

Washington State Auditor's Office
Accountability Audit Report

City of Seattle
King County

Report Date
May 21, 2013

Report No. 1009917

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June 10, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

June 10, 2013

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,

**TROY KELLEY
STATE AUDITOR**

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King County
May 21, 2013

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Audit Summary

City of Seattle
King County
May 21, 2013

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the City of Seattle from July 1, 2011 through June 30, 2012.

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:

- Parking receipting – Seattle Center parking revenue monitoring at other garages
- Use of blanket contracts for public works
- Oversight of service provider contracts
- Monitoring of miscellaneous revenue
- Follow-up on submissions through Hotline, frauds, etc.
- Finding follow-up – utilities
- Finding follow-up – Office of Senior Citizens
- Central Service cost allocation
- Conflict of interest
- General disbursements – fraud focus
- Risk assessments:
 - Courts Information System access
 - Self-insurance – liability, property
 - Fire Marshal’s Office, Library – cash handling
 - Utility customer refunds
 - Investigative funds – police

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:

- The Seattle Center does not have sufficient internal controls over parking revenue to prevent and/or detect misappropriation or loss.

We also noted certain matters that we communicated to City management. We appreciate the City’s commitment to resolving those matters.

Related Reports

**City of Seattle
King County
May 21, 2013**

FINANCIAL

Our opinion on the City's 2011 financial statements was provided in a separate report in October 2012, which includes the City's financial statements.

FEDERAL GRANT PROGRAMS

We evaluated internal controls and tested compliance with the 2011 federal program requirements, as applicable, for the City's major federal programs, which are listed in the Federal Summary section of the October 2012 financial statement and single audit report. That report includes federal findings regarding internal control deficiencies over and noncompliance with federal grant requirements.

OTHER REPORTS

During the current audit period, the State Auditor's Office issued a report in April 2012 on a misappropriation of public funds.

These reports are available on our website, www.sao.wa.gov.

Description of the City

City of Seattle
King County
May 21, 2013

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 2012 was about \$4.2 billion, including \$918 million for the 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
Sally Bagshaw
Tim Burgess
Sally J. Clark
Richard Conlin
Jean Godden
Bruce Harrell
Nick Licata
Tom Rasmussen
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 reported eight findings. The past five financial and grant compliance audits reported 25 findings. The Status of Prior Audit Findings section of this report discusses the City's progress in addressing the most recent audit issues. 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
May 21, 2013

- The Seattle Center does not have sufficient internal controls over parking revenues to ensure all funds due have been received and to prevent or detect misappropriation or loss.**

Background

Three garages owned by the City are operated by the Seattle Center: Fifth Avenue North, Mercer Street and First Avenue North garages. Revenue is generated from transient (hourly/daily), event and monthly parking. The Seattle Center collects transient parking fees at garage exit and event-parking fees at entry and the garage business office arranges payment for monthly parking. The Fifth Avenue North and Mercer Street garages have automated parking systems, which include gates, lane management and revenue equipment. In its 2013 budget, the City Council approved funding for a similar system for the First



Seattle Avenue North garage. Currently, the Center relies on customers to pay for transient parking on the “honor system” by cash at a payment box or by credit card at a pay station. Parking revenue for 2012 totaled \$4.7million, of which \$3.6 million (76.5 percent) was from transient and event parking. The table below shows this revenue at the three garages.

Transient and event parking at Seattle Center's garages			
Garage capacity and revenue	5th Ave North	Mercer Street	1st Ave North
Total spaces	1,021	1,439	654
Percent of total spaces	33%	46%	21%
Total 2012 garage revenue	*\$1,336,511	*\$2,452,683	\$911,412
Transient / event parking revenue	\$1,061,891	\$2,065,633	\$496,680
Transient / event revenue as percent of total revenue	79%	84%	54%

*Note: Monthly parking customers pay for parking in either of these garages. These figures contain weighted average amounts based on relative number of parking spaces.

