



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Grays Harbor Transportation Authority

(Grays Harbor Transit)

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

Published September 12, 2022

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

September 12, 2022

Board of Directors
Grays Harbor Transit
Hoquiam, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Grays Harbor Transit's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Authority's financial condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Grays Harbor Transit January 1, 2021 through December 31, 2021

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Grays Harbor Transit are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the Authority’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Authority.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Authority’s compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.509	Formula Grants for Rural Areas and Tribal Transit Program
20.509	COVID-19 – Formula Grants for Rural Areas and Tribal Transit Program
20.526	Federal Transit Cluster – Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Authority did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Findings 2021-001 and 2021-002.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Grays Harbor Transit January 1, 2021 through December 31, 2021

2021-001 The Transit's internal controls were inadequate for ensuring compliance with federal procurement requirements.

CFDA Number and Title:	20.509 – Formula Grants for Rural Areas and Tribal Transit Program 20.509 – COVID-19 – Formula Grants for Rural Areas and Tribal Transit Program
Federal Grantor Name:	Federal Transit Administration
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Transportation
Pass-through Award/Contract Number:	PTD0141, & PTD0232
Questioned Cost Amount:	N/A

Background

The Transit spent \$5,397,221 in grant funds from the Formula Grants for Rural Areas and Tribal Transit Program during fiscal year 2021. The objective of this program is to initiate, improve, or continue public transportation service in rural areas by providing financial assistance for operating, planning, administrative expenses, and the acquisition, construction, and improvement of facilities and equipment. Additionally, the program provides support for rural intercity bus service and additional funding for training, technical assistance, research and related support services for rural transit service.

Federal regulations require federal award recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Federal regulations require recipients to follow their own documented procurement procedures, which must conform to the Uniform Guidance procurement standards found in 2 CFR § 200.318-327. The procedures must reflect the most restrictive of

applicable federal requirements, state laws or local policies. When using federal funds to purchase goods or services, governments must apply the more restrictive of federal requirements, state law or local policies by obtaining quotes or following a competitive bidding process, depending on the purchase amount.

For purchases of goods and services of \$250,000 or more, the Transit's policy requires either a formal or competitive bidding process. Purchases of goods and services of \$250,000 also require a cost or price analysis to be completed.

Additionally, state and federal requirements, as well as the Transit's policy, allow it to bypass normal procurement laws through a process commonly referred to as "piggybacking." This process allows entities to purchase goods and services using contracts awarded by another government or group of governments via an agreement or cooperative. To comply with piggybacking law, the entity must enter into an agreement before it purchases services or goods from the other entity's bid contract. If the Transit uses such an agreement, federal regulations require it to confirm the awarding entity followed all procurement laws and regulations applicable to the Transit when selecting the contractor.

Description of Condition

We found the Transit's procurement policy conforms to the Uniform Guidance, and it has controls in place over procurement. However, the controls were ineffective for ensuring compliance with all applicable requirements. The Transit did not follow its policy and perform competitive procurement procedures, nor did it establish an interlocal agreement to piggyback on another entity's contract before using \$842,025 in program funds to purchase two buses for approximately \$1 million. In addition, the Transit did not review the other entity's procurement documentation to ensure it followed competitive procurement procedures, nor did the Transit complete a cost or price analysis to ensure the bus prices were reasonable. Therefore, the Transit did not comply with all of the applicable federal procurement requirements.

We consider these internal control deficiencies to be a material weakness, which led to material noncompliance.

This issue was not reported as a finding in the prior audit.

Cause of Condition

The Transit has historically received federal funding to purchase buses, and management has been intentional about having controls in place over procurement to ensure compliance with all applicable requirements. The state agency contract from which the Transit historically purchases buses did not procure a contract in

2021. As a result, the Transit purchased buses from another entity's contract, and Transit employees were not aware they needed to establish an interlocal agreement with that entity before purchasing, as state law requires. Additionally, employees did not know they needed to review support to ensure the other entity followed competitive procurement procedures, or that the Transit needed to complete a cost or price analysis.

