deposits
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Mason County Fire Protection District No. 12 January 1, 2017 through December 31, 2020

2020-001 District governing officials and management disregarded state laws when performing essential government functions.

Description of Condition

The Board of Commissioners and District management did not follow state laws when performing essential functions. We identified the following concerns:

Conflict of interest and code of ethics

State law limits the amount public officials can receive to \$1,500 in a calendar month. A Commissioner was paid \$2,819 and \$1,600 in two months in 2021 for providing maintenance services on District vehicles. Each exceeded the \$1,500 statute limit.

Open Public Meetings Act

The state's Open Public Meetings Act (OPMA) requires a quorum of commissioners to discuss and make District business decisions, including voucher approvals and resolutions, in an open public forum. The Act also requires regular meetings be held in accordance with a fixed schedule. Meeting days, times and locations should be communicated to the public in a manner that allows the meetings to be open and public, and all persons should be permitted to attend.

Our audit found the District's procedures and internal controls did not ensure compliance with the OPMA. Specifically, we noted the District did not:

- Provide adequate notice of meeting days and times (and access codes for virtual meetings) to allow the public access to the meetings
- Admit members of the public into virtual meetings in a timely manner, if at all
- Hold the regular Board meetings at the regularly scheduled time. District officials said their regular meeting is scheduled for the second Tuesday each month. However, our review of meeting minutes found the District held only one meeting at that time in 2020, and did not hold any meetings at the regularly scheduled time in 2021. The District held meetings inconsistently and unpredictably.

- Properly document voucher payment approvals in the meeting minutes since September 2018. Meeting minutes often stated the total by fund, but did not include the voucher numbers. Additionally, the total voucher payments shown in the minutes were inconsistent with accounting records.
- Document approval of prior Board meeting minutes

Annual filing of financial reports

Generally, district management, the Legislature, and state and federal agencies rely on the District's financial statement information to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance regarding timely and accurate financial reporting. State law (RCW 43.09.230) requires local governments to submit annual financial reports to our Office within 150 days of their fiscal year-end. The Board did not adequately monitor operations to ensure it filed annual reports with our Office in a timely manner. The District submitted its 2018 and 2019 annual reports 496 and 99 days after the statutory deadline, respectively. The 2020 and 2021 annual reports were due May 30, 2021 and 2022. As of August 1, 2022, the District has not submitted either report.

Use of District vehicle

The Fire Chief's employment contract allows for use of a District vehicle at all times. State law prohibits uncompensated gifting, lending or private benefit from public resources. However, de minimis personal use on the way between home and District business is considered reasonable when using a work vehicle in this manner. Our audit found the District did not have a policy or adequate controls to monitor the Fire Chief's use of the vehicle to ensure it was safeguarded from potential misuse and would not result in uncompensated gifting, lending or private benefits. We found the Fire Chief used the District vehicle for personal purposes that exceeded a reasonable de minimis use, including:

- Shopping and going to her spouse's place of employment in Shelton, which is approximately 30 minutes away from the District's main station and in the opposite direction from their home
- Hauling a personally owned utility trailer for a purpose not clearly intended to benefit the District

Cause of Condition

Noncompliance with state laws and a lack of adequate monitoring by District management and the governing officials was due, in part, to nepotism within the

District. One of the commissioners is married to the District Secretary. The Fire Chief is their daughter. The Fire Chief and Secretary are the District's only employees. The Fire Chief is under the Board's supervision and authority, and the Secretary is under the Fire Chief's supervision and authority.

These relationships led the Board to trust District employees even more unquestionably than it ordinarily would. The District either did not have adequate policies and controls in place, or disregarded procedures designed to ensure compliance with state laws and the adequate safeguarding of public resources from misappropriation or misuse. And because the Board trusted its employees implicitly, it neither questioned nor remedied the lack of policies, controls or procedures.

District leadership and management did not have an adequate understanding of state laws, including those that restrict public officials from benefitting from contracts, require open public meetings, call for annual financial filing with the State Auditor's Office, and prohibit the gifting of public funds.

