



Washington State Auditor's Office

Troy Kelley

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Accountability Audit Report

**Island County Public Transportation
Benefit Area
(Island Transit)**

For the period January 1, 2013 through December 31, 2013

Published October 27, 2014

Report No. 1012853





Washington State Auditor Troy Kelley

October 27, 2014

Board of Directors
Island Transit
Coupeville, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office 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 Transit operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Transit's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY
STATE AUDITOR

TABLE OF CONTENTS

Audit Summary.....	4
Schedule Of Audit Findings And Responses.....	5
Status Of Prior Audit Findings	9
Related Reports.....	10
Information About The Transit.....	11
About The State Auditor’s Office.....	12

AUDIT SUMMARY

Results in brief

In most areas we audited, Transit operations complied with applicable requirements and provided adequate safeguarding of public resources. The Transit also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Transit could make improvements in payroll.

We recommended the Transit establish internal controls and processes to ensure:

- Salary schedules are reviewed and approved by the Board.
- Adequate oversight and monitoring over the Executive Director's position by the Board, which includes approval of salary, performance evaluations and oversight of leave.
- Compensation time is adequately tracked, monitored and approved per an established policy.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Island Transit from January 1, 2013 through December 31, 2013.

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.

Our audit involved performing procedures to obtain evidence about the Transit's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Open Public Meetings Act
- Financial condition
- Bond covenants
- Payroll and leave
- Take home vehicles
- Fuel card use

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

1. The Transit does not have adequate oversight of payroll to safeguard public resources.

Background

The Transit paid \$5,926,768 and \$5,938,049 in payroll during 2012 and 2013, respectively.

The Transit has a responsibility to ensure disbursements of public funds, including employee wages, are adequately supported, approved and made in accordance with its own policies and procedures.

Description of Condition

The Transit's personnel policy requires the salary schedule for all Transit employees be approved by the Board of Directors. We found no evidence of the Board approving the salary schedule. The only evidence of salary approval is in the budgeting process in departmental lump sum amounts.

The contract between the Transit and the former Executive Director requires the Board to review annually the Executive Director's performance, contract and salary. However, this annual review did not occur. The last documented review was conducted in 1996. The former Executive Director received salary increases approximately every two years without specific Board approval.

We identified a lack of oversight of the former Executive Director's leave usage. The Executive Director was self-approving and self-reporting any leave used to the Payroll Specialist. The former Executive Director's calendar identified the following:

- Attendance at a conference for 16 days in April 2013 when flight records indicate the Director was only in the same city as the conference for four days.
- Vacation for four weeks that spanned July and August of 2013.
- Attendance at a conference for 19 days in September 2013 when flight records indicate the Director was only in the same city as the conference for five days.
- Vacation for three weeks that spanned June and July of 2014.

Despite the above items noted on the former Executive Director's calendar, we identified only six days of leave were deducted from the former Executive Director's leave balances from August 2012 to September 2014.

We also identified that salaried exempt employee's track their own accrual and usage of compensation time, which is time worked beyond the standard 40 hour work week. The Transit does not have a method of tracking this time to ensure its use is accurate.

Cause of Condition

The Board Members did not know about the policy requiring approval of the salary schedule. Also they were not aware of the former Executive Director's contract requirements and did not provide adequate oversight of the former Executive Director's salary, performance or leave usage.

The Transit has not established controls over compensation time accrual and use for exempt employees.

Effect of Condition

Although budgets were created and approved based on salary schedule figures, the Board did not review or approve changes to the salary schedule. Without adequate oversight and monitoring of the salary schedule, the Board is unable to make informed decisions that affect payroll amounts and cannot ensure employee wages are appropriately set based on job classification.

Without adequate oversight and monitoring of the Executive Director position, the Board has not limited pay, adequately evaluated the Executive's performance, and has not had the ability to ensure leave accruals are accurate and not in violation of the constitutional prohibition of extra compensation. Due to the lack of documentation of the former Executive Director's time off and leave use, we were unable to determine if ending leave balances were correct.

The Transit cannot ensure the use of compensation time for salaried exempt employees is appropriate due to the lack of documentation and tracking of this time.