Effect of Condition

Without effective internal controls over procurement and piggybacking procedures, the Transit risks not being able to demonstrate compliance with applicable federal procurement requirements. However, since the purchases were allowable under the federal program, we are not questioning costs.

Recommendation

We recommend the Transit strengthen its internal controls to ensure it complies with applicable procurement requirements for purchases of goods and services. This should include ensuring staff understand and follow Transit policy for all procurement activities.

Authority's Response

During the 2020-2021 time frame the state of Washington Department of Enterprise Services did not have a master contract in place for the purchase of heavy-duty coaches (buses). Approximately a dozen state of Washington transit agencies were directed by WSDOT to utilize the Commonwealth of Virginia master procurement document that WSDOT had reviewed and verified that it met the most restrictive condition as required by the state of Washington.

GHT utilized this procurement process twice during this time frame to purchase a total of seven (7) heavy-duty coaches which were delivered in 2021. Both orders to Gillig LLC went through the WSDOT review and approval prior to GHT signing and submitting a purchase order.

During this process GHT, as well as the other transit agencies, relied on DES and WSDOT for the verification actions as this was presented as an option to the state not having a contract. However, one step that was not mentioned by WSDOT or DES was the need for an interlocal agreement with the Commonwealth of Virginia.

Upon this determination, GHT has obtained and reviewed copies of the Virginia procurement process and has requested an interlocal agreement with the Commonwealth of Virginia covering these two procurements.

As a remediation, the GHT Purchasing Policy will be updated to include clearer instructions on all of the steps necessary to ensure that if and when GHT utilizes any out of state contracts or purchasing agreements that GHT will ensure that all documentation is received and reviewed prior to placing an order with an eligible vendor.

Auditor's Remarks

We thank the Transit for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during the next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, Section 318, General procurement standards, allows governments to foster great economy and efficiency by entering into state and local agreements for procurement or use of common or shared goods and services, provided governments maintain documentation demonstrating competition requirements are met.

Title 2 CFR Part 200, Uniform Guidance, Section 319 – Competition, establishes all procurement transactions are to be conducted in a manner providing full and open competition.

Title 2 CFR Part 200, Uniform Guidance, Section 320 – Methods of procurement to be followed, describes each allowable procurement method.

Title 2 CFR Part 200, Uniform Guidance, Section 324 – Contract cost and price, establishes requirement of a cost or price analysis.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Grays Harbor Transit January 1, 2021 through December 31, 2021

2021-002 The Transit's internal controls were inadequate for ensuring compliance with federal procurement requirements.

CFDA Number and Title:	20.526 – Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs
Federal Grantor Name:	Federal Transit Administration
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Transportation
Pass-through Award/Contract Number:	PTD0427
Questioned Cost Amount:	N/A

Background

The Transit spent \$2 million in grant funds for the Bus and Bus Facilities Formula & Discretionary Programs portion of the Federal Transit Grant Cluster during fiscal year 2021. The objective of this program is provide financial assistance to replace, rehabilitate, and purchase buses and related equipment, as well as construct bus-related facilities through both formula and competitive selection procedures.

Federal regulations require federal award recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Federal regulations require recipients to follow their own documented procurement procedures, which must conform to the Uniform Guidance procurement standards found in 2 CFR § 200.318-327. The procedures must reflect the most restrictive of applicable federal requirements, state laws or local policies. When using federal funds to purchase goods or services, governments must apply the more restrictive of federal requirements, state law or local policies by obtaining quotes or following a competitive bidding process, depending on the purchase amount. For purchases of goods and services of \$250,000 or more, the Transit's policy require either a

formal or competitive bidding process. Purchases of goods and services of \$250,000 also require a cost or price analysis to be completed.

Additionally, state and federal requirements, as well as the Transit's policy, allow it to bypass normal procurement laws through a process commonly referred to as "piggybacking." This process allows entities to purchase goods and services using contracts awarded by another government or group of governments via an agreement or cooperative. To comply with piggybacking law, the entity must enter into an agreement before it purchases services or goods from the other entity's bid contract. If the Transit uses such an agreement, federal regulations require it to confirm the awarding entity followed all procurement laws and regulations applicable to the Transit when selecting the contractor.

