



Washington State Auditor's Office Exit Conference

Integrity • Respect • Independence

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City of Spokane

About our Office

The Washington State Auditor's Office's vision is government that works for citizens. Our goal is for government that works better, costs less and earns greater public trust.

The purpose of this meeting is to share our audit results and draft reporting. We value and appreciate your participation.

Audit Scope

We performed the following audits for your City:

- **Accountability audit for 2013**

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/saoportal/Login.aspx>

Status of Prior Accountability Findings or Management Letter items

There were no findings or management letters issued during the prior accountability audit.

Recommendations not included in the Audit Reports

Management Letters

Management letters communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other items significant to our audit objectives. The Management letter is referenced, but not included, in the audit report:

- Parks and Recreation – Golf and Riverfront Park

Department Memos

We have provided exit recommendations for management's consideration in department memos. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report. These include:

- Central Accounting
- Utilities
- Aquatics

Concluding Comments

Customer Service Survey

When your report is released you will receive a customer service survey from us. We value your opinion(s) on our audit services and hope you provide feedback.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in 2015 and will cover the following general areas:

- Financial Statement
- Federal Programs
- Accountability for Public Resources

The estimated cost for the next audit based is \$325,000 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

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 February 23, 2015, related to weaknesses in the Parks and Recreation Department internal controls over golf course and Riverfront Park operations. 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 Spokane from January 1, 2013 through December 31, 2013.

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:

- Utility receivables
- Payments/expenditures (credit cards)
- Parks and Recreation cash receipting
 - Aquatics
 - Compliance with state grant requirements
 - Golf courses
 - Safeguarding of small and attractive assets such as computers
 - Riverfront Park
 - Open public meeting minutes
- Contracts/agreements
- Payroll/personnel
- Gifts of public funds
- Budget compliance

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 includes a finding for a significant deficiency in internal controls over financial statement preparation to ensure accurate reporting.

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 financial statement and single audit report. That report includes six federal findings regarding the City’s lack of internal controls in its Community Development Block Grants, Supportive Housing Program, Home Investment Partnership Program, Continuum of Care Program, Lead Hazard Reduction and Assistance to Firefighters Grants.

INFORMATION ABOUT THE CITY

The City of Spokane is the second largest city in the state with an estimated population of 201,100 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 2,300 employees. For fiscal year 2013, the City operated on an annual general fund budget of approximately \$140 million.

Contact information related to this report

Address:	City of Spokane W 808 Spokane Falls Blvd. Spokane, WA 99201-3304
Contact:	Gavin Cooley, Chief Financial Officer
Telephone:	(509) 625-6586
Website:	www.spokanecity.org

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>.



**Washington State Auditor
Troy Kelley**

February 23, 2015

Mayor and City Council
City of Spokane
Spokane, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the City of Spokane from January 1, 2013 through December 31, 2013. We believe our recommendations will assist you in improving the City's internal controls and compliance in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to City officials and personnel. If you have any further questions, please contact me at (509) 334-5825 ext 108.

This letter is intended for the information and use of management and the governing body. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Deborah F Pennick

Deborah Pennick, CPA, Audit Manager

Attachment

Management Letter

City of Spokane

January 1, 2013 through December 31, 2013

Parks and Recreation Department
Golf Courses

Background

The City earns a total of approximately \$3 million from its four golf courses annually. The City contracts with golf professionals to manage the day to day operations of each golf course and the City earns a portion of the operating revenues as defined in each contract. Each of the four contracts has different terms and conditions. All credit card sales are deposited with the City daily. Cash and checks are deposited to the professional's personal bank account. Each golf professional performs weekly revenue reconciliations and determines the amount of revenue earned by the City according to the contract terms. If the amount earned exceeds the credit card sales deposited to the City each day, the professionals remit a check to the City.

In January of 2014, three contracts were amended to require the professionals and their cashiers to follow the City's Cash Handler Policy and Procedures Manual, which includes depositing funds within 24 hours.

During prior audits we noted weaknesses in internal controls over cash receipting, contract monitoring and contract compliance which increase the risk for loss. Although some improvement was noted during the current audit, we found the City still did not have adequate internal controls in place to effectively monitor golf course activity and ensure compliance with the contract.

Cash Receipting

We performed cash counts during the 2014 season at all four courses and noted that cashiers are not following the cash handling policy. Specifically:

- multiple cashiers working out of each cash register
- cashiers do not consistently record the accurate mode of payment
- not all receipts are recorded in the automated receipting system and captured in the system reports used to reconcile deposits
- discrepancies in the reconciliation of the system reports to cash receipts are not documented or investigated
- some professionals use multiple credit card machines – one deposits directly to the professional's bank account
- during the 2014 golf season, three professionals deposited revenues earned in excess of credit card sales weekly instead of daily as required by the contract amendment

Although the City reviews system sales reports and the amount remitted by each professional weekly to ensure it complies with contract terms, the cash receipting weaknesses identified above increase the risk that some revenues are not recorded in the receipting system resulting in lost revenue to the City. The City's reconciliation process does not include reconciling the funds deposited to the professionals' personal accounts plus the credit card deposits to ensure total golf course revenues are included in the system sales reports. We attempted to perform this

reconciliation for May 2014 at one golf course, we were unable to using the City's current process and the documentation maintained.

Contract Compliance

We noted that one golf professional was not remitting revenue earned to the City per the contract terms. While procedures were in place to ensure the amounts owed were tracked, the City did not pursue collection. The City's records indicate the professional owes the City at least \$25,000 which includes golf revenues, fuel purchases and leasehold excise tax.