Recommendation

We recommend the Transit establish internal controls and processes to ensure:

- Salary schedules are reviewed and approved by the Board.
- Adequate oversight and monitoring over the Executive Director's position by the Board, which includes approval of salary, performance evaluations and oversight of leave.
- Compensation time is adequately tracked, monitored and approved.

Transit's Response

- 1. Island Transit agrees with the audit recommendation. Island Transit's salary schedule will be reviewed and approved by the Board during the annual budget approval process to ensure adequate oversight and monitoring of employee wages.*
- 2. Island Transit agrees to review the Executive Director's salary, performance evaluation and oversight of leave at the first Board of Director's meeting in November of each year according to Board policy.*
- 3. Island Transit does have a compensation time policy in the Employee Policy Manual, Section 1.4.4 A – Exempt Administration Employees – Compensation Time (Comp Time) that allows for the accrual of compensation time. At the recommendation of the auditor, Island Transit has established a method for exempt employees to track this time to ensure use is accurate.*

Auditor's Remarks

We appreciate the Board's commitment to addressing the audit recommendations. We will review the corrective action taken during our next audit.

Applicable Laws and Regulation

Budgeting, Accounting and Reporting System (BARS) Manual – Part 3, Accounting, Chapter 1, Accounting Principles and Internal Control.

Island Transit Personnel Policies Manual, Section 4.04 – Compensation, states:

The salary schedule for all Island Transit employees shall be implemented and stated by Resolution, as approved by the Board of Directors of Island Transit. The salary schedule shall be made available to Island Transit employees and the public upon request.

It is the policy of Island Transit to pay compensation which is nondiscriminatory. All compensation policy decision must take into consideration Island Transit's overall economic condition and competitive position.

Initially, all new hourly employees will be hired at the starting rate assigned to their job grade. The Executive Director has the authority to place and/or promote employees at the proper wage step depending upon previous experience, job qualifications, or meritorious achievements.

SECTION 25 EXTRA COMPENSATION PROHIBITED. The legislature shall never grant any extra compensation to any public officer, agent, employee, servant, or contractor, after the services shall have been rendered, or the contract entered into, nor shall the

compensation of any public officer be increased or diminished during his term of office. Nothing in this section shall be deemed to prevent increases in pensions after such pensions shall have been granted.

STATUS OF PRIOR AUDIT FINDINGS

The status of findings contained in the prior years' audit reports of the Island Transit is provided below:

1. The Transit did not adequately monitor take home vehicles and fuel card use to ensure they are only used for official purposes.

Report No. 1011059, dated December 30, 2013.

Background

The Transit did not adequately monitor the use of fuel cards or vehicles to ensure they are used only for official purposes. Vehicles assigned to employees for take-home purposes put the Transit at risk for misappropriation. Vehicles belonging to the Transit and assigned to employees as take-home vehicles were not marked as assets of the Transit, as required by RCW 46.08.065.

Status

The condition reported during the 2012 audit is partially resolved. The Transit has marked the vehicles "for official use" and has improved tracking and reporting over vehicle use; however, is still working on increasing controls to ensure actual mileage is compared to vehicle and fuel use.

RELATED REPORTS

Financial

Our opinion on the Transit's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the Transit's financial statements. That report includes a finding regarding how the Transit's financial condition has impacted current service levels and puts it at risk of not being able to meet financial obligations.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Transit's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report. That report includes a federal finding regarding inadequate internal controls to ensure compliance with requirements of the State of Good Repair Grants Program.

INFORMATION ABOUT THE TRANSIT

The Island County Public Transportation Benefit Area, doing business as Island Transit, was established in September 1980 and began transit services on December 1, 1987. The Transit provides public transportation to approximately 4,000 riders daily to Whidbey and Camano Island citizens.

An elected, five-member Board of Directors governs the Transit. The Board is comprised of two representatives from Island County and one representative each from the cities of Oak Harbor and Langley and the town of Coupeville. The Board appoints an Executive Director to oversee the Transit's daily operations as well as its approximately 104 employees. The Transit collected revenue of approximately \$21.4 million in fiscal year 2013.

Contact information related to this report	
Address:	Island Transit 19758 SR 20 Coupeville, WA 98239
Contact:	Bob Clay, Board Chair
Telephone:	(360) 678-7771
Website:	www.islandtransit.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Island Transit at <http://portal.sao.wa.gov/ReportSearch>.

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov