

Washington State Auditor's Office
Accountability Audit Report

City of Seattle
King County

Report Date
August 16, 2012

Report No. 1008207

Issue Date
August 27, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

August 27, 2012

Mayor and City Council
City of Seattle
Seattle, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your City 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 City of Seattle'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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
August 16, 2012**

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Audit Summary

City of Seattle
King County
August 16, 2012

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the City of Seattle from July 1, 2010 through June 30, 2011.

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

- Financial condition
- Use of restricted resources – allocation of costs; use of special levy funds, utility, vehicle license fees, and other restricted resources
- Contracting – procurement, monitoring and payments for noncompetitively selected contracts
- Expenditures of state grant money
- Safeguarding of assets – disbursement testing, testing how payments relate to public benefit, accountability for maintenance supplies and materials
- Police property and seizures – storage, reporting
- Self insurance – healthcare, unemployment

RESULTS

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

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

1. The City of Seattle's processes related to payments for goods and services are inadequate, exposing the City to the risk of making inappropriate payments.

Related Reports

**City of Seattle
King County
August 16, 2012**

FINANCIAL

Our opinion on the City's 2010 financial statements and compliance with federal grant program requirements was provided in a separate report dated August 31, 2011, which includes the City's financial statements. In that report, we identified a significant deficiency in internal control over annual financial reporting. Corrective action will be evaluated during our audit of the 2011 financial statements. That audit is expected to be completed in September 2012.

FEDERAL GRANT PROGRAMS

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal programs, which are listed in the Federal Summary section of the 2010 financial statement and single audit report. That report includes a federal finding regarding controls over and compliance with rules related to the spending of federal money. We questioned \$122,011 charged to the Federal Highway Planning and Construction grant and we questioned \$172,611 charged to the Federal Housing Opportunities for Persons with AIDS grant. The City's resolution of the reported conditions will be verified during the 2011 federal grant compliance audit. That audit is expected to be completed in September 2012.

Description of the City

**City of Seattle
King County
August 16, 2012**

ABOUT THE CITY

The City of Seattle is the largest city in King County and the state, with a population of over 600,000 citizens. The City has a mayor-council form of government with nine elected Council Members, an elected Mayor and an elected City Attorney. The City's budget for 2011 was approximately \$3.9 billion, including the City's \$892 million General Fund. It has approximately 11,000 employees and provides a full range of services including water, drainage and wastewater, solid waste, electric power, police, municipal court, fire, emergency medical, parks and recreation (including four golf courses), planning and economic development, and municipal libraries.

ELECTED OFFICIALS

These officials served during the audit period:

Mayor
City Council:

Michael McGinn
Richard Conlin
Tim Burgess
Sally J. Clark
Jean Godden
Bruce Harrell
Nick Licata
Tom Rasmussen
Sally Bagshaw
Mike O'Brien
Peter S. Holmes

City Attorney:

APPOINTED OFFICIALS

Director of Finance

Glen M. Lee

CITY CONTACT INFORMATION

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AUDIT HISTORY

We audit the City annually. The past five accountability audits have reported seven findings. The past five financial and grant compliance audits have reported a total of 19 findings. The current accountability audit report includes one finding as described in the Audit Summary section of this report. The City's management is responsive and respectful of our recommendations.

Schedule of Audit Findings and Responses

City of Seattle
King County
July 31, 2012

1. **The City of Seattle's processes related to payments for goods and services are inadequate, exposing the City to the risk of making inappropriate payments.**

The City makes about \$1.8 billion in vendor and other payments through about 250,000 vouchers each year. The City has not established overall policies, procedures and controls designed to protect public resources from misuse, loss or misappropriation.

The City uses a process known as procure-to-pay. It does not provide departments with consistent and common standards on how to document purchasing and payment decisions.

Instead, individual department managers are responsible for adopting these systems, known as internal controls. The Department of Finance and Administrative Services is responsible for monitoring departments' compliance with these controls.

