

**Washington State Auditor's Office**  
**Accountability Audit Report**

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**Pierce County Public Transportation  
Benefit Area Authority  
(Pierce Transit)**

Report Date  
**December 17, 2013**

**Report No. 1011130**

Issue Date  
**January 21, 2014**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

January 21, 2014

Board of Commissioners  
Pierce Transit  
Lakewood, Washington

***Report on Accountability***

We appreciate the opportunity to work in cooperation with Pierce Transit to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Pierce Transit's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

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Pierce County  
December 17, 2013**

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# Audit Summary

**Pierce Transit  
Pierce County  
December 17, 2013**

## ***ABOUT THE AUDIT***

This report contains the results of our independent accountability audit of Pierce Transit from January 1, 2012 through December 31, 2012.

We evaluated internal controls and performed audit procedures on the activities of Pierce Transit. We also determined whether Pierce Transit complied with state laws and regulations and its own policies and procedures.

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 noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Travel Expenditures
- Procurement card expenditures
- Open Public Meetings Act

## ***RESULTS***

In most areas, Pierce Transit complied with state laws and regulations and its own policies and procedures.

However, we identified a condition significant enough to report as a finding:

- Pierce Transit awarded additional leave to employees, did not follow transit leave policies, and had inadequate controls over the timekeeping system.

## Related Reports

**Pierce Transit  
Pierce County  
December 17, 2013**

### ***FINANCIAL***

Our opinion on Pierce Transit's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes Pierce Transit's financial statements.

### ***FEDERAL GRANT PROGRAMS***

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for Pierce Transit's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report.

# Description of the Transit

## Pierce Transit Pierce County December 17, 2013

### **ABOUT PIERCE TRANSIT**

Pierce Transit was formed in 1979 when voters passed a .3 percent sales tax to fund public transportation service to Pierce County. In 2002, Pierce County voters approved an increase to the local sales tax support from .3 percent to .6 percent. Pierce Transit operates fixed route, specialized transportation (SHUTTLE) services for the elderly and disabled, and vanpool transportation services.

Pierce Transit is governed by a 10-member Board of Commissioners. The Board is made up of elected officials representing Pierce County, Tacoma, Lakewood, Puyallup, University Place, the smaller towns and cities in the service area and one nonvoting Union Representative. Commissioners serve three-year terms. The Board appoints management to oversee the Transit's daily operations as well as its 875 employees.

During 2012, Pierce Transit's operating revenue totaled more than \$43.8 million. In addition, the Transit received operating subsidies of more than \$65.1 million in sales tax revenue and approximately \$12.7 million in operating and capital grants.

### **ELECTED OFFICIALS**

These officials served during the audit period:

Board of Commissioners:

City of Lakewood	Don Anderson
City of Tacoma	Lauren Walker
Pierce County Executive	Pat McCarthy
Pierce County Councilmember	Tim Farrell
Pierce County Councilmember	Rick Talbert
City of Tacoma Mayor	Marilyn Strickland
City of Fife	Glenn Hull
City of Gig Harbor	Derek Young
City of Tacoma Councilmember	Jake Fey
City of Bonney Lake	Neil Johnson
City of Puyallup	Steve Vermillion
Union Representative	Don McKnight
City of University Place	Kent Keel

### **APPOINTED OFFICIALS**

Chief Executive Officer

Lynne Griffith

## ***PIERCE TRANSIT CONTACT INFORMATION***

Address: Pierce Transit  
3701 96th Street S.W.  
P.O. Box 99070  
Lakewood, WA 98499-0070

Phone: (253) 581-8000

Website: [www.piercetransit.org](http://www.piercetransit.org)

## ***AUDIT HISTORY***

We audit Pierce Transit annually. Pierce Transit received a finding in the 2008 and 2005. These findings have been resolved. Prior to this, Pierce Transit had been free of findings since 1993.

Pierce Transit officials manage operations in a proactive manner. This reflects a commitment to maintaining a strong financial system with sufficient internal controls. In addition, the Transit received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officer's Association for its last several Comprehensive Annual Financial Reports.

# Schedule of Audit Findings and Responses

## Pierce Transit Pierce County January 1, 2012 through December 31, 2012

- 1. Pierce Transit awarded additional leave to employees, did not follow transit leave policies, and had inadequate controls over the timekeeping system.**

### **Background**

Pierce Transit is governed by a 10 member board which consists of elected officials representing 13 jurisdictions, Pierce County and one non-voting union representative. Pierce Transit's Chief Executive Officer (CEO) is appointed by the Board. Eight positions report directly to the CEO, currently two of those positions are vacant. Pierce Transit has undergone several reorganizations during the last few years, thus resulting in changes of the positions which report directly to the CEO. During review of leave types, we found an unknown leave code was used during fiscal years 2012 and 2013. We found this leave code was unsupported and not allowed by Pierce Transit policy.

Pierce Transit's Personnel Manual dated September 2004 allows the accrual of vacation, holiday, and sick leave as well as military leave and leave of absences.

The Washington State Constitution prohibits the awarding of extra compensation.