Summary:

We audited the Seattle Center garages because the Center's parking records appeared incomplete and did not match the reported revenue.

We noted that the Seattle Center garage internal control focus has been on delivering receipted cash to the bank, with little evidence to suggest any focus on ensuring payment is collected and receipted. We found the Center's processes do not ensure parking customers pay for parking, monitoring is not in place to ensure all parking fees are receipted and accounted for and employees can and do override system controls at the two garages with automated parking systems.

For each garage, we provide specific conclusions and recommendations:

Fifth Avenue North and Mercer Street Garages

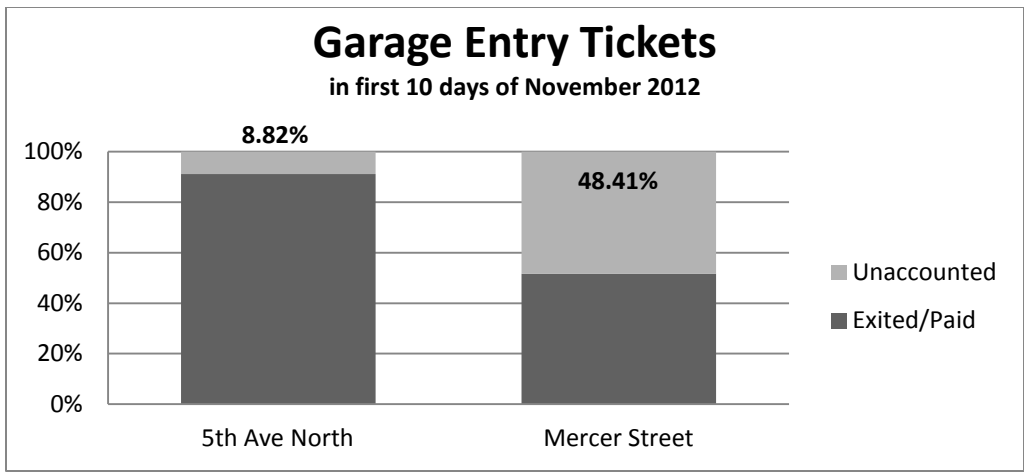
The Seattle Center is not monitoring parking system records to ensure parking attendants receipt all parking fees. These two garages use a modern automated parking system that records gate openings for all vehicles entering and leaving the garage whether they result in transient, event or monthly parking fees. The system has built-in controls to prevent most methods used by customers to avoid payment for parking and also records when gates are opened with parking attendants' access cards. The parking attendants bypass many of the controls, reducing the system's effectiveness at controlling access and maintaining records.

For example, parking attendants can and do allow customers to leave without paying by opening the exit gates using the manual override function, using their garage access keycards or using an improvised device that allows issuance of a new entry ticket and immediately use the ticket to open the exit gate, which results in a no-charge entry and exit. When this is done, the parking system does not create a record of the transaction even if the customer makes payment to the parking attendant. As a result, not all dispensed tickets have a corresponding record of exit or payment and are considered unaccounted for. We conclude that these practices impair accountability for public resources and increase the risk that public money could be misdirected.

Further, to allow quicker exit, gates are locked in the "open" position when event-parking period is ending. However, this allows customers who entered the garage before pay-on-entry event-parking was in effect to leave without paying. In addition, when manually issued preprinted roll tickets are used for event parking, the system cannot count vehicles and the Center is unable to consistently monitor how many customers paid or did not pay for parking.

To evaluate the prevalence of unaccounted-for tickets, we compared the entry tickets dispensed by the system to those that were recorded upon exit. The following graph shows that a high percentage of tickets are unaccounted-for, especially at the Mercer Street garage. Such high rates of unaccounted-for tickets indicate that the Center's parking processes should be improved.

Unaccounted ticket rates are high at two garages.



