



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Transportation Department Disbursements & Expenditure Monitoring**

September 1, 2010 through November 30, 2012

Issue Date: March 19, 2013



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Executive Summary

Background

We completed an audit of the Transportation Department's disbursements and expenditure monitoring for the period September 1, 2010 through November 30, 2012. At the request of the department, we also included accountability over take-home vehicles assigned to Transportation Department employees within the scope of the audit.

The Transportation Department provides yellow bus, door-to-door, Metro, and cab service to general and special education students throughout the District. Transportation provides door-to-door service to pre-school and special education students and cabs to homeless and some special education students. ORCA cards are issued to middle school, high school, and some K-8 students to ride Metro buses. Other services performed by the Transportation Department include transporting students for field and athletic trips and operating a call center to handle transportation related inquiries from students, parents, and schools.

The department has approximately 26 full-time staff consisting of managers, intervention specialists, routers, bus supervisors, and a systems analyst. Transportation has an additional 121 hourly staff, which primarily consists of crossing guards and bus monitors. The department's 2012-2013 budget is \$32.3 million, an increase of \$3.9 million from 2011-2012.

The District has a contract with First Student for pupil transportation for 2012-2015, with renewal options for two additional years. The contract is \$26,842,119 for the 2012-2013 school year. The District is also responsible for the cost of transporting homeless students to and from their school of origin, as required by the federal McKinney-Vento Homeless Education Assistance Act. Under this law, the school districts responsible for ensuring transportation for homeless students must agree on a method to apportion the cost or split it equally. The Transportation Department estimates that in 2011 the District spent approximately \$1.4 million for homeless pupil transportation.

Roles and Responsibilities

This audit was completed as part of the *2012-2013 Annual Risk Assessment and Audit Plan* approved by the Audit and Finance Committee. District management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess control risk and test controls in order to provide reasonable assurance that the controls are adequate and operating effectively. We conducted the audit with due professional care, and we believe that the evidence obtained provides a reasonable basis for our findings and conclusions.



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Audit Scope and Objectives

The audit covers the period September 1, 2010 through November 30, 2012. The primary objectives of this audit were 1) to review the nature of Transportation disbursements and determine whether the department monitors its expenditures, and 2) to determine if take-home vehicles are being used only for legitimate business purposes and whether the District is complying with applicable rules for employer-provided vehicles.

Audit Approach and Methodology

To achieve the audit objectives, we performed the following procedures:

- Gained an understanding of the concerns surrounding the Transportation Department's expenditures.
- Gained an understanding of the department's functions, operations, staffing, and expenditures.
- Analyzed available data to determine areas of audit focus.
- Identified risks related to the department's internal controls and compliance areas and planned the audit accordingly.
- Interviewed department staff knowledgeable of the objective areas.
- Assessed the District's compliance with IRS regulations for employer provider vehicles.
- Performed detailed tests of various types of disbursements.
- Evaluated the department's monitoring and tracking of expenditures.
- Reviewed all aspects of the department's personal services contracts.

Conclusion

Based on the results of our audit procedures, the Transportation Department is not effectively monitoring its disbursements, and the District does not have adequate accountability of take-home vehicles. This report details our findings and recommendations and includes concerns associated with invoice payments, fuel accountability, overtime, homeless student transportation costs, take-home vehicles, and sole-source justifications. The findings and recommendations are intended to improve internal controls, compliance, and accountability.

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Findings and Recommendations

1) General Disbursements

We tested a selection of the Transportation Department's general disbursements to determine whether there is adequate documentation to support the expenditures, whether invoices were reviewed for accuracy before payment, and whether expenditures complied with written agreements. We noted the following concerns:

- The Transportation Department approved payments to a contractor even though the invoices did not itemize the services rendered. Without the actual number of days or hours a contractor worked and a description of the services provided, District staff members responsible for approving payments are unable to determine whether the amount billed is correct.
- The billing rate on a contract was changed when the contract was modified, but the new rate was not reflected on the modification form. Only changes identified on the modification/extension form become part of the original contract; all other terms remain in force.
- The District contracts with First Student for student transportation. The invoices submitted by the vendor are not reviewed and approved for payment by Transportation Department staff prior to payment. The monthly invoices are sent electronically to both the Accounting and Transportation Departments. To ensure timely payments, the Accounting Department pays the invoices, but there is no process to ensure that a detailed review by the Transportation Department occurs.