Description of Condition

We found the Transit's procurement policy conforms to the Uniform Guidance, and it has controls in place over procurement. However, the controls were ineffective for ensuring compliance with all applicable requirements. The Transit did not follow its policy and perform competitive procurement procedures, nor did it establish an interlocal agreement to piggyback on another entity's contract before using \$2 million in program funds to purchase five buses for approximately \$2.6 million. In addition, the Transit did not review the other entity's procurement documentation to ensure it followed competitive procurement procedures, nor did the Transit complete a cost or price analysis to ensure the bus prices were reasonable. Therefore, the Transit did not comply with all of the applicable federal procurement requirements.

We consider these internal control deficiencies to be a material weakness, which led to material noncompliance.

This issue was not reported as a finding in the prior audit.

Cause of Condition

The Transit has historically received federal funding to purchase buses, and management has been intentional about having controls in place over procurement to ensure compliance with all applicable requirements. The state agency contract from which the Transit historically purchases buses did not procure a contract in 2021. As a result, the Transit purchased buses from another entity's contract, and Transit employees were not aware they needed to establish an interlocal agreement with that entity before purchasing, as state law requires. Additionally, employees were not aware they needed to review support to ensure the other entity followed

competitive procurement procedures, or that the Transit needed to complete a cost or price analysis.

Effect of Condition

Without effective internal controls over procurement and piggybacking procedures, the Transit risks not being able to demonstrate compliance with applicable federal procurement requirements. However, since the purchases were allowable under the federal program, we are not questioning costs.

Recommendation

We recommend the Transit strengthen its internal controls to ensure it complies with applicable procurement requirements for purchases of goods and services. This should include ensuring staff understand and follow Transit policy for all procurement activities.

Authority's Response

During the 2020-2021 time frame the state of Washington Department of Enterprise Services did not have a master contract in place for the purchase of heavy-duty coaches (buses). Approximately a dozen state of Washington transit agencies were directed by WSDOT to utilize the Commonwealth of Virginia master procurement document that WSDOT had reviewed and verified that it met the most restrictive condition as required by the state of Washington.

GHT utilized this procurement process twice during this time frame to purchase a total of seven (7) heavy-duty coaches which were delivered in 2021. Both orders to Gillig LLC went through the WSDOT review and approval prior to GHT signing and submitting a purchase order.

During this process GHT, as well as the other transit agencies, relied on DES and WSDOT for the verification actions as this was presented as an option to the state not having a contract. However, one step that was not mentioned by WSDOT or DES was the need for an interlocal agreement with the Commonwealth of Virginia.

Upon this determination, GHT has obtained and reviewed copies of the Virginia procurement process and has requested an interlocal agreement with the Commonwealth of Virginia covering these two procurements.

As a remediation, the GHT Purchasing Policy will be updated to include clearer instructions on all of the steps necessary to ensure that if and when GHT utilizes any out of state contracts or purchasing agreements that GHT will ensure that all documentation is received and reviewed prior to placing an order with an eligible vendor.

Auditor's Remarks

We thank the Transit for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during the next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

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Title 2 CFR Part 200, Uniform Guidance, Section 320 — Methods of procurement to be followed, describes each allowable procurement method.

Title 2 CFR Part 200, Uniform Guidance, Section 324 — Contract cost and price, establishes requirement of a cost or price analysis.

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Grays Harbor Transit January 1, 2021 through December 31, 2021

Board of Directors
Grays Harbor Transit
Hoquiam, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Grays Harbor Transit, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated September 6, 2022.

We issued an unmodified opinion on the fair presentation of the Authority's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Authority using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

September 6, 2022

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Grays Harbor Transit January 1, 2021 through December 31, 2021

Board of Directors
Grays Harbor Transit
Hoquiam, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Grays Harbor Transit, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2021. The Authority's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2021-001 and 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Authority's Response to Findings

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of

compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2021-001 and 2021-002 to be material weaknesses.

