

Washington State Auditor's Office
Accountability Audit Report

**Bainbridge Island Metropolitan Park and
Recreation District
Kitsap County**

Report Date
January 9, 2013

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WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

June 3, 2013

Board of Commissioners
Bainbridge Island Metropolitan Park and Recreation District
Bainbridge Island, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your District 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 Bainbridge Island Metropolitan Park and Recreation District'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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Audit Summary

Bainbridge Island Metropolitan Park and Recreation District Kitsap County January 9, 2013

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Bainbridge Island Metropolitan Park and Recreation District from January 1, 2010 through December 31, 2011.

We evaluated internal controls and performed audit procedures on the activities of the District. We also determined whether the District 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:

- Cash receipting
- Contracts/agreements
- Cash and investment accounts
- Open public meeting minutes
- Payments/expenditures
- Inter-fund transactions/balances
- Payroll/personnel

RESULTS

In most areas, the District complied with state laws and regulations and its own policies and procedures.

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

- The District did not have adequate controls over payroll activities.

Related Reports

**Bainbridge Island Metropolitan Park and Recreation District
Kitsap County
January 9, 2013**

FINANCIAL

Our opinion on the District's financial statements is provided in a separate report, which includes the District's financial statements.

Description of the District

Bainbridge Island Metropolitan Park and Recreation District Kitsap County January 9, 2013

ABOUT THE DISTRICT

The Bainbridge Island Metropolitan Parks and Recreation District serves approximately 23,180 citizens in Kitsap County. The District maintains and operates nearly 1,400 acres of developed and undeveloped park land on Bainbridge Island. The District became a metropolitan park district by voter petition, which passed on September 14, 2004.

An elected, five-member Board of Commissioners governs the District. A Board-appointed Executive Director oversees the District's daily operations and its approximately 125 full- and part-time employees. For fiscal year 2010 and 2011, the District had operating expenditures of approximately \$6.3 and \$6 million, respectively.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:	Paul Bang-Knudson
	Lee Cross
	Kirk Robinson
	Tom Swolgaard
	Ken DeWitt

Note: Jay Kinney replaced Paul Bang-Knudson in July 2011.

APPOINTED OFFICIALS

Executive Director	Terry Lande
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DISTRICT CONTACT INFORMATION

Address:	Bainbridge Island Metropolitan Park and Recreation District P.O. Box 10010 Bainbridge Island, WA 98110
Phone:	(206) 842-2306
Website:	www.biparks.org

AUDIT HISTORY

We audit the District once every two years. This audit includes the first finding for the District since its inception.

Schedule of Audit Findings and Responses

Bainbridge Island Metropolitan Park and Recreation District Kitsap County January 9, 2013

1. The District has unclear policies and inadequate controls over payroll activities resulting in overpayments.

Background

The District employs about 150 full-time, part-time and seasonal employees. The 2010 and 2011 gross payroll expenditures were approximately \$2.8 and \$3 million, respectively. Hourly employees are paid monthly based on handwritten monthly timesheets. Department supervisors collect and approve timesheets and a designated department supervisor enters the hours into the District's payroll system.

Our audit identified that the Park Services Department Supervisor entered payroll data for his son, a Senior Park Aid, from 2007 through 2011. At times, he directly supervised his son between 2007 and 2010 and continued to enter his timesheet information into the District's payroll system during 2011. We identified \$19,134 in unsupported pay to his son from 2007 through 2010 due to missing timesheets. We also noted the son received pay for 65.5 hours more than what was reported on his timesheets during 2011. Because of the District's poor internal controls over payroll we also identified another \$14,806 in unsupported payments to other District employees due to missing timesheets.

Description of Condition

During our audit we reviewed the District's payroll activities and noted the following concerns:

- The Park Services Department monthly timesheets were frequently not signed by the employees and supervisors.
- The Park Services Department Supervisor entered inaccurate payroll data that did not agree to his son's timesheets. In addition, many of his son's timesheets were missing.
- Many additional Park Service Department employee timesheets were missing dating back to 2008.
- Monthly payroll data was not verified to ensure it was entered accurately or supported.