Effect of Condition

The Board's disregard for state laws and the resulting lack of transparency limits the public's knowledge and understanding of District business. The Board's insufficient knowledge of the state laws it must follow hinders its ability to implement controls and policies to follow those laws. Additionally, the District's disregard for ensuring the adequacy of existing policies and controls resulted in the Fire Chief receiving personal benefit from using a public asset, unnecessarily shortened the life of the asset, increased District fuel costs, and increased the District's—and therefore the public's—liability exposure.

Finally, filing inaccurate and late annual reports prevents the public and other interested parties from obtaining timely financial information about the District. Delays and inaccuracies also harm public transparency and the State Auditor's efforts to compile statistical and financial information that the Legislature and others use.

Recommendation

We recommend the District:

- Establish a nepotism policy and adequate controls so that immediate family members do not have the authority to appoint, supervise, discipline or

remove other relatives from their District employment absent a compelling business purpose

- Review and comply with state laws governing restrictions on public officers benefiting from contracts
- Understand and follow the OPMA's requirements
- Prepare and keep records that clearly show compliance with the OPMA. These records should provide an accurate record of District actions and be easily available for public inspection.
- Establish a policy on appropriate and allowable uses of District assets, including vehicles, and implement adequate monitoring controls to ensure staff use assets appropriately for business purposes.

District's Response

The Board of Commissioners of Mason County Fire Protection District No. 12 is committed to operating transparently and in full compliance with the law. We appreciate the Auditor's efforts in identifying areas of improvement in our operations and management and we are implementing measures to address the Auditor's findings. The District intends to implement all recommendations contained in the Auditor's report. The Board does respectfully disagree with some of the information presented in the Auditor's report.

Conflict of Interest. *The Board was aware of the \$1,500 per month limitation on commissioner contracts with the fire district. The District is a rural fire district with limited resources. The District has a commissioner with the necessary skills to save taxpayer funds by providing maintenance services on the District vehicles. At no time did the commissioner earn over \$1,500.00 per month. However, the commissioner invoiced the District on a quarterly basis so the payments identified in the audit in those two months did exceed the \$1,500.00 threshold in those months simply because the amounts accumulated. The Board now understands that the threshold applies to the date of payment not the date the services were provided and invoicing and payment will be done on a monthly basis in the future to avoid any conflict with the statutory requirements.*

Open Public Meetings Act. *The Board's meetings are always open to the public. The Board recognizes certain procedural steps were not consistently taken during the audit period as the commissioners work schedules impacted the regular meeting schedule. The Board is implementing better policy language and will be providing additional educational support for the Board and staff to better comply with the procedural requirements in the future. Part of the challenges faced by the Board during the Audit period related to the impacts of COVID and learning to provide remote access options with limited resources, staffing and training.*

Annual Filing of Financial Reports. *The District has filed its 2021 and 2022 reports and will provide staff with appropriate education and oversight to comply with the filing deadlines in the future.*

Use of District Vehicle. *The Board respectfully and strongly disagrees with the Auditor's inclusion of this item as a Finding. The Board is responsible for the management and allocation of District resources. As noted in the Audit report, the Board intentionally provided the Fire Chief the use of a District Vehicle "at all times." This is not only necessary with the District's limited staffing, but has been justified by the fact that the Fire Chief responds to over 99% of the calls in the District.*

There was not and has never been any intent to provide uncompensated gifting or lending of public resources. The District specifically provided the use of the vehicle for personal use as part of the Chief's negotiated benefit package. Because of the District's limited staffing and resources, the Board determined that the Chief should be able to respond at all times, including times when the Chief is otherwise engaged in personal or family activities. The Board recognizes and intentionally allowed the use of the vehicle for personal activities to insure that the Chief would be able to respond in a District vehicle to any emergencies on a 24 hour seven day a week basis. The vehicle use was contractual in nature and well within the Board of Commissioner's authority to provide. The Board also notes that the citation of the trailer example is inaccurately stated as the use of the utility trailer was for a District related activity.

Nepotism. *As the Auditor notes nepotism is not illegal. Given the small geographical size of the District and the limited availability of individuals interested in governing the District and volunteering for the District, the District has necessarily relied on multiple family members being directly involved in District operations. The Board does recognize that checks and balances need to be implemented to work toward having non-related individuals involved in the process of approving and managing the expenditure of public funds whenever possible. The Board will work to draft and implement policies to address this concern.*

Auditor's Remarks

We appreciate the Board's stated intent to improve. However, we remind the Board it is the duty of elected officials to gain the knowledge necessary to ensure accountability and safeguarding of public resources, as well as compliance with state laws. We re-affirm our finding and will follow up on the District's corrective actions during the next audit.