Authority's Response to Findings

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

September 6, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Grays Harbor Transit January 1, 2021 through December 31, 2021

Board of Directors
Grays Harbor Transit
Hoquiam, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of Grays Harbor Transit, as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Authority has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of Grays Harbor Transit, and its changes in cash and investments, for the year ended December 31, 2021, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Grays Harbor Transit, as of December 31, 2021, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the Authority in accordance with state law using accounting practices prescribed by the BARS manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute

assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been

subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2022 on our consideration of the Authority's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

September 6, 2022

FINANCIAL SECTION

Grays Harbor Transit January 1, 2021 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Notes to Financial Statements – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Expenditures of Federal Awards – 2021
Notes to the Schedule of Expenditures of Federal Awards – 2021

Grays Harbor Transportation Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

Beginning Cash and Investments

308	Beginning Cash and Investments	13,818,740
388 / 588	Net Adjustments	-

Revenues

310	Taxes	11,388,221
320	Licenses and Permits	-
330	Intergovernmental Revenues	4,766,882
340	Charges for Goods and Services	208,121
350	Fines and Penalties	-
360	Miscellaneous Revenues	105,333
Total Revenues:		16,468,557

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	9,004,563
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		9,004,563
Excess (Deficiency) Revenues over Expenditures:		7,463,994

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	6,807
Total Other Increases in Fund Resources:		6,807

Other Decreases in Fund Resources

594-595	Capital Expenditures	4,983,748
591-593, 599	Debt Service	94,214
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		5,077,962

Increase (Decrease) in Cash and Investments: 2,392,839

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	16,211,579
50891	Unassigned	-
Total Ending Cash and Investments		16,211,579

GRAYS HARBOR TRANSPORTATION AUTHORITY
D.B.A. GRAYS HARBOR TRANSIT
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2021 THROUGH DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Grays Harbor Transportation Authority was incorporated in June 1974 and operates under the laws of the state of Washington applicable to a transportation authority entity. Grays Harbor Transportation Authority, as a public transit agency, provides accessible public transportation throughout Grays Harbor County, with regional connections to adjacent counties.

The Grays Harbor Transportation Authority reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are being reported on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The Schedule of Liabilities is required to be presented with the financial statements as Supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classification defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenses are recognized when paid.

In accordance with state law Grays Harbor Transit also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budget Compliance

See Note 2 – Budget Compliance

D. Cash and Investments

See Note 3, Deposits and Investments.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The authority records unpaid leave for compensated absences as an expense and liability when incurred.

All employees who work at least 80 hours per month accumulate sick leave at a rate of 8 hours per month. Employees are not permitted to accumulate in excess 1,296 hours. Sick leave is expensed as it is used.

Upon separation of employment, under non-disciplinary circumstances and with at least five (5) years of employment with employer; each employee shall be paid for all accumulated sick leave at the following rates.

Accrued Sick Leave	Cash out rate
0 to 900	1 to 3 for hours 1 to 900
901 to 1296	1 to 2 for hours 1 to 1296

The following is a recap of the vacation policies covering union and non-union employees:

UNION		NON-UNION	
Years of Service	Annual Vacation Hours	Years of Service	Annual Vacation Hours
1	40	1	96
2	80	2	104
3-6	120	3	112
7-9	144	4-9	120
10-14	160	10-14	144
15+	216	15-19	192
20	240	20-24	240
		25	280

Employees are not permitted to carry past their anniversary date (hire date) more than one-half of the current years' accrual. Total accrued vacation leave is limited to a maximum of 33 days (264 hours). Vacation leave is paid at a rate equal to the rate of pay at the time the leave is taken, not the rate of pay at the time the vacation is accrued.

G. Long-Term Debt

See Note 4, Long-Term Debt Requirements.

H. Risk Management

See Note 7, Risk Management

NOTE 2- BUDGET COMPLIANCE

Grays Harbor Transit adopts an annual appropriated budget. This budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures at the level. Annual appropriations for this fund lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriation and actual expenditures for the year ended December 31, 2021 are as follows:

<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
\$ 17,746,986	\$ 14,082,525	\$ 3,664,461

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Grays Harbor Transportation Authority Board.

