

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

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**Town of Coupeville**  
**Island County**

Report Date  
**March 29, 2013**

**Report No. 1009833**

Issue Date  
**June 3, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

June 3, 2013

Mayor and Town Council  
Town of Coupeville  
Coupeville, Washington

***Report on Accountability***

We appreciate the opportunity to work in cooperation with your Town 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 Town of Coupeville'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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Island County  
March 29, 2013**

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# Audit Summary

Town of Coupeville  
Island County  
March 29, 2013

## **ABOUT THE AUDIT**

This report contains the results of our independent accountability audit of the Town of Coupeville from January 1, 2010 through December 31, 2011.

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

- Payroll
- Impact fees
- Cost allocation
- Utilities
- Credit cards

## **RESULTS**

In most areas, the Town 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 Town paid its employees extra compensation which is not allowable per the Washington State Constitution.

## **Related Reports**

**Town of Coupeville  
Island County  
March 29, 2013**

### ***FINANCIAL***

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

# Description of the Town

Town of Coupeville  
Island County  
March 29, 2013

## **ABOUT THE TOWN**

The Town of Coupeville encompasses approximately 1.1 square miles in Island County and has a population of approximately 1,880 citizens. The Town provides services including administration, public safety, planning, public works, utilities and parks and recreation. In addition, the Town has a franchise agreement for solid waste collection and cable service. Central Whidbey Fire District provides fire protection service for the Town.

An elected, five-member Council and an independently elected Mayor govern the Town. For fiscal years 2010 and 2011, the Town budgeted expenditures of \$5,571,964 and \$4,796,993, respectively.

## **ELECTED OFFICIALS**

These officials served during the audit period:

Mayor  
Town Council:

Nancy Conard  
Ann Dannhauer  
Bob Clay  
Molly Hughes  
Dianne Binder  
Tom Tack (resigned August 2011)  
Larry Cort (appointed October 2011)

## **APPOINTED OFFICIALS**

Town Planner  
Public Works Director  
Town Engineer  
Town Marshal  
Clerk-Treasurer

Larry Kwarsick  
Malcolm Bishop  
Greg Cane  
David Penrod  
Judy Thomas

Note: the Public Works Director position was eliminated in July 2011.

**TOWN CONTACT INFORMATION**

Address: Town of Coupeville  
P.O. Box 725  
Coupeville, WA 98239

Phone: (360) 678-4461

Website: [www.town.coupeville.wa.us](http://www.town.coupeville.wa.us)

**AUDIT HISTORY**

We audit the Town every two years. The Town has not received a finding in the previous five audits. The current audit includes a finding related to payroll.

# Schedule of Audit Findings and Responses

Town of Coupeville  
Island County  
March 29, 2013

1. **The Town paid its employees extra compensation which is not allowable per the Washington State Constitution.**

## Description of Condition

The Town of Coupeville paid \$1,171,546, \$1,298,117 and \$1,286,486 in payroll costs and benefits in 2010, 2011 and 2012 respectively. During our review of payroll we found the Town prepared budget amendments to authorize one-time payments of \$1,200 per full-time employee, including taxes. The Town's decision to pay employees extra compensation was in part attributed to having more ending cash than initially budgeted and the lack of cost of living increases since 2008.

Increases in compensation should be prospective and not after services are rendered unless there is a clear expectation additional pay will be granted if certain identifiable and measureable attributes are accomplished.

## Cause of Condition

The Town performed research before providing the payments to employees but did not understand the payment must be prospective, not retrospective.

## Effect of Condition

Town employees were paid an additional compensation totaling \$20,451 in 2011 and \$16,373 in 2012 which is not allowable per the state constitution.

## Recommendation

We recommend the Town implement adequate policies and procedures to ensure compliance with the requirements governing the payment of public officers and employees for services rendered. Additionally we recommend the Town ensure it has a proper understanding of applicable laws and regulations over employee payments.

## Town's Response

*The Town contacted our legal counsel as well as a representative of the SAO to discuss the option for a pay increase. Unfortunately, it was not clear that the manner of payment, in a lump sum, would be considered retrospective. The Town now understands that pay increases must be paid prospectively.*



## **Auditor's Remarks**

We appreciate the steps the Town has taken to resolve this issue. We will review the condition during the next audit.

## **Applicable Laws and Regulations**

Washington State Constitution, Article II, Section 25, Extra Compensation Prohibited, states:

The legislature shall never grant any extra compensation to any public officer, agent, employee, servant, or contractor, after the services shall have been rendered, or the contract entered into, nor shall the compensation of any public officer be increased or diminished during his term of office. Nothing in this section shall be deemed to prevent increases in pensions after such pensions shall have been granted.

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.

*Budgeting Accounting and Reporting System (BARS) Manual, Accounting Principles and Internal Control, Internal Control, states in part:*

### **Purpose and Definition of Internal Controls**

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.

#### Controls over Compliance

This objective refers to compliance with laws, regulations, contracts, grant agreements and government policies, including the requirement to safeguard public resources against misappropriation and misuse.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of requirements – Controls should ensure that requirements are identified and that employees whose actions may affect compliance are aware of applicable requirements. When statutory, regulatory or contractual provisions are unclear, the government should seek clarification through legal counsel, research or communication with regulatory agencies or contracting parties.
- Compliance – Controls should prevent non-compliance or detect non-compliance in a timely enough manner for the government to remedy the situation. Such controls vary greatly, depending on the nature of the compliance requirement.



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

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

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.

**State Auditor**  
**Chief of Staff**  
**Director of State and Local Audit**  
**Director of Performance Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of Quality Assurance**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Larisa Benson**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
**Sadie Armijo**  
**Barb Hinton**  
**Mike Murphy**  
**Mary Leider**  
**(360) 902-0370**  
**(866) 902-3900**

**Website**  
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