### **Description of Condition**

Pierce Transit awarded additional leave to employees who directly reported to the CEO in the form of administrative leave and the leave was not approved by the Board. The leave was awarded in offers of employment, CEO memos, employee performance evaluations, offers of promotion and agreements of contract services. We reviewed leave awarded and used in fiscal years 2009, 2010, 2011, 2012 and through May 2013. For the years reviewed, we found the leave was not reported through Pierce Transit's electronic time reporting system for fiscal years 2009, 2010 and 2011. The hours used were maintained and documented by the CEO. This circumvented the controls of the timekeeping system.

Further, we found all employees who used leave during this time certified their timesheet submitted was accurate, although most of the administrative leave was reported as days worked when the employee was not working. In 2012, Pierce Transit created a new administrative leave code which was required to be used when an employee used this leave. The following is the time awarded, used, amount expended and time not reported through the leave system:

Year	Employees Who Used Leave	Leave Used (hours)	Value of Leave
2009	6	352	\$21,407.54*
2010	5	376	\$22,394.62*
2011	5	320	\$16,111.73*
2012	6	596	\$35,894.71
2013	5	381.5	\$24,806.52
	<b>Total</b>	<b>2,025.50</b>	<b>\$120,615.12</b>

\*The hours and amounts were reported and certified as days worked on hard copy time cards maintained by Pierce Transit for years 2009, 2010, and 2011.

### **Cause of Condition**

Pierce Transit did not comply with its policies or the state constitution in the awarding of additional employee leave.

### **Effect of Condition**

Pierce Transit's award of additional leave to select employees during the last five years and the accrual of excess leave provided extra compensation that violated Pierce Transit's policy on maximum compensation leave accruals and the state constitution. During years 2009 through 2012, we found a total of 629 vacation buyback hours for additional compensation was paid in the amount of \$43,757.63.

### **Recommendation**

We recommend Pierce Transit award leave in accordance with established policies and the state constitution.

### **Transit's Response**

*The Pierce County Public Transportation Benefit Area ("Pierce Transit" or the "Agency"), through its Board of Commissioners ("Board") and management, thanks the Washington State Auditor's Office for its expertise and assistance, and wishes to respond to the finding made in this audit. Pierce Transit as an Agency and its CEO have significant enumerated authority regarding compensation to Agency employees. There is precedent in the Agency for the award or use of additional paid leave in excess of the Agency's policies dating as far back as the year 2000. The Auditor is correct to identify that this type of leave has never been formally adopted within the Agency's personnel policies.*

*The Board understands from management that approximately one half of the leave at issue was awarded at the time of offers of employment, and that these days were granted to the respective candidates as part of an overall compensation package. The Agency respectfully notes that the days offered at the time of hire are not in violation of Art. II, Section 25 of the state constitution because the leave granted at the time of offer does not constitute "extra compensation" after services were rendered. However, the Board agrees that the time in question exceeded the leave allowed by the Agency's*

*policies adopted in 2004. The Board will direct management to ensure compliance with the codified personnel policies as may be amended from time to time.*

*The Agency respectfully notes that there was no electronic time keeping system until 2012. Prior to 2012, the Agency's timekeeping system was manual. The Auditor's statement that employees certified their timesheets with days marked as "worked" when they were using the leave that had been granted to them seems to overlook the fact that the leave was monitored in a spreadsheet maintained by the CEO and the Clerk of the Board. In 2012, the Agency implemented additional timekeeping controls by upgrading to an electronic timekeeping system that allows for the tracking of regular employees' leave days (including administrative) and for greater efficiency and transparency.*

*Pierce Transit has made immediate changes to its practices and policies to address the Auditor's concerns. The Board will direct the Agency to issue revised offer letters to those employees who had been granted additional leave at time of hire, and those new offer letters will not provide additional leave beyond Pierce Transit's policies. In order to ensure that express legislative action was taken to reward exemplary performance by non-represented personnel (an important component of retention, morale and loyalty), a reward and recognition program was adopted by the Board on December 9, 2013 in connection with approval of the Agency's classification and compensation system. This program allows for the award of up to five days of administrative leave to non-represented employees upon achievement of certain outstanding specified performance goals. If granted, such administrative days will be tracked using the administrative leave code in the Agency's electronic timekeeping system, have no cash value, and may not be rolled over. The Board understands from management that in the year ahead, the Agency will take a proposal to the Board to update its personnel policy.*

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See, e.g., Op.Atty.Gen.1992, No. 21 (If extra compensation is paid only on condition that public officer or employee performs future services, there is no violation of Art. 2, Sec. 25.)

## **Auditor's Remarks**

We appreciate the Transit's response and commitment to the resolution of this matter and thank the Transit's staff and management for their cooperation and assistance during our audit. We will follow up on these matters in our next audit.

## **Applicable Laws and Regulations**

Washington State Constitution

Article II, Section 25, Extra Compensation Prohibited states:

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.

Pierce Transit Personnel Manual dated September 2004 identifies the following types of paid leave:

6.2 Vacation leave

B. Non-represented employees shall accrue vacation leave by reason of tenure. Increases in the accrual rate shall begin in January of the year in which periods of aggregate service are completed according to the following schedule . . . .

6.3 Sick Leave, With and Without Pay

Accrual. Regular or probationary employees shall accrue sick leave at the rate of 3.6924 hours for each biweekly pay period . . . .

6.4 Leave With Pay – Military, Jury Duty, and Bereavement

6.4.1 Military Leave – every employee of the agency who is a member of the United States armed forces shall be entitled to and shall be granted military leave . . . .



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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