NOTE 3- DEPOSITS AND INVESTMENTS

Investments are reported at original cost. Deposits and investments by type at December 31, 2021 are as follows:

<u>Type of Deposit or Investment</u>	
Bank deposits	\$ 68,936
County Treasurer deposits	2,536,300
Local Government Investment Pool	13,606,343
	<u>\$ 16,211,579</u>

It is Grays Harbor Transit's policy to invest all temporary cash surpluses.

Investments in the State Local Government Investment Pool (LGIP)

Grays Harbor Transit is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, Grays Harbor Transit would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. Grays Harbor Transit's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the Grays Harbor County Treasurer or its agent in the Grays Harbor Transit's name.

NOTE 4 – LONG-TERM DEBT REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities for the transit and summarizes the transits debt transactions for the year ended December 31, 2021.

The debt service requirements for the leased copier and building are as follows:

Asset	
Communication Site Lease	\$ 63,878
Sharp MX - 5050 Digital Copier	\$ 5,140
Administration Building Lease	\$ 345,800
Less Current Year Lease Payments	100,555
Total	<u>\$ 314,263</u>

Year Ending December 31

	2021	314,263
Total	\$	<u>314,263</u>

NOTE 5- PENSION PLANS

State Sponsored Pension Plans

Substantially all full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans, PERS 1, and PERS 2/3.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98540-8380

Also, the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2021 the Transit's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

Plan	Employer Contributions	Allocation Percentage	Liability (Asset)
PERS 1	\$ 209,006	0.028059%	\$ 342,666
PERS 2/3	341,898	0.036093%	(3,595,444)
	<u>\$ 550,904</u>		<u>\$ (3,252,778)</u>

Defined Contribution Pension Plans

Grays Harbor Transportation Authority Choose to enroll in a Deferred compensation 457b plan administered by Nationwide Retirement Solutions and Deferred Compensation Program (DCP) administered by Washington State Department of Retirement Systems that provides optional retirement savings. Traditional 457b plan (pre-tax) and Designated Roth (after-tax) options are available. Grays Harbor Transportation Authority will match the amount applicable as negotiated in an employment contract and withhold from the employee's paycheck monthly deductions authorized by the employee. Under the current employment contract Grays Harbor Transportation Authority agrees to match an employee's pre-taxed deferred compensation contribution 100% up to a maximum of five percent of the annual salary. Grays Harbor Transportation Authority contributed \$6,518 to the plans for the year ended December 31, 2021.

NOTE 6 – OPEB PLANS

During the year ended December 31, 2021 Grays Harbor Transit adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.

Grays Harbor Transportation Authority is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. Grays Harbor Transportation Authority had 92 active plan members and 34 retired plan members as of December 31, 2021. As of December 31, 2021, Grays Harbor Transportation Authority's total OPEB liability was \$6,391,899 calculated using the alternative measurement method tool provided by SAO. Grays Harbor Transportation Authority contributed \$1,180,473 to the plan for the year ended December 31, 2021.

NOTE 7 - RISK MANAGEMENT

Grays Harbor Transportation Authority is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25-member governmental risk pool located in Olympia, Washington. WSTIP supplies Grays Harbor Transportation Authority auto liability, general liability, public officials liability coverage, auto liability, general liability, public official's liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2021, Grays Harbor Transportation Authority retained a \$25 Million for its all-risk property coverage which includes auto physical damage. Grays Harbor Transportation Authority has a \$5,000 deductible for public official's liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

WSTIP was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months. Members may withdraw after that time by giving six-month's written notice and at the end of the fiscal year. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

Transit authorities applying for membership in WSTIP may do so on approval of a simple majority vote of the WSTIP Board of Directors. Underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If WSTIP's assets were to be exhausted, members would be responsible for WSTIP's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Government Entities Mutual, Munich Reinsurance of America, Hallmark Specialty Insurance Company, and Allied World Assurance Company for the liability lines; Evanston for auto physical damage; American International Group Inc (AIG)/National Union Fire Insurance for the crime policy; and Beazley Cyber Services for the cyber liability policy. The excess property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

Grays Harbor Transportation Authority has not presented any claims to WSTIP in the last year that exceeded its current coverage limits through WSTIP.