Recommendations

We recommend the District:

- Pay invoices only when they meet the District's invoice standards and comply with contract requirements.
- Ensure that all changes to a contract are reflected on the modification form if the changes are intended to become part of the original contract.
- Require Transportation Department staff with knowledge of the contract terms to perform a detailed review of invoices before the invoices are paid, or establish procedures requiring a detailed review by the Transportation Department within 30 days of receipt of invoices.



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2) Expenditure Monitoring

Fuel Expenditures

According to District records, in fiscal year 2011, the District purchased approximately 563,000 gallons of fuel for student transportation, at a cost of more than \$2 million. The Transportation Department does not perform regular fuel inventories to account for this asset. As a result, the District cannot verify:

- That the amount of fuel it paid for was delivered.
- The amount of fuel used for District purposes during a given period.
- The amount of fuel that remains available for District use.

Recommendation

We recommend that the Transportation Department perform monthly fuel inventories, as required by its contract with First Student, and maintain records that allow for a reconciliation of fuel purchased with fuel consumed and fuel on hand. In addition to accounting for public resources, performing inventories can assist the department in avoiding budget over-runs by providing information necessary to forecast future fuel expenditures.

Overtime Expenditures

The Transportation Department does not control its overtime expenditures or adequately oversee the overtime claimed by employees. District administrative guidelines emphasize the responsibility of supervisors and managers to monitor overtime and state that employees exempt under the Fair Labor Standards Act (FLSA) are not eligible for overtime or compensatory time. However, Transportation routinely pays overtime to overtime-exempt employees. The District's Human Resources Department defines "exempt" as follows:

For overtime/compensatory policy, this term refers to those positions that are exempt from the Fair Labor Standards Act and are not eligible for overtime payment or use of compensatory time. This includes all certificated non-supervisory positions on the CNS schedule and other various supervisors/managerial positions on the Management Salary Schedule.

We found no evidence that the District allows exceptions or has special agreements that permit overtime compensation for exempt employees. During fiscal years 2010 through 2012, Transportation paid \$321,294 in total overtime; approximately 51% of that amount was paid to exempt employees who are not entitled to overtime. Since the District has determined it will not pay overtime or compensatory time to FLSA-exempt employees and the District is not legally required to do so, we have identified these payments as avoidable costs.

In response to this finding, we performed additional data analytics to determine if overtime is paid to other FLSA-exempt employees outside of the Transportation Department. These procedures revealed that other exempt employees across the District are commonly paid overtime when they work beyond 40 hours per week. However, it does not appear that the District applies this



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practice consistently; that is, not all exempt employees are compensated when they work more than 40 hours per week.

Further discussions with the Payroll Department revealed that there are no system controls in place to prevent an exempt employee from claiming overtime. The responsibility for ensuring proper overtime rests with the employees and the direct supervisors/managers that approve timesheets.

Recommendation

We recommend that:

- The Transportation Department pay overtime only to employees entitled to this compensation under FLSA or a collective bargaining agreement.
- The District pay overtime only to employees entitled to this compensation under FLSA or a collective bargaining agreement, and ensure that consistent treatment is applied to all exempt employees when they work overtime.
- The District conduct an investigation into all instances of overtime-exempt employees being paid overtime.
- The Payroll Department implement internal controls sufficient to prevent the processing of overtime payments to ineligible employees.



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3) McKinney-Vento Compliance

Cost Recovery

The District estimates that it spent approximately \$1.4 million on homeless student transportation in fiscal year 2011. Under the McKinney-Vento Homeless Education Assistance Act, when more than one school district is involved in ensuring transportation for eligible students, they must either agree on a method to apportion the costs or share the costs equally. Until recently, Transportation made no efforts to recover costs from responsible districts. We found that the District has recently improved its efforts to seek reimbursements from other districts.