Applicable Laws and Regulations

RCW 42.30 Open Public Meetings Act

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.8.5.40, Voucher Certification and Approval

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

RCW 42.23.030 Interest in contracts prohibited – Exceptions.

Washington State Constitution, Article VIII, Section 7, Credit Not To Be Loaned

RCW 43.09.230 Local government accounting – Annual reports – Comparative statistic.

The *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.”

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Mason County Fire Protection District No. 12 January 1, 2017 through December 31, 2020

2020-002 The District lacked adequate procedures over its essential financial functions, including disbursements, payroll and cash receipting, to ensure adequate safeguarding of public resources.

Description of Condition

We examined disbursements, payroll and cash receipting.

Disbursements

The District did not adequately review disbursements to ensure they were supported, accurate and allowable under state law and District policy. It also did not ensure supporting records were safeguarded from loss or destruction. We examined various records including invoices, receipts, and the warrant register, which is a list of payments the District will ask the County to make on the District's behalf, and found the following:

- We requested 30 disbursements for audit. Fifteen of the disbursements, totaling \$30,196, lacked supporting records. Of these 15 disbursements, eight warrants totaling \$10,557 were payments to the Fire Chief.
- One disbursement for \$4,000 was unallowable because it paid a vendor before the vendor had provided services
- Vendor invoices and purchasing cards were either not paid in full or not paid on time
- District policy calls for all three commissioners to approve the warrant register. However, most of the time, only one Commissioner and the Fire Chief approved it. Commissioners said they do not request or review support for all expenditures before approving the warrant register.
- The approved warrant register often did not state the total number or total dollar amount of warrants that the Board approved. This made it difficult to confirm if the Board was approving the same list the County received for processing.

Payroll

The District lacked procedures over payroll processing and monitoring to ensure payroll and leave payouts were correct, on time and allowable. It also did not ensure

supporting records were safeguarded from loss or destruction. We found the following:

- We requested 21 payroll disbursements for audit. Ten of the disbursements, totaling \$26,023, were not supported. Of these 10 disbursements, eight payments, totaling \$21,713, were made to the Fire Chief.
- For at least three years, the District did not submit reports and payments to the Internal Revenue Service for federal taxes, including Social Security, Medicare and unemployment
- The District also did not submit reports and payments to the State of Washington for unemployment insurance or workers' compensation
- The District did not track or monitor leave accruals, resulting in unsupported ending balances and payouts for the Fire Chief

Cash Receipting

The District did not ensure it accounted for and deposited all public funds in a timely manner. The District received approximately \$5,400, \$9,900, \$900, and \$600 each year from 2017 to 2020, respectively, for basic life support (BLS) and fire protection services. Our review of BLS charges for services provided to Mary M. Knight School District from January 2017 through November 2021 identified the following:

- Eight payments the School District made payable directly to a Commissioner, the Secretary, the Fire Chief and the volunteer Captain, totaling \$2,450, were cashed but not deposited into a Fire District account
- Four payments the School District made payable to the Fire District, issued since August 2019 and totaling \$1,019, had not been deposited
- One payment the School District made payable to the Fire District for \$182 was cashed, but the District could not verify where or when it was deposited

Cause of Condition

As noted in the previous finding, nepotism was part of the reason the District lacked oversight and essential processes. Additionally, the Board did not have policies or controls in place to ensure failures in other parts of the organization did not result in misappropriation or misuse of public resources.

Effect of Condition

Inadequate internal controls over the District's activities and a lack of proper oversight resulted in a misappropriation of public funds that the Board did not

detect. In September 2021, we identified a loss of public funds from payroll, disbursements and credit card activity, as noted under the Related Reports – Special Investigations section of this report.

Additionally, untimely payment of outstanding balances, including payroll withholdings, prevents anyone from having an accurate picture of the District’s financial condition.

Recommendation

The District’s Board of Commissioners, as elected officials, should understand their roles and duties as affirmed in their oath of office, including appointing qualified staff carry out the District’s duties. It is the Board’s responsibility to ensure the District has oversight and adequate controls in place to appropriately manage and safeguard public resources.

