

Washington State Auditor's Office
Accountability Audit Report

City of Walla Walla
Walla Walla County

Report Date
January 17, 2014

Report No. 1011158

Issue Date
January 27, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

January 27, 2014

Mayor and City Council
City of Walla Walla
Walla Walla, 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 Walla Walla'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,

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

**TROY KELLEY
STATE AUDITOR**

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Walla Walla County
January 17, 2014**

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Audit Summary

City of Walla Walla
Walla Walla County
January 17, 2014

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the City of Walla Walla from January 1, 2012 through December 31, 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:

- Third-party cash receipting
- Landfill small and attractive assets
- Water Department inventory
- Contracts/lease monitoring
- Ambulance billing
- On-call contracts
- Eden security
- Payroll disbursements
- Credit card transactions
- Self-insurance reserves
- Restricted funds

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 City of Walla Walla is not monitoring its contracts with Tourism Walla Walla and does not have internal controls to ensure restricted funds are used properly.

Related Reports

**City of Walla Walla
Walla Walla County
January 17, 2014**

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.

FEDERAL GRANT PROGRAMS

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report.

Description of the City

**City of Walla Walla
Walla Walla County
January 17, 2014**

ABOUT THE CITY

The City of Walla Walla serves approximately 30,000 citizens in Walla Walla County. The City provides an array of services including water, sewer, landfill, police, fire, emergency medical care, parks and recreation, development and library.

An elected, seven-member Council governs the City. The Council appoints a Manager to oversee the City's daily operations as well as its approximately 290 employees. For the 2011-2012 biennium, the City operated on a budget of approximately \$150 million.

ELECTED OFFICIALS

These officials served during the audit period:

Council and Mayor:

Jim Barrow, Mayor
Conrado Cavazos
Barbara Clark
Jerry Cummins
Mary Lou Jenkins
Shane Laib
Chris Plucker

APPOINTED OFFICIALS

City Manager
City Attorney
Support Services Director
Finance Manager

Nabiel Shawa
Tim Donaldson
Tim McCarty
Jean Teasdale

CITY CONTACT INFORMATION

Address: City of Walla Walla
15 N. Third
Walla Walla, WA 99362

Phone: 509-527-4590

Website: www.ci.walla-walla.wa.us

AUDIT HISTORY

We audit the City of Walla Walla on an annual basis. The past five audits reported one finding. The fiscal year 2010 audit contained one finding related to safeguarding assets and property. The finding has been resolved. No findings were reported in 2008, 2009 or 2011.

Schedule of Audit Findings and Responses

City of Walla Walla
Walla Walla County
January 17, 2014

1. **The City of Walla Walla is not monitoring its contracts with Tourism Walla Walla and does not have internal controls to ensure restricted funds are used properly.**

Background

The City of Walla Walla entered into a service agreement with Tourism Walla Walla, a nonprofit organization, to promote tourism. State law (RCW 67.28.1815) requires that lodging tax revenue be used solely for the purpose of paying costs for tourism promotion, acquisition of tourism-related facilities, or operation of tourism-related facilities. In 2012 the City paid \$558,275 of Hotel/Motel tax and \$198,634 of Tourism Promotion Area (TPA) room surcharge revenue to Tourism Walla Walla. We identified the following requirements for each contract:

Hotel/Motel:

Tourism Walla Walla shall:

- Submit quarterly reports to the City stating and detailing the economic development services provided during the preceding quarter.
- Provide the City with copies of all agreements, invoices and other expense documents for which City funds were the source of payment.
- Restrict the use of City funds to those uses permissible under the Revised Code of Washington.

TPA:

Tourism Walla Walla shall:

- Create and maintain a stand-alone accounting system for TPA fees.
- Provide any and all necessary reporting documents as required by governmental agencies.

Description of Condition

During our review of Tourism Walla Walla expenditures, we found that the City is not properly monitoring the use of restricted Hotel/Motel tax and TPA surcharges. When we requested the required reports, invoices, and documentation, the City did not have this

information and had to contact Tourism Walla Walla to request the information. We identified the following:

- The City did not obtain quarterly reports, invoices, agreements and supporting documentation for expenses to demonstrate City funds were used for tourism promotion.
- Seven of the transactions (36 percent) paid by Tourism Walla Walla lacked adequate evidence to determine funds were spent in compliance with RCW 67.28.1815
- Tourism Walla Walla did not create or maintain a stand-alone accounting system, as required by the contract.