Recommendation

Guidance from the Office of Superintendent of Public Instruction (OSPI) suggests that establishing inter-district transportation procedures and formal agreements is essential to ensure that transportation is arranged quickly for homeless students. To improve the efficiency of the process to recover McKinney-Vento costs, we recommend the District consider establishing formal reimbursement agreements with other districts.

In Lieu of Reimbursements

McKinney-Vento attempts to reduce barriers to the education of homeless students, including barriers to regular transportation to and from the school of origin. Families of homeless students have the option to provide their own transportation and seek reimbursement from the District. During our disbursement testing, we noted exceptional delays on the part of the Transportation Department in processing mileage reimbursements to parents for homeless student in-lieu-of transportation. We also noted, however, that McKinney-Vento staff recently streamlined the process to reduce such delays.

Recommendation

We recommend Transportation consider a fixed rate of reimbursement from one identified residence. This would further reduce the time required to process paperwork for reimbursements, especially for students with the most residential instability.



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4) Take-Home Vehicles

The Transportation Department has seven District-owned take-home vehicles assigned to its staff for use in the performance of their job duties. While reviewing the accountability of these vehicles, we noted multiple concerns, some of which are applicable to all District vehicles, not just those assigned to Transportation.

Policies and Procedures and/or Guidance

The District has not established sufficient guidelines for vehicle assignments in general, or for take-home vehicles. The collective bargaining agreements for the Transportation Department employees we reviewed do not address take-home vehicles. Currently, department directors have the sole authority and responsibility to approve vehicle assignments, with or without take-home privileges, and do so without identifying a business need.

Recommendation

We recommend the District:

- Establish the criteria that must be met before a vehicle can be assigned (acceptable business reasons). This should include criteria for allowing commuting privileges, if applicable.
- Require department directors to justify the business need, based on the established criteria, when they request a vehicle assignment.
- Allow commuting in District vehicles only if there is a business reason for an employee to commute in the vehicle.

Vehicle Assignment Methods

- The District does not have a process whereby an independent party evaluates the identified business need and determines whether a permanent vehicle assignment is the most cost effective option for the District.
- The Transportation Department authorizes annual vehicle assignments to employees who perform road checks during adverse weather conditions in the winter months. This method of assigning vehicles puts public resources at risk of misuse, as there are no controls in place to ensure the vehicles are used only during the intended time frame, and only for the intended purpose.

Recommendation

We recommend the District implement an approval process to be followed before vehicles can be assigned. This process should apply to vehicle assignments with or without take-home privileges and should ensure:



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- That the identified business need meets the District's established criteria.
- That a permanent vehicle assignment is the most cost effective option for the District.

We recommend Transportation consider short-term or seasonal vehicle assignments for employees who perform winter road safety duties.

IRS Compliance - Commuting Valuation Rule

Board Policy 6640 states that the District will comply with IRS guidelines for personal commuting in District-provided vehicles. In accordance with the IRS' commuting valuation rule, the District adds \$3 per day to the taxable wages of employees known to commute in District vehicles. This represents the value of commuting to the employee. However, for the Transportation Department employees who commute in District vehicles, the District does not meet the following condition, which is required in order to use the IRS' commuting valuation rule:

You provide the vehicle to an employee for use in your trade or business and, for bona fide non-compensatory business reasons, you require the employee to commute in the vehicle (IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits, 2012).

We found no apparent business reason for these employees to commute in District vehicles; it appears this is simply a long-standing practice.

Recommendation

We recommend Transportation consider whether it is appropriate for employees to regularly commute in District vehicles when there is no business reason to do so. With no benefit to the District, this is essentially a substitute for the employee's personal vehicle and results in increased costs to the District in terms of maintenance, fuel, and repairs.

We also recommend the District determine if there are tax implications for using the commuting valuation rule when it does not meet the criteria to do so.

IRS Compliance - Substantiation Requirements

Transportation Department employees with take-home vehicle privileges use their assigned vehicles during the work day for official business and drive them home after work. The District does not require them to maintain records to substantiate both their business and personal (commuting) miles. Per IRS regulations, if records are not provided by the employee, the value of all vehicle use, both personal and business, is taxable income to the employee.