Here is a summary of coverage provided in 2021:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$25 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$25 million	Per offense	\$0
Contractual liability	\$25 million	Per occurrence	\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage (by mode)	\$60,000	Per occurrence	\$0 ¹
Permissive Use of a Member-Owned Motor Vehicle	\$100,000 for property damage and \$300,000 for bodily injury	Per occurrence	\$0

¹ Each member selects the modes which uninsured motorist coverage is applied to. To review your selection of UIM, please refer to Exhibit attached.

Endorsement 1: COMMUNICABLE DISEASE LIABILITY:	\$500,000	Per occurrence	\$0
Annual aggregate for all Members or Additional Covered Parties	\$2 million		
PUBLIC OFFICIALS LIABILITY	\$25 million	Per occurrence and aggregate	\$5,000
Endorsement 1: VIOLATIONS OF WAGE & HOUR LAWS	\$250,000	Per occurrence	\$25,000
Annual aggregate per Member	\$250,000		
PROPERTY COVERAGE All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$5,000
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$25 million	Per occurrence, annual aggregate	5% subject to \$500,000 minimum per occurrence per unit
AUTO PHYSICAL DAMAGE Auto Physical Damage (below \$250,000 in value)	Fair market value		\$5,000
Auto Physical Damage for all vehicles with a model year of 2011 or later and valued over \$250,000	Replacement Cost	Limited to \$1.5 million any one vehicle	\$5,000
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Inside the premises – theft of money and securities	\$1 million	Per occurrence	\$10,000

Inside the premises – robbery or safe burglary of other property	\$1 million	Per occurrence	\$10,000
Outside premises	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000

CYBER LIABILITY INSURANCE		Coverage	Deductible
Annual Policy and Program Aggregate Limit of Liability for all policy holders (not just WSTIP members)	\$40 million		
Insured/Member Annual Aggregate Limit of Liability	\$2 million		\$5,000
BREACH RESPONSE COSTS	\$500,000	Aggregate for each insured/member (limit is increased to \$1 million if Beazley Nominated Service Providers are used)	
FIRST PARTY LOSS			
Business Interruption			
<i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$500,000	Aggregate limit	
Dependent Business Loss			
<i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$100,000	Aggregate limit	
Cyber Extortion Loss	\$750,000	Aggregate limit	
Data Recovery Costs	\$750,000	Aggregate limit	
LIABILITY			
Data & Network Liability	\$2 million	Aggregate limit	
Regulatory defense and penalties	\$2 million	Aggregate limit	
Payment Card Liabilities & Costs	\$2 million	Aggregate limit	
Media Liability	\$2 million	Aggregate limit	
eCRIME			
Fraudulent Instruction	\$75,000	Aggregate limit	
Funds Transfer Fraud	\$75,000	Aggregate limit	
Telephone Fraud	\$75,000	Aggregate limit	
CRIMINAL REWARD	\$25,000	Limit	
COVERAGE ENDORSEMENTS			
Reputation Loss	\$100,000	Limit of Liability	

Claims Preparation Costs for Reputation Loss Claims Only	\$50,000	Limit of Liability	
Computer Hardware Replacement Costs	\$100,000	Limit of Liability	
Invoice Manipulation	\$100,000	Limit of Liability	
Cryptojacking	\$25,000	Limit of Liability	

Underground Storage Tank – Pollution Liability Insurance Policy

Grays Harbor Transportation Authority purchases an Underground Storage Tank – Pollution Liability insurance policy. The policy term is October 1 and renews annually. The carrier for the 2020-2021 policy term was Great American. The carrier for the 2021-2022 policy term is Great American. Insurance provisions on each policy was essentially the same. The insuring agreement has coverage parts for bodily injury and property damage liability, government mandated cleanup costs liability, and defense and claims handling expenses. The limit of coverage is \$1 million per environmental incident with a \$1 million aggregate and a \$500,000 limit on defense per environmental incident. Grays Harbor Transportation Authority has a \$25,000 deductible per environmental incident. Tanks must be listed to be covered.