Cause of Condition

The City did not require Tourism Walla Walla to comply with the terms of its contract. City employees did not monitor its contract in accordance with the contract stipulations to ensure restricted tourism promotion funds were spent appropriately.

Effect of Condition

The City and Tourism Walla Walla could not provide adequate support that all funds were spent according to state law.

Recommendation

We recommend the City:

- Require Tourism Walla Walla to comply with the terms of its contract.
- Confirm that its restricted revenues are being used for allowable expenditures per RCW 67.28.1815.

City's Response

The "Description of the Condition" does not support the finding that the City "...is not monitoring its contracts with Tourism Walla Walla and does not have internal controls to ensure restricted funds are used properly."

While the City concedes that it did not receive 2012 quarterly reports from Tourism Walla Walla (TWW), the Deputy City Manager has engaged closely with Tourism Walla Walla in all of its activities throughout its entire history. Considering this intimate, ongoing involvement by the City's staff liaison and the demonstrated monitoring that did occur in 2012, this finding does not seem reasonable.

As reported to the SAO, Tourism Walla Walla's reporting was inconsistent in 2012; it had four CEO's in that year including an administrative assistant in the interim; another released for performance issues; and a third in a part-time capacity. The City did its best under the circumstances to monitor the organization; attending meetings; reviewing financial reports; and supporting the group's efforts to accomplish its mission of tourism promotion. To avoid further demands on the faltering administration of Tourism Walla

Walla and because of the knowledge the City had regarding Tourism Walla Walla activities, the City did not withhold monthly payments in response to their failure to provide the contractually required detailed documentation. Our goal was to help them achieve compliance with their reporting, and we pushed the short term CEO in mid-2012 to complete the reports for the final quarters of 2011, and she did. However, she left before she provided any of the 2012 reports.

More specifically, the SAO claims that, when they requested the required reports, invoices, and documentation, the City did not have this information and had to contact Tourism Walla Walla to request the information. The City has taken the position and documented it that only as necessary would it request "... invoices, agreements and supporting documentation for expenses to demonstrate City funds were used for Tourism promotion". The contract does not stipulate a frequency or actual provision of those documents as it does for quarterly reports. Section 5 of that agreement, "COMPENSATION AND MANNER OF PAYMENT" reads:

- A. Tourism Walla Walla shall submit quarterly reports to the City of Walla Walla stating and detailing the economic development services provided by Tourism Walla Walla during the preceding quarter.
- B. Tourism Walla Walla may be required to submit additional reports as stipulated by the City.

Following the lead provided in Subsection B for "additional" reports, later in the agreement under Section 6, EXPENSES it states:

Contractor shall provide the City with copies of all agreements, invoices and other expense documents for which City funds were the source of payment.

Regarding TWW's documentation of the use of Lodging Tax, TWW was able to provide copies of all requested documentation. A few payments lacked sufficient detail to show that use of the funds was appropriate, however, the City is working with TWW to help them develop methods for better tracking and justification of payments. More importantly, no incidence of noncompliance with expenditure requirements was found in that review.

Finally, as to the condition that a stand-alone accounting system is required by the contract for Tourism Walla Walla administration of the Tourism Promotion Area, the accounting of the TPA funds is done separately though not on a different computer or with different accounting software. Tourism Walla Walla has established a method for capturing the expenses and revenues associated with the TPA, therefore, we consider that to be a separate accounting system. It is important that TWW be able to document the funding they received for the TPA and the expenses associated with the TPA. Having a separate "fund" indicates that they are accounting for the TPA separately from the Tourism Walla Walla activity. To assist them in this effort, the City sends Tourism Walla Walla separate checks, one from Lodging Tax revenues and the second from TPA revenues.

The City will review and revise both of its agreements with Tourism Walla Walla to clarify its requirements and the nature of its monitoring of related activities. In addition, the City will work with TWW to ensure that they understand what is required and provided to the City.

Auditor's Remarks

The City did not monitor the contract in accordance with the established contract provisions to ensure funds are spent in accordance with State law. We reaffirm our finding. We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 67.28.1815 - Revenue — Special fund — Uses for tourism promotion and tourism facility acquisition and operation, states:

Except as provided in RCW 67.28.180, all revenue from taxes imposed under this chapter shall be credited to a special fund in the treasury of the municipality imposing such tax and used solely for the purpose of paying all or any part of the cost of tourism promotion, acquisition of tourism-related facilities, or operation of tourism-related facilities. Municipalities may, under chapter 39.34 RCW, agree to the utilization of revenue from taxes imposed under this chapter for the purposes of funding a multijurisdictional tourism-related facility.



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 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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