The following table shows a comparison of garage entry tickets dispensed by the system to those that resulted in charges for parking and when parking fees were collected, as well as comparison of total parking fees charged by the system to the amount collected. For the Mercer Street garage, it shows that 597 entry tickets were issued, of which 278 (47 percent) were charged for parking but only 254 (43 percent) paid for parking. Of the total fees charged, 77 percent were collected. At Fifth Avenue North garage, 3,220 entry tickets were dispensed, of which 2,916 (91 percent) were charged for parking but only 2,480 (77 percent) paid a fee; 84 percent of charged fees were collected.

Garage usage during 10-day period in November 2012		
	5th Ave North	Mercer Street
Garage entry tickets:		
Dispensed	3,220	597
Charged a fee**	2,916 (91%)	278 (47%)
Paid a fee**	2,480 (77%)	254 (43%)
Unaccounted	284 (8.8%)	289 (48.4%)
Charges for parking:		
Parking fees charged**	\$34,136	\$3,944
Parking fees collected**	\$28,581	\$3,022
Percent Paid/Collected	84%	77%

Note: Figures in this table are based on records created by the parking system; manual sales are excluded.

**Based on record of transactions having more than \$0 gross (for Charged) or net (for Paid) amounts.

As for monthly parking customers at these garages, the Center does not regularly ensure that they have paid their bills. The Center could not readily identify and explain the difference between monthly parking fee proceeds and records of active parking passes. Thus, the Center could not ensure only appropriate customers have access to the garages.

First Avenue North Garage

The Center cannot currently monitor whether customers pay for parking. This garage does not have an automated gate system capable of counting vehicles and revenue collected and is only staffed with parking attendants during events. Instead, customers pay for parking at a pay station, which only keeps a record of payments, or place cash/check into a payment box. Parking attendants occasionally stop by the garage to collect payments from the box. Customers who purchased monthly parking display a paper permit on the dashboard of the parked vehicle, but no monitoring is in place to ensure those permits are up-to-date.

The Seattle Center 2013 budget allocates funding for the installation of a state-of-the-art automated parking control system. The Seattle Center expects to complete the project in 2013. Once the new system is in place, the Center should use it to ensure customers pay for parking.

The conditions are the result of the Seattle Center management's decision to focus on giving customers a pleasant parking experience by speeding their departure after events, compounded by inadequate oversight and monitoring of parking and receipting activity.

Recommendation

We recommend the Seattle Center develop and follow controls to provide reasonable assurance that public resources are adequately safeguarded. We also recommend specific internal control training for the Center's garage manager so he will be able to design and follow adequate internal controls, including the automated system's built-in controls, and monitor their effectiveness over time.

At garages with automated garage systems, the Center should:

- Immediately discontinue use of the manual override function to open garage gates. Since the override function is only accessible with a physical key, the keys should only be used for urgent and emergency situations and should be held only by security or public safety staff. Attendants should not have ways to open the parking garage gates without a system-created record of it. Any system outages should be investigated and their causes should be addressed thoroughly and promptly.
- Immediately prohibit the practice of using an improvised device to print entrance tickets for immediate use to help customers exit the garage. Gate controls should be upgraded to prevent future use of such a device.
- Monitor the records of gate openings by parking attendants' access cards to ensure they are not used to bypass the parking system's controls.
- Consistently compare records of all exit gate openings to parking revenue. Every gate opening should have a record of revenue or lost ticket. The rate of unaccounted-for tickets should be monitored to reach a specified goal.

At the First Avenue North garage, the Center should:

- Consistently perform parking enforcement procedures to ensure parking customers pay for parking.
- Establish dual controls for collection of cash from the payment box.
- Ensure that monthly parking customers have current permits.
- The Center manager should periodically spot check the garage to gauge whether parking fee collections are consistent with garage usage.

At all garages, the Center should:

- Perform monthly reconciliations between monthly access card usage and revenue recorded and collected. When appropriate, parking access cards should be deactivated promptly.
- Continually monitor parking patterns at its garages, compare them to event sales at the Center and other local establishments and use other available information to develop an expectation of parking revenue, especially for active periods and major events. Actual revenue should be compared to expectations and significant variances should be evaluated and investigated if necessary.