Covered Locations Pollution Liability Insurance Policy

Grays Harbor Transportation Authority purchases a Covered Locations Pollution Liability insurance policy. The policy term is from April 4, 2021 to April 4, 2024. The carrier is Beazley Eclipse. The insuring agreement has coverage parts for covered location pollution liability coverage – new pollution conditions, covered location pollution liability coverage – existing pollution conditions, transportation pollution liability, and non-owned disposal site pollution liability. The policy covers cleanup costs, damages, and claims expenses. The limit of coverage is \$5 million each pollution condition – includes claims expenses with a \$5 million aggregate including claims expenses. Grays Harbor Transportation Authority has a \$100,000 deductible per pollution condition. Locations must be listed to be covered.

NOTE 8 – CONTINGENCIES AND LITIGATION

In the opinion of management, the Grays Harbor Transportation Authority's insurance policies are adequate to pay all known or pending claims.

NOTE 9 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures include included limitations on business operations, public events, gatherings, travel, and in-person interactions.

Grays Harbor Transportation Authority's Board approved to transition to a fare-free system in Grays Harbor County in August 2021 through December 2022, for social distancing and restoring the loss of ridership from the pandemic. Management expects a material financial impact in the loss of fares in 2021.

The national COVID-19 Pandemic as of the report date:

Grays Harbor Transportation Authority continues to respond to the COVID-19 pandemic as an essential service to our community. We have taken the following actions as part of our response:

- Pandemic Response Guide & Transit COVID Safety Plan Approval
- Additional COVID Vaccination Leave
- Transition to a fare-free system in Grays Harbor County in August 2021 through December 2022

- Hand sanitizer dispensers were purchased and installed in all the buses
- Encouraged riders to practice safe social distancing on the bus and at all facilities
- Installed Plexiglass barriers on all vehicles to reinstate the collection of fares
- We updated filtration and ventilation systems on all buses
- Additional staff has been exclusively assigned to sanitize vehicles throughout the day
- Each bus is stocked with masks, gloves, hand sanitizer, and disinfection wipes that allow an operator to sanitize high-touch areas.
- Personal protective equipment, consistent with public health officials' recommendations, continues to be provided to all employees
- Engaged many staff to work remotely when possible
- Supplemental Leave Authorization for those impacted directly by COVID-19
- Established a COVID-19 Vaccination leave in 2021

Potential future actions / consequences subsequent to the report date:

- Continue to have several employees on Stand-By Status
- 2021 sales tax receipts ended with a 19% increase over 2020 sales tax revenue, and has continued to see an increase through January 2022.
- Utilized federal CARES funds for operations

Grays Harbor Transportation Authority is making these changes and taking these actions to maintain service at sustainable levels to our community and the region.

The length of time these measures will continue to be in place, and the full extent of the financial impact on Grays Harbor Transportation Authority is unknown at this time.

**Grays Harbor Transportation Authority
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.51	Communication Site Lease	12/31/2025	-	63,878	12,398	51,480
263.51	Building Lease	12/31/2025	345,800	-	86,450	259,350
263.51	Sharp MX-5050 Copier	8/1/2023	5,140	-	1,707	3,433
Total General Obligation Debt/Liabilities:			350,940	63,878	100,555	314,263
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension		1,629,131	-	1,286,465	342,666
259.12	Compensated Absences		650,355	-	52,993	597,362
264.40	OPEB		6,786,061	-	394,162	6,391,899
Total Revenue and Other (non G.O.) Debt/Liabilities:			9,065,547	-	1,733,620	7,331,927
Total Liabilities:			9,416,487	63,878	1,834,175	7,646,190

Grays Harbor Transportation Authority
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0141	842,025	-	842,025	-	1,2&3
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	COVID 19 - Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0232	4,555,196	-	4,555,196	-	1,2 & 3
		Total CFDA 20.509:		5,397,221	-	5,397,221	-	
Federal Transit Cluster								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	PTD0427	2,000,000	-	2,000,000	-	1,2 & 3
		Total Federal Transit Cluster:		2,000,000	-	2,000,000	-	
		Total Federal Awards Expended:		7,397,221	-	7,397,221	-	

GRAYS HARBOR TRANSPORTATION AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JANUARY 1, 2021 THRU DECEMBER 31, 2021

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the transit's financial statements. The transit uses the cash basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only federal portion of the program costs. Actual program costs, including the transit's portion, may be more than shown.