We strongly recommend the District’s Board, at a minimum:

- Establish a nepotism policy and adequate controls so that immediate family members do not have the authority to appoint, supervise, discipline or remove other relatives from their District employment absent a compelling business purpose
- Obtain, keep and safeguard sufficient documentation supporting all disbursements, including payroll, to demonstrate expenditures are accurately calculated and allowable. This includes paying employees’ salaries and leave payouts based on the terms of their employment contracts, and tracking leave accrual and usage.
- Verify disbursement and payroll transactions are properly calculated, supported and allowable before approving them for payment
- Train staff responsible for processing payroll on policies and the proper recording of transactions
- Ensure controls are adequate to identify all funds due to the District, and that staff deposit funds into a District account in a timely manner

District’s Response

The Board of Commissioners of Mason County Fire Protection District No. 12 is committed to operating transparently and in full compliance with the law. We appreciate the Auditor’s efforts in identifying areas of improvement in our operations and management and we are implementing measures to address the Auditor’s findings. The District intends to implement all recommendations

contained in the Auditor's report. The Board does respectfully disagree with some of the information presented in the Auditor's report.

Disbursements. *The Board recognizes that it did not provide the Auditor with sufficient documentation of numerous disbursements. Many of the District's records were destroyed by water damage and rodents and the District has taken steps to minimize the potential for future destruction of records. Although the Board did not always provide the documentation requested by the Auditor, the Board believes that the referenced expenditures were appropriate expenditures. The Board is actively working to update its policies and procedures to make sure that all future expenditures are properly documented, reviewed and approved by the Board of Commissioners. The Board will also work to provide staff with better training. The Board is retaining an attorney to assist with an investigation into the specific disbursement issues noted by the Auditor to further document that such expenditures were appropriate.*

Payroll. *The Board recognizes that it did not provide the Auditor with sufficient documentation of numerous payroll expenditures. Many of the District's records were destroyed by water damage and rodents and the District has taken steps to minimize the potential for future destruction of records. Although the Board did not provide the documentation requested by the Auditor, the Board believes that the referenced payroll amounts were appropriate expenditures. The Board is actively working to update its policies and procedures to make sure that all future expenditures are properly documented, reviewed and approved by the Board of Commissioners. The Board is also working to address the IRS and payroll tax issues and will be providing additional education and training for staff to insure future compliance. The Board is also retaining an attorney to assist with an investigation into the specific payroll issues noted by the Auditor to further document that such expenditures are further explained and documented. The District is currently working to bring itself into compliance with reporting to various state agencies for its two employees.*

Cash Receipting. *The School District finance manager was refusing to pay the District directly for the services. The individuals that received the payments were entitled to receive the payments but the District now recognizes that the using the process required by the School District cannot continue. The District is implementing policies and procedures to properly address cash receipts and will instruct the School District to issue all future payments to the Fire District.*

Auditor's Remarks

We appreciate the Board's stated intent to improve. However, we remind the Board it is the duty of elected officials to gain the knowledge necessary to establish appropriate internal controls, such as oversight and review of financial activity, to

safeguard public resources. We re-affirm our finding and will follow up on the District's corrective actions during the next audit.

Applicable Laws and Regulations

The *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."

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.1.3.3, Internal Control

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

Chapter 40.14 RCW, Preservation and destruction of public records

RELATED REPORTS

Special investigations

We issued a report on a misappropriation of public funds at the District. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Mason County Fire Protection District No. 12 is a volunteer organization providing emergency services to the citizens of a district that covers 176 square miles in the South West corner of Mason County and a small portion of Grays Harbor County.

An elected, three-member Board of Commissioners governs the District. The District is funded primarily by property taxes, including a special Emergency Medical Services levy. The District has two employees – the Fire Chief and Secretary, and approximately 10 volunteers.

Contact information related to this report

Address:	Mason County Fire Protection District No. 12 2950 W. Matlock Brady Road. Elma, WA 98541
Contact:	John Pais, Commissioner
Telephone:	(360) 426-0451
Website:	www.mason12.com

Information current as of report publish date.

Audit history

You can find current and past audit reports for Mason County Fire Protection District No. 12 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.

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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.

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