When performing our audit we considered the following requirements:

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 C - Internal Control.

City's Response

The City provides the following information related to the findings of this audit:

- *Seattle Center does not have sufficient internal controls over parking revenues to ensure all funds due have been received and to prevent or detect misappropriation or loss.*

Response: The department agrees that internal controls over parking revenues can be improved. In certain cases (see below) specific changes have already been implemented to address some of the concerns raised. Please note that the department does have internal controls in place and that a very high percentage of the parking revenues owed to the City are collected. Seattle Center must seek a balance in the controls it uses given a variety of operational factors. Resource constraints such as staffing reductions and historical lack of funding for equipment impact the level of internal controls which can be implemented. The event related nature of Seattle Center requires operating in a competitive marketplace that places a high priority on customer service concerns.

- *Seattle Center is not monitoring parking system records to ensure parking attendants receipt all parking fees.*

Monitoring Parking System records – To clarify, the department does monitor parking system records regularly. Primary examples include:

1. *Review and reconciliation of daily parking attendant sales (blind deposits)*
2. *Monthly sales transaction reconciliation to bank records and Summit revenue*
3. *Monitoring of pay station cash withdrawals*

As the report correctly indicates, the department does need to strengthen our effort to monitor unaccounted-for tickets. We also recognize the need to improve reconciliation of monthly permit sales.

Unaccounted-for Tickets: The department agrees that the level of unaccounted-for tickets is one of the indicators which can be used to measure the department's effectiveness at collecting revenue. A second, and equally important, measure is the level of overall transactions which the department can document. Using this measure the department actually collected 95% of the revenue from customers when transactions are used as the overall measure.

Monthly Parking: The report notes that the Center does not regularly ensure that monthly parking customers have paid their bills. The department agrees that record keeping in this area needs improvement. To address this situation, we have recently implemented the following changes in our procedures.

- *Relocated monthly permit sales from the Mercer Street garage to the Parking Offices to improve oversight.*
- *Replaced paper log sheets with electronic log sheets in order to audit monthly parking sales and to match active monthly access cards/paper permits with transactions*
- *Require that a paper copy of each access card/paper permit transaction be created in addition to cash register (fee computer) receipt*
- *Maintain full detailed records of all backup documents for each monthly card/permit transaction*

First North Garage: The report notes that this garage does not currently have an automated system in place. It is also noted that funds have been allocated for installation of such a system in 2013. In the interim the department does staff the garage with parking attendants during high usage periods (events) and periodically issues citations if monthly parking permits are out of date.

- *Specific Recommendations*

1. *Recommendation: Immediately discontinue use of manual override function to open gates. Since override function is only accessible with a physical key, keys should only be used for urgent or emergency situations and should be held only by security or public safety (non-parking) staff. Attendants should not have a way to open the parking garage gates without a system – created*

record of it. System outages should be investigated and their causes addressed promptly.

Response: Bypass of controls is sometimes unavoidable due to isolated incidents of equipment malfunctions or unreadable tickets. The department agrees that this practice needs to be limited and monitored. Due to the remote location of garages, non-parking staff may not be readily available to provide key assistance. For unavoidable occurrences, the department will keep a log which will be reviewed regularly by the Parking Manager and Accounting Manager.

2. Recommendation: Immediately prohibit the use of an improvised device to print entrance tickets for immediate use to help customers exit the garage. Gate controls should be upgraded to prevent future use of such device.

Response: The department has discontinued use of this device. To be clear, when substitute tickets were printed, the customer was still required to make payment. The report suggests that these customers left without paying. We will research whether controls can be upgraded to prevent any future use.

3. Recommendation: Monitor the records of gate openings by parking attendants' access cards to ensure they are not used to bypass parking system controls.