These weaknesses increase the risk of lost revenue to the City. We recommend the City strengthen its internal controls to ensure:

- Golf professionals and cashiers are trained and follow the City's Cash Handler Policy and Procedures Manual in accordance with the contract.
- Contract terms are followed or contracts are revised so the terms reflect current practice and expectations.
- The weekly reconciliation process is improved to ensure all golf course revenue is accounted for when determining the City's share.
- All golf professionals remit City earned revenue as required by the contract. This should include pursuing collection of any past-due amounts.

Riverfront Park Cash Receipting

Background

The City earns a total of approximately \$3 million from its Riverfront Park operations. Riverfront Park has numerous cash receipting locations including restaurants, guest services, central ticket booths, IMAX theatre, the Skyride and several others which vary based on the time of year and events occurring throughout the Park. The Park's vault authorized balance is \$25,000 from April through August and \$18,000 from September through March. The Park's vault operation checks out daily "banks" to cashiers by shift and location; cashiers count and return the collections for their shift/location to the vault and a combined deposit is prepared. The Department's cash and deposit reconciliation process is very complex.

During our testing we noted the following concerns that increase the risk that a loss could occur and not be detected in a timely manner:

Vault Cash on Hand

- The City allows the main vault cashier to request additional change for the vault without authorization or approval.
- During three months tested, we noted 26 orders for additional vault change but only 20 orders were documented on the vault count form.
- The vault cash exceeded the authorized amount on 24 days in two months tested, at one time by a total of more than \$12,000. In addition, during these two months, banks checked out to cashiers never exceeded \$12,500 for the day so there appeared to be no need for additional vault cash.

Vault Cash Counts

- We scanned eight months of documentation and found at least 59 instances where daily vault counts were either not performed or not retained.
- Vault count sheets are generally incomplete and do not contain adequate detail or supporting documentation to determine their accuracy or assign accountability should a loss occur.
- Every vault count tested during the eight months was either over or short, with 32 counts having a difference of more than \$500. Typically, justifications for vault count discrepancies are not documented.
- The Department's process to track vault cash checked-out to cashiers is not effective. We found 38 instances in two months of testing when the total amount of cashier banks checked out did not agree to cash returned to the vault by the cashiers.
- The Department has no process to reconcile the banks checked-out to cashiers to the cash returned to the vault during the deposit process. During 14 days tested, daily banks totaling \$144,000 were checked-out to cashiers but only \$101,000 was identified on the vault count sheets as returned with deposits.

Cash Receipting

- Individual deposits prepared by Park cashiers are comingled and recounted by a vault cashier when preparing a combined shift deposit.
- The Department uses multiple sales systems and reconciliation processes to record receipts. Central Accounting has no assurance that all deposits are accounted for when recording receipting activity into the accounting records.

Due to the internal control weaknesses identified, we were not able to determine if a loss of funds occurred. We recommend that the Parks Department improve their internal controls at Riverfront Park to ensure:

- Vault cash on hand is limited to the authorized amount or increases are formally authorized and approved as required.
- Vault count forms are completed and adequately supported so counts can be verified for accuracy.
- The vault count process records and tracks all cashier banks and count discrepancies are documented and promptly investigated.
- Cash receipts are properly safeguarded and reconciled to the accounting records.



**Washington State Auditor
Troy Kelly**

Memorandum

To: Leroy Eadie, Director of Parks and Recreation
From: Diana Windsor, Assistant Audit Manager
Date: February 23, 2015
Re: Parks and Recreation Department – Aquatics cash receipting

This memo is intended to provide information to assist City management in its pursuit of quality financial and compliance control systems. This information is intended for internal use. It is not included in our formal audit report, but will become a public record along with the rest of our audit work file.

We performed audit procedures to determine if the Aquatic's Program has adequate internal controls to safeguard public resources. We noted that the Department has taken steps to resolve concerns identified during 2011, however improvements should be considered in additional areas. During our review we noted the following:

Rain check and Safe Logs

The Department should ensure:

- **Rain check logs are accurately completed.** Rain checks issued to customers were not properly tracked on the log. The year-end rain check inventory did not reconcile to the expected number according to the log at three of the six pools tested. We also recalculated the rain check inventory using the log and could not reconcile to the amount recorded on the log for five of the six pools tested.
- **A reconciliation of rain check logs is completed and retained at the end of the season.** No rain check log reconciliation had been performed by City staff for 2014 at the time of our audit and the 2013 reconciliation was either not performed or couldn't be located.
- **Safe logs are accurately completed in accordance with the City's Cash Handling Policy.** We tested safe logs at all six pools. For 30 of the 48 daily logs the log could not be located; employee or supervisors initials were missing and/or the log did not reconcile to the deposit.

Refunds

The Department should ensure refunds are supported by receipts, an explanation and are signed by the customer per the City's Cashier POS Manual. Of the 13 refunds reviewed, we found 11 with a receipt; 6 without an explanation; and 12 where the refund was not signed by the customer.

Cash Receipting

The Department should ensure deposits are made within 24 hours as required by the City's Cash Handling Policy. We tested six days deposits at each pool and found two pools where some deposits were not made within 24 hours.

We would like to thank City staff for their helpfulness and timely response to our requests.

CC: Kathleen Keck, Park Accountant
LaVonne Martelle, Park Accountant
Penny Brown, Library Accounting Manager
Kim Bustos, Accounting Manager
Tim Dunivant, Director of Budget
Gavin Cooley, Chief Financial Officer
Deborah Pennick, Area Audit Manager