Recommendation

We recommend the District determine whether there are tax implications for noncompliance with the substantiation (recordkeeping) requirements.



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5) Personal Services Contracts

The District requires documentation of competition or sole-source justification for all non-federally funded personal services contracts (PSCs) over \$25,000. The Transportation Department's justification for a PSC was inadequate to support the sole-source determination. The justification was that the selected vendor was the only firm that could deliver the services in the necessary time frame. However, the documentation did not support the *Delivery Date* selection. Instead, the rationale focused on the firm's familiarity with the District due to prior use of the vendor on other contracts.

Recommendation

We recommend that the documentation to support a limited time frame as justification for a sole-source contract clearly demonstrate that only one firm could deliver the product or service by the due date. In general, incumbency is not adequate to justify sole-source.



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Management Response

We thank our Internal Auditors for assessing our processes and internal controls related to the monitoring of our Transportation Department's expenditures and its use of district-owned vehicles.

The Transportation Department ("the Department") is responsible for getting students back and forth to school each day; the Department works with community and professional partners to provide safe, efficient, equitable and reliable service in support of the District's educational mission. In the last year, the District reorganized the Department and requested assistance from community members, educational program experts, and transportation experts to serve on the Superintendent's Student Transportation Taskforce. These improvements are an integral part of moving to the New Student Assignment Plan as well as addressing some of the District's fiscal challenges due to the continued underfunding of K-12 by the State of Washington.

The audit covered the period from September 2010 through November 2012. During this time, management, in response to prior audits and the District's effort to continually improve its operations, already made certain changes which address some of the audit findings. Management for the most part concurs with the recommendations of our Internal Auditor and outlines below our next steps to address the existing weaknesses mentioned in the report as well as clarify the issue surrounding overtime expenditures.

- **General Disbursements:** *In the last year, the District implemented new invoicing standards and will continue to enforce such standards. The District has a long-term contract with First Student and has designed a specific process to pay First Student invoices prior to review. The review along with any resulting adjustments, if any, occurs in the subsequent month. The Accounting Department will revisit this existing invoice payment process designed specifically to process First Student invoices to ensure that adequate review is performed more timely.*

- **Expenditure Monitoring:** *The District performs analytics to ensure that pupil transportation fuel consumption and charges are reasonable. The Transportation Department is working with First Student to implement the necessary process to ensure fuel inventory and its use are adequately monitored and remain compliant with the existing contract. With regards to overtime expenditures, the Fair Labor Standards Act (FLSA) does not prohibit FLSA-exempt employees to be paid overtime. The District defines "exempt" employees as not being eligible for overtime payment but the absence of a formal overtime/compensatory policy has resulted in a few departments to inconsistently pay overtime to a limited number of exempt employees. However, the District does not agree with the Internal Auditor's position that 51% of this overtime is avoidable costs. The District will create a formal overtime/compensatory policy and review the accuracy of the FLSA-exempt classification of certain employees. The District will then ensure that the policy is applied consistently to all applicable employees and will implement the necessary*



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internal controls in our human resource and payroll departments to identify non-compliance. Over the last year, the Transportation Department has reduced the amount of overtime paid to exempt employees and will work with the Human Resource department to be consistent with the overtime/compensatory policy.

- **McKinney Vento Compliance:** *The Department is currently working with surrounding school districts to establish a standard process and reimbursement agreement between districts. In addition, the District has approached OSPI to provide a facilitator to help all surrounding District's establish a standard reimbursement process. The Department will revisit the mileage reimbursements process to ensure reimbursements are performed more timely.*

- **Take Home Vehicles:** *The District is aware that the management of its district-owned vehicles needs to be improved and the issue is not limited to the Transportation Department. The District has assigned the responsibility to the Director of Logistics; however other staff time has not been identified. The priority and scope of work are under review but will include strengthening district-wide internal controls. Such procedures will include procedures, guidelines, individual responsibilities and documentation to ensure overall accountability for take home vehicles and compliance with IRS rules.*

- **Personal Service Contract:** *The District improved the sole source documentation requirement over the last year and will ensure that the Transportation Department personnel are adequately trained on the new requirements.*