We randomly selected for audit 50 payments totaling \$241,888 between July 2010 and June 2011 in 13 departments. Documentation for 48, totaling \$238,617, was inadequate to show their public purpose. Specifically, we found:

- Departmental processes are inconsistent and result in incomplete and illegible documentation regarding purchasing and payment approvals.
- **Documentation deficiencies:** Most documentation does not show who authorized a purchase. The City does not have documentation standards to show the City-related purpose of purchases, such as purchase requisitions and purchase orders. Signatures of approval on invoices and other documentation are illegible.
- **Using the accounting system to document transactions:** Information kept in the City's accounting system related to purchasing does not allow monitoring of transactions. The system is capable of tracking the initial purchase request, procurement information, the purchase order; receiving and invoice information; checking the information for consistency; and creating payment vouchers. However, for about 93 percent of transactions only the payment voucher is documented in the system, which shows the City is not using the system to its full control and monitoring capacity.
- **Segregation of duties:** To document segregation of duties, the City maintains a list of authorized signatories – people who can order goods/services, receive them, and approve payment. We found payments that were made by individuals who are not on the list. This can occur appropriately when authorized signatories delegate their authority to others, but it is not evident that this is what happened. We conclude the City does not make sure that the segregation of duties is maintained. Thus, the City

is exposed to higher risk of inappropriate payments because it can be difficult to determine if the proper person authorized the payments.

To ensure money is spent only for appropriate purposes, the City of Seattle should improve controls over the procure-to-pay process as follows:

- The accounting system should apply comprehensive citywide policies, procedures, and preventive controls to all departments' transactions.
- The City should retain documentation in secure electronic systems that include the complete trail of the process, from the initial purchase request through the final payment.
- Documentation should demonstrate the public purpose, authorization, and approval of each transaction.
- The system should segregate duties and contain flags, warnings and other controls to ensure processes are followed.
- Management should focus on after-the-fact monitoring to assess the effectiveness and efficiency of controls. Management should identify and prioritize control risks and address them in a timely manner.

The City should address these recommendations as part of the citywide Financial Management and Accountability Program in progress. To help ensure the success of the program, top management should support a culture that encourages employees to improve the efficiency and effectiveness of routine tasks such as procurement, purchasing, payment, and accounting.

When performing our audit we considered the requirements of this state law:

RCW 43.09.200 Local government accounting – Uniform system of accounting. Budget, Accounting, and Reporting System (BARS) Manual – Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control.

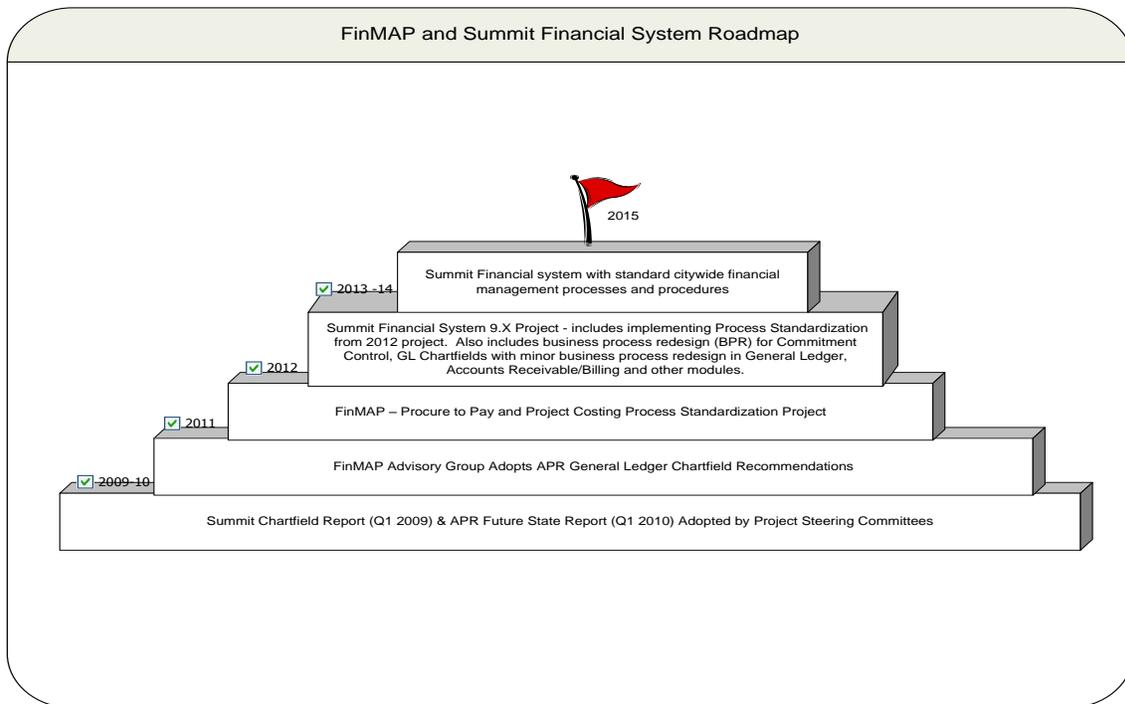
The full text to this law can be found at <http://apps.leg.wa.gov/rcw/>; the BARS manual can be found on www.sao.wa.gov.