Cause of Condition

The District does not have clear policies and procedures over payroll. In addition, supervisors did not ensure timesheets were properly filled out or retained. A final review was not performed to ensure data entered agreed with approved timesheets.

Effect of Condition

Inadequate internal controls increase the risk of loss of public funds and impair the District's ability to prevent or detect errors and irregularities in a timely manner, if at all.

The 2007 to 2011 payroll activity for the Park Services Department supervisor's son had the following issues:

- Paid for 49.5 hours, valued at \$640, due to the son listing more hours on the timesheet total than what the detailed hours added up to.
- Paid for 16 hours, valued at \$207, due to the Park Services Supervisor entering more hours into the payroll system than were listed on the timesheet.
- Paid an additional \$747 in July 2011 when the hourly rate paid was greater than the approved rate which started July 1, 2011.
- Paid an additional \$667 in October 2011 due to an increase in hourly pay which had no documentation or approval.
- On two dates the hours on the timesheet had been altered from a dash to an eight, but we could not determine when these were altered so we could not confirm a loss occurred.
- Only five of 23 timesheets were approved by both the employee and supervisor.
- Thirteen of 23 timesheets were missing between 2007 and 2010, resulting in unsupported pay of at least \$19,134.

We interviewed the Park Services Supervisor and son and they could not explain why additional hours were paid but not listed on the timesheets. They both stated the son would receive a higher pay rate when working on a project requiring a special skill set. We were unable to locate any documentation to show approval from District management or what the son was working on during the time periods in question.

Other Park Services Department hourly employees' payroll activity had the following issues:

- Ten of 16 timesheets were missing for two employees between 2009 and 2011, resulting in unsupported pay of at least \$14,806.
- The District could not find any department hourly employee timesheets for 2008.

Recommendation

We recommend the District:

- Develop clear policies and procedures over payroll.
- Train staff and ensure a knowledgeable employee is reviewing the payroll data for accuracy and requiring appropriate supporting documentation.
- Ensure supervisors properly review and authorize employee timesheets.
- Retain timesheets for audit in accordance with record retention requirements.

We will refer this case to the Kitsap County Prosecutor's Office for any further action it determines is necessary.

We recommend the District seek recovery of the \$2,261 and investigation costs of \$2,250 from the Senior Park Aid. Any compromise or settlement of this claim by the District must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Sharon Payant is the contact person for the Attorney General's Office and can be reached at (360) 586-1912 or sharonp1@atg.wa.gov. The contact for the State Auditor's Office is Jan Jutte, Deputy Director of State and Local Audit, who can be reached at (360) 902-0363 or jan.jutte@sao.wa.gov.

District's Response

The District takes this issue very seriously and will work with the Auditor's Office to address every aspect of concern. Internal Controls have already been put in place to help eradicate potential fraud and errors to include the following:

- *Establishment of a payroll committee to develop and improve the personnel policies relating to payroll as well as payroll procedures. In the meantime payroll has been centralized and is now completed only by the accounting personnel.*
- *The Districts now requires that all time sheets are reviewed by trained accounting personnel after review and approval by the supervisors. The accounting personnel are the only employees allowed to enter time in the payroll system and only after the timesheets have been reviewed for accuracy.*
- *The District requires that all timesheets are reviewed and signed by Supervisors prior to any employee being paid.*
- *The District now requires that all timesheets are turned in monthly and held according to the record retention policies*
- *The District will make efforts to recover the amounts recommended by the State Auditor's Office and will provide any needed assistance to the Prosecuting Attorney's Office.*

Auditor's Remarks

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

Applicable Laws and Regulation

RCW 43.09.200, Local government accounting – Uniform System of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate*

responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

Washington State Archives – Local Government Common Records Retention Schedule (CORE) – 3.6, Payroll, GS50-03E-04 Time cards/Time sheets, states in part:

If used for retirement verification – 60 years. If NOT used for retirement verification – 4 years. Time records subject to federal audit should be retained per federal requirements.



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.

Our mission is to 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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