



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Spokane

For the period January 1, 2021 through December 31, 2021

Published March 9, 2023

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**Office of the Washington State Auditor
Pat McCarthy**

March 9, 2023

Mayor and City Council
City of Spokane
Spokane, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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.

Attached is our independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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TABLE OF CONTENTS

Audit Results.....	4
Summary Schedule of Prior Audit Findings	6
Related Reports.....	10
Information about the City.....	11
About the State Auditor's Office.....	12

AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

However, during the audit certain matters came to our attention that are currently under investigation.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the City of Spokane from January 1, 2021 through December 31, 2021.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the City's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Electronic funds transfers – accounts payable
- Compliance with golf professional contract terms
- Police Department – disposition of property, drug seizure and forfeiture funds
- Information technology – user access and authorization
- Budget compliance
- User of restricted funds – hotel/motel taxes and transportation impact fees
- Accounts payable – credit cards

- Contract and agreement activities
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Spokane January 1, 2021 through December 31, 2021

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2020 through December 31, 2020	Report Ref. No.: 1031321	Finding Ref. No.: 2020-001
Finding Caption: The City did not comply with its adopted municipal code for collecting public wastewater utility taxes.		
Background: Spokane Municipal Code (SMC) requires the City to levy and collect a 20 percent gross income tax from utility businesses operating a public wastewater collection and treatment system within City limits. The SMC also requires the City to tax its own utility departments. The City of Spokane and Spokane County separately own and operate the two wastewater collection and treatment facilities within City limits. In 2020, the City collected wastewater utility taxes for operating its own public wastewater collection and treatment system. However, our audit found the City has not collected any wastewater utility taxes for Spokane County's wastewater collection and treatment system, as the SMC requires. Our audit also found the City has not amended the SMC or formally approved any tax exemptions that allows it not to enforce the tax uniformly. Because the City has not levied or collected the utility tax from the County, it is not uniformly collecting the tax and not receiving all utility tax revenues due to it for operating wastewater collection and treatment systems.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The City has taken the following corrective action since the finding was issued in September 2022:</i>		

- *Met with County administrative staff on Nov. 1, 2022, to inform them of the required documentation to be submitted with the remittance of the utility tax on wastewater collection and treatment services provided in the City limits. The first remittance of utility tax is due February 25, 2023, for January’s gross revenue.*
- *The remittance form was updated to include wastewater services.*
- *The MySpokane team was briefed and prepared to answer questions from impacted county customers as the County intends to pass the increased cost to the impacted customers.*

Audit Period: January 1, 2019 through December 31, 2019	Report Ref. No.: 1028003	Finding Ref. No.: 2019-001
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Finding Caption:
The City’s Community Housing and Human Services Department bypassed established internal controls regarding procurement of public works contracts, conflicts of interest, sub-recipient agreements, and contractor payments.

Background:
The City contacted the State Auditor’s Office in March 2020, requesting a special review of activities in the Department because of concerns Department staff raised. Specifically, the concerns related to the procurement of public works contracts, evaluation and award of sub-recipient agreements, potential conflicts of interest and inappropriate payments for contracted services.

Public works procurement
Our audit found the Department did not comply with City policy and procedure for two public works contracts awarded in 2019 and could not ensure it allowed for fair and equitable opportunities for contractors to submit quotes on public works projects and that it received the lowest responsible bidder for the projects.

Sub-recipient agreements
Our audit found the Department approved three sub-recipient agreements in 2019 for warming center and shelter operations. The Department could not provide evidence it followed its informal practice to solicit requests for proposals or perform a competitive bidding process for these agreements and that it followed a consistent and equitable process to evaluate, select and award agreements.

Conflict of interest
In our review of the three sub-recipient agreements noted above, we found two of the agreements awarded had an appearance of a conflict of interest, which may violate the City’s Municipal Code and state law. There was no documentation to evidence the Department or City resolved the potential conflicts of interest before City employees and elected officials

participated in awarding the agreements. Any actual or potential conflicts of interest could violate the City's Municipal Code and state law.

Gift of public funds

The Department awarded one consulting agency agreement in 2017 to provide free housing legal clinics to citizens and reimbursed the agency for personal, non-business expenses for one of the agency's employees. The Department did not comply with agreement terms to reimburse the consulting agency for the actual cost of expenditures that are necessary and directly applicable to the work required by the agreement and did not have other documentation showing these costs as allowable business expenses.

Status of Corrective Action: (check one)

- Fully Corrected Partially Corrected Not Corrected Finding is considered no longer valid

Corrective Action Taken:

The City of Spokane received notice of this finding April of 2021 therefore correction could not be fully implemented until the 2022 fiscal year. With that said, the City made the effort to correct all areas of noncompliance within six months of receipt of the finding.

Public Works Procurement

Staff in the CHHS Department have received training relating to public works procurement, fraud, waste, abuse, and whistleblower protections within the last six months from the City's Purchasing staff, and Human Resources staff, as well as through the City's electronic training platform. Additionally, as new staff are hired, all required training is being administered. To further strength procurement training citywide, the Purchasing Department intends to update training material for all city departments during 2023.

Sub-Recipient Agreements

The CHHS Department has worked on creating and implementing a policy relating to subrecipient selection. A draft policy was created and is currently being reviewed/finalized in accordance with City policy. The procedures noted within the policy were immediately implemented and the CHHS Department staff has been actively utilizing a consistent and equitable process to evaluate, select, and award agreements to subrecipients. The policy and procedures include guidance on documenting potential conflict of interests.

Additionally, the CHHS accounting staff has been ensuring consultants are reimbursed for actual and appropriate expenditures as outlined in individual contracts. The CHHS Department continues to perform subrecipient monitoring to ensure compliance with all federal, state and local rules and regulations.

Conflict of Interest

CHHS Department staff completed Fraud, Waste, and Abuse, and Whistleblower policy training during the summer of 2021 and during 2022. The expectation is to create an ongoing training schedule for staff. Additionally, all new hires are required to read the Code of Ethics

as part of their onboarding through Neogov. Finally, CHHS Department documents any conflict of interests as previously mentioned.

Gift of Public Funds

CHHS Department staff received training on gifting of funds through the Fraud, Waste and Abuse training that was administered and completed during the summer of 2021 and during 2022. CHHS Department program staff work with the CHHS accounting staff on reviewing invoices for appropriateness and allowability.

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>.

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 Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Performance audits

Initiative 900, approved by voters in 2005, gives the State Auditor's Office the authority to conduct independent performance audits of state and local government entities. Performance audits may include objective analysis on ways to improve program performance and operations, reduce costs and identify best practices.

We issued the separate Contracted Homeless Services: Improving how local governments prioritize services and manage provider performance audit report, which is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Spokane is the second largest city in the state with an estimated population of 229,000 residents. The City was incorporated in 1881 and adopted its first charter in 1910. The City provides police, fire, inspection, street, library, parks and recreation, traffic engineering, water, sewer, solid waste and general administrative services.

In 2001, the City changed to a strong-mayor form of government. An elected, seven-member Council and an independently elected Mayor govern the City. The Council appoints management to oversee the City's daily operations and its 2,100 employees. For fiscal year 2021, the City operated on an annual general fund budget of approximately \$186.6 million.

Contact information related to this report

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Information current as of report publish date.

Audit history

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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