The City provides the following information related to our conclusions:

The City of Seattle is appreciative of the evaluation that you conducted. This evaluation is very timely as the City continues with our Citywide Financial Management and Accountability Program (FinMAP).

On November 21, 2011 the City Council of the City of Seattle and the Mayor signed a resolution affirming their support for the FinMAP program that creates common financial management policies and procedures in order to standardize the use of financial system throughout the City. The resolution states that the Department of Finance and Administrative Services, in partnership with the FinMAP Advisory Group, is responsible for implementing and managing FinMAP for the City of Seattle. And, that the Department of Finance and Administrative services will develop and maintain standardized financial management policies and procedures resulting from FinMAP standardization and the upgrade of the financial system.

Key deliverables which lay the foundation for the current project are illustrated below:



The goal of FinMAP is to have a standardized financial system which will support regulatory reporting, central financial oversight and accountability, by providing transparency and necessary internal controls, while still meeting the needs of varied City operations. The completed work from 2009 to present lays the foundation.

In 2012, the City embarked upon a Procure to Pay Process Standardization project under the umbrella of the FinMAP Program and the Summit Financial System Roadmap. This project is identifying business process changes, organizational impacts, changes to standards, policies and procedures to move towards Citywide standard processes for procurement to payment. Included in this process will be the analysis of the existing financial system and improvements which can be made through best practices.

The results of this work will address the recommendations that are result of this audit.

Status of Prior Audit Findings

City of Seattle
King County
July 31, 2012

The status of findings contained in the prior years' accountability audit reports of the City of Seattle is provided below:

- 1. The City of Seattle lacks adequate internal controls over utility discounts resulting in benefits to individuals whose eligibility has expired and in increased utility rates to ratepayers.**

Report No. 1005905, dated May 17, 2011; issue No. 1

Background

The City was determining eligibility for discounted utility rates without verifying information on which eligibility was based. No secondary review of eligibility determinations was taking place. The City did not recertify eligibility or terminate benefits for those whose eligibility had expired in a timely manner.

Status

The resolution of this finding is in progress. Because the audit report was released in June 2011, we did not perform audit follow-up in the accountability audit for the 12 month period ending June 30, 2011. Management provided us with the descriptions of corrective actions which we have not confirmed. We plan to evaluate management's responses in the accountability audit for the period ending June 30, 2012, scheduled to start in October 2012.

The City has implemented the following measures to enhance internal controls as recommended:

- The Utility Discount Program (UDP) database has now been set up to automatically terminate recertification applicants who don't recertify within their pre-set timeframe.
- The UDP Supervisor audits 20 percent of approved applications weekly as a secondary review.
- Since May 15, 2011 all seniors have been required to show proof of all eligibility requirements.