NOTE 3 – INDIRECT COST RATE

The amount expended includes \$ 0 claimed as an indirect cost.
Grays Harbor Transportation Authority has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



705 30th Street
Hoquiam, WA 98550
Phone: (360) 532-2770 Fax: (360) 532-2784
www.ghtransit.com

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

**Grays Harbor Transit
January 1, 2021 through December 31, 2021**

This schedule presents the corrective action planned by the Authority for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2021-001	Finding caption: The Transit's internal controls were inadequate for ensuring compliance with federal procurement requirements.
Nam30the, address, and telephone of Authority contact person: Jean Braaten, Accounting Manager 705 30th Street Hoquiam, WA 98550-4237 (360) 532-2770	
Corrective action the auditee plans to take in response to the finding: <i>During the 2020-2021 time frame the state of Washington Department of Enterprise Services did not have a master contract in place for the purchase of heavy-duty coaches (buses). Approximately a dozen state of Washington transit agencies were directed by WSDOT to utilize the Commonwealth of Virginia master procurement document that WSDOT had reviewed and verified that it met the most restrictive condition as required by the state of Washington. GHT utilized this procurement process twice during this time frame to purchase a total of seven (7) heavy-duty coaches which were delivered in 2021. Both orders to Gillig LLC went through the WSDOT review and approval prior to GHT signing and submitting a purchase order.</i>	

During this process GHT, as well as the other transit agencies, relied on DES and WSDOT for the verification actions as this was presented as an option to the state not having a contract. However, one step that was not mentioned by WSDOT or DES was the need for an interlocal agreement with the Commonwealth of Virginia.

Upon this determination, GHT has obtained and reviewed copies of the Virginia procurement process and has requested an interlocal agreement with the Commonwealth of Virginia covering these two procurements.

As a remediation, the GHT Purchasing Policy will be updated to include clearer instructions on all of the steps necessary to ensure that if and when GHT utilizes any out of state contracts or purchasing agreements that GHT will ensure that all documentation is received and reviewed prior to placing an order with an eligible vendor.

Anticipated date to complete the corrective action: November 2022

Finding ref number: 2021-002	Finding caption: The Transit's internal controls were inadequate for ensuring compliance with federal procurement requirements.
Name, address, and telephone of Authority contact person: Jean Braaten, Accounting Manager 705 30th Street Hoquiam, WA 98550-4237 (360) 532-2770	
Corrective action the auditee plans to take in response to the finding: <i>During the 2020-2021 time frame the state of Washington Department of Enterprise Services did not have a master contract in place for the purchase of heavy-duty coaches (buses). Approximately a dozen state of Washington transit agencies were directed by WSDOT to utilize the Commonwealth of Virginia master procurement document that WSDOT had reviewed and verified that it met the most restrictive condition as required by the state of Washington.</i> <i>GHT utilized this procurement process twice during this time frame to purchase a total of seven (7) heavy-duty coaches which were delivered in 2021. Both orders to Gillig LLC went through the WSDOT review and approval prior to GHT signing and submitting a purchase order.</i> <i>During this process GHT, as well as the other transit agencies, relied on DES and WSDOT for the verification actions as this was presented as an option to the state not having a contract. However, one step that was not mentioned by WSDOT or DES was the need for an interlocal agreement with the Commonwealth of Virginia.</i> <i>Upon this determination, GHT has obtained and reviewed copies of the Virginia procurement process and has requested an interlocal agreement with the Commonwealth of Virginia covering these two procurements.</i>	

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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.

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