Response: Seattle Center agrees with this recommendation. We will begin to require parking attendants to keep a manual log of openings. The Parking Manager will monitor the log sheet weekly.

4. Recommendation: Consistently compare record of all exit gate openings to parking revenues. Every gate opening should have a record of revenue or lost ticket; the rate of unaccounted-for tickets should be monitored to reach a specified goal.

Response: In theory, each exit gate opening should have a corresponding ticket. However, due to the Center's pay-on-entry practice, a gate may be raised once for many vehicles to exit. The department does agree that tickets dispensed should correspond to a record of revenue or lost ticket. We will implement a work project to establish a review and reconciliation process to reduce or eliminate this situation.

- For the First Avenue North garage:

1. Recommendation: Consistently perform parking enforcement procedures to ensure parking customers pay for parking.

Response: The department does patrol this garage weekly to check for valid permits and non-payment. We also staff the garage for most weekend and all KeyArena events. Citations are issued for non-payment and make concerted collection efforts to obtain payments. The installation of an automated parking system later this year will help alleviate the need for enforcement.

2. Recommendation: Establish dual controls for collection of cash from payment boxes.

Response: Currently, two parking attendants are present when cash is retrieved from payment boxes. The installation of an automated parking system later this year will help address this situation at the First North Garage.

3. Recommendation: Ensure that monthly parking customers have current permits.

Response: Seattle Center staff periodically patrols the First North garage to check for valid permits. We will look for ways to increase the frequency of patrols during peak usage periods. The installation of an automated parking system later this year will help alleviate the need for enforcement.

4. Recommendation: The Center's Parking Manager should periodically spot check the garage to gauge whether parking fee collections are consistent with garage usage.

Response: Seattle Center agrees with this recommendation. The Parking Manager will begin to spot check this garage and compare fee collections to attendance levels at the KeyArena.

- At all garages:

1. Recommendation: Perform monthly reconciliations between monthly access card usage and revenues recorded and collected. When appropriate, parking access cards should be deactivated promptly.

Response: The department is aware of the need to track access card usage against revenues recorded and collected. We have implemented a monthly reconciliation process. Parking attendants are now required to record any access card/permit purchase and maintain detailed records. The Parking Manager reconciles and then the reconciliation is reviewed by the Accounting Manager. We will regularly review and deactivate access cards when appropriate.

2. Recommendation: Continually monitor parking patterns at garages; compare them to event sales at the Center and other local establishments. Develop an expectation of parking revenues especially for active periods and major events. Actual revenues should be compared to expectations and significant variances should be evaluated and investigated if necessary.

Response: Seattle Center agrees with this recommendation. We will implement a monthly review of representative events to gauge actual receipts against expectations.

Status of Prior Audit Findings

City of Seattle
King County
May 21, 2013

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

1. **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

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

This finding is resolved. The utilities took substantial steps to address the reported control deficiencies. The Departments strengthened the controls over system access, trained employees to make only appropriate account adjustments and use the appropriate adjustment reason codes, implemented stronger policies for abusers of the payment arrangement process and installed new reporting tools to monitor frequency and size of all account adjustments.

2. **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

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

This finding is resolved. The City strengthened and clarified eligibility requirements, simplified the application forms, installed procedures to ensure department employees are not approving their own eligibility, and supervisory review of approved applications is being performed.

- 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

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

This finding is resolved. The City now separately reports cash that is restricted for replacement of capital assets and cash held in working capital or other reserves. The Department improved its documentation of the cost allocation and rates charged to users.

- 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

Background

The City did not have adequate processes to ensure all users of City-owned building space pay only for their fair share of building costs and that space used for general government activities is paid by the general fund.

Status

This finding is in progress. The City maintains that the City Hall and Plaza are not general government facilities and that allocation of their costs to restricted funds is appropriate. The City is also working on improving the model to allocate costs, tracking recovery of costs and establishing processes for reimbursement of over-recovered amounts, if any.



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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