The City also reports additional process improvements beyond our recommendations.

- 2. The City of Seattle lacks adequate processes to monitor account adjustments that reduce amounts owed by utility customers which may cause other customers to pay more.**

Report No. 1005905, dated May 17, 2011; issue No. 2

Background

The utilities were not adequately monitoring adjustments to customer accounts to ensure they were legitimate. The utilities did not have any way to know if employees were adjusting their own accounts.

Status

The resolution of this finding is in progress. Because the audit report was released in June 2011, we did not perform audit follow-up in the accountability audit for the 12 month period ending June 30, 2011. Management provided us with the descriptions of corrective actions which we have not confirmed. We plan to evaluate management's responses in the accountability audit for the period ending June 30, 2012, scheduled to start in October 2012.

Seattle City Light:

Seattle City Light prepared an action plan to address the described conditions. The Department developed standards for documenting and making adjustments to customer accounts. System users were trained in the proper use of these standards. The Department is generating and reviewing weekly account adjustment reports, and revised the practices used to assign user access settings in the customer billing system. The Department is also developing standards for a document management system and is working on procedures to ensure that only appropriate non-City Light employees can make adjustments to City Light customer accounts.

Seattle Public Utilities:

Seattle Public Utilities (SPU) is performing a complete audit of records going back 10 years to determine if employees adjusted their own accounts. SPU has also implemented the following measures to tighten controls and improve monitoring of customer account adjustments:

- SPU generates and reviews account adjustment reports to determine whether any employee has adjusted his/her account.
- All employees who have access to CCSS must sign a confidentiality agreement that includes an ethics statement.
- A new policy was adopted and procedures developed that prohibit employees from adjusting their own accounts or those of their families and friends.
- Access rights to CCSS and the Drainage Billing System were and continue to be tightened.
- New reason codes were developed for the three primary fee reversals performed by Contact Center agents to clarify the reasons for making billing adjustments.

3. The City of Seattle does not have adequate processes to ensure its internal service funds charge all its customers in an equitable way.

Report No. 1005905, dated May 17, 2011; issue No. 3

Background

The allocation of Information Technology costs to various City departments was based on incompletely documented, estimated figures. The costs of City buildings were not

being accounted for in the internal service fund used to account for building related costs.

Status

The resolution of the issue related to allocation of Information Technology costs is in-progress. Because the audit report was released in June 2011, the City did not have an opportunity to update the cost allocation plan in use during the current audit period. We plan to evaluate management's responses in the accountability audit for the period ending June 30, 2012, scheduled to start in October 2012.

The building related issue is resolved. The City included the building related costs in the Fleets and Facilities internal service fund financial statements for 2010.

4. The City's internal controls are insufficient to ensure users pay for the space that they use, resulting in a shift of general government costs to restricted funds.

Report No. 1003732, dated May 10, 2010; issue No. 1

Background

City did not have adequate processes to ensure all users of City-owned building space pay only for their fair share of building costs.

Status

The resolution of this finding is in progress because building space rental rates are determined biennially. The next rental rate development cycle is during 2012 for the 2013-14 biennium. In future audits we will continue to examine rates charged by the internal service funds to City departments.

5. The City of Seattle's internal controls over appropriate usage of existing contracts were inadequate.

Report No. 1003732, dated May 10, 2010; issue No. 2

Background

Procurement laws were circumvented when a blanket contract was used to perform public works. Because departments were not required to consistently indicate the applicable contract number for vendor payments, the Department of Finance and Administrative Services' Contracting Division was not able to effectively monitor use of contracts.

Status

This finding is resolved. The City has implemented additional policies and procedures as well as system controls to require departments to consistently use specific codes to identify contracts related to payments. This will allow the City to establish contract usage monitoring controls. We will continue to audit the City's compliance with and controls over public works procurement requirements.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

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

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

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