



Washington State Auditor's Office

Government that works for citizens

## Accountability Audit Report

# City of Seattle

King County

For the period July 1, 2014 through June 30, 2015

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## Washington State Auditor's Office

May 12, 2016

Mayor and City Council  
City of Seattle  
Seattle, Washington

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the City's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, City operations complied with applicable requirements and provided adequate safeguarding of public resources. The City also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we noted certain matters that we communicated to City management in a letter dated May 4, 2016, related to Police Department overtime, Parks Department manual receipts and credit card expenditures. We appreciate the City's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of the City of Seattle from July 1, 2014 through June 30, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Seattle City Light and Police Department overtime
- Bike Share
- Discounted nonprofit rental rates
- Miscellaneous expenditure accounts
- Credit card expenditures
- Parks Department manual receipting
- Seattle City Light, Parks and Human Service Department cost allocations
- Healthcare self-insurance

## STATUS OF PRIOR AUDIT FINDINGS

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Seattle. The State Auditor’s Office has reviewed the status as presented by the City.

<b>Audit Period:</b> 07/01/2013 - 06/30/2014	<b>Report Ref. No:</b> 1014517	<b>Finding Ref. No:</b> 2014-001
<b>Finding Caption:</b> The City of Seattle Light Department inappropriately used the energy saving performance contracting method to build a new building and to purchase maintenance software.		
<b>Background:</b> State law requires that cities bid certain public works and use a competitive process for software purchases. Alternatively, state law authorizes performance-based energy savings contracts (ESPC) for energy equipment and services when the value of the energy savings exceeds the cost of equipment or services. Essentially, this contracting alternative is for projects where the energy savings are sufficient to cover the cost of the project.  The Light Department bypassed internal controls for public works projects which resulted in inappropriate use of ESPC contracting authority and noncompliance with public works and electronic data processing procurement requirements. Because the projects did not go through a transparent, open, competitive process potential bidders were denied opportunity to bid and the City cannot demonstrate that it is getting the best work at the lowest price. Further, the City cannot demonstrate that energy savings are greater than the cost of these contracts.		
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The City understands the finding and is mindfully pursuing corrective action. The City’s contract for ESPC is now terminated and all projects have been either completed or terminated. The City does not intend to rebid this contract or use the ESPC method of contracting. Should a project arise that appears to be appropriate for the ESPC method, the City either will use the State of Washington ESPC services to assure that we are compliant to all expectations or will rebid the ESPC contract using the strict parameters that the Auditor’s Office have advised us toward and strong internal controls through our construction contracts unit.</i>		

## RELATED REPORTS

### **Financial**

Our opinion on the City's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

That report includes two findings for significant deficiencies in internal controls over financial reporting regarding; reconciliations of capital assets and business tax revenue and; review of the health and human service financial statement balance and timely account reconciliations by the Seattle City Employees' Retirement System.

### **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 separate financial statement and single audit report. That report includes a federal finding regarding internal controls to ensure compliance with federal cost allocation requirements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION 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 2015 was approximately \$4.4 billion, including \$1 billion for the General Fund.

The City has approximately 11,400 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.

### Contact information related to this report

Address:	City of Seattle 700 5th Avenue Suite 4300 Department of Finance and Administration P.O. Box 94669 Seattle, WA 98124-4669
Contact:	Janice Marsters, Director, Citywide Accounting and Payroll
Telephone:	(206) 684-8334
Website:	<a href="http://www.seattle.gov">www.seattle.gov</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the City of Seattle at <http://portal.sao.wa.gov/ReportSearch>.

## 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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>