



Washington State Auditor's Office

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Accountability Audit Report

Seattle Indian Services Commission

King County

For the period July 1, 2012 through December 31, 2015

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Washington State Auditor's Office

October 31, 2016

Board of Directors
Seattle Indian Services Commission
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 Commission 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 Commission'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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

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

However, we identified areas in which the Commission could make improvements.

We recommended the Commission establish controls to ensure reports are prepared, certified and submitted within one hundred and fifty days after the close of each fiscal year to the state auditor.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Seattle Indian Services Commission from July 1, 2012 through December 31, 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 Commission'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:

- Financial condition
- Filing of annual reports

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The Seattle Indian Commission did not issue timely annual financial reports.

Background

Washington State law requires every local government to prepare, certify and submit annual financial reports within one hundred and fifty days after the close of each fiscal year to the state auditor.

The Commission is responsible for designing and following internal controls that provide reasonable assurance financial reports are submitted timely.

Description of Condition

The Commission contracted with an accounting firm to prepare the financial reports. The City of Seattle as the Commission's oversight agency, assisted with the submittal of these reports. During our audit, we found the Commission

- Did not submit its annual financial reports for fiscal years 2013 and 2014.
- Submitted the fiscal year 2015 annual report twenty nine days after the due date.

Cause of Condition

The Commission does not make it a priority to ensure financial reports are submitted timely.

Effect of Condition

Delays in filing the financial reports prevents the public from obtaining timely information about the Commission's fiscal operations. It also hinders transparency to citizens and the efforts of the State Auditor's Office to compile statistical and financial information for use by the State Legislature and others.

Recommendation

We recommend the Commission establish controls to ensure reports are prepared, certified and submitted within one hundred and fifty days after the close of each fiscal year to the state auditor.

Commission's Response

The Commission appreciates the opportunity to respond to the State Auditor's Office finding regarding the timely online filing of financial reports. The Commission agrees with the findings and has completed the filing of the online financial reports for the fiscal years 2013 and 2014. The Commission will work with its audit firm to ensure that future annual financial statements are filed with the State Auditor's Office within the prescribed period. In addition, the Commission's support staff will participate in future training opportunities that are made available through the State Auditor's Office of Local Government Support.

Auditor's Remarks

We appreciate the Commission's commitment to resolve this finding and thank the Commission 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 43.09.230 – Local government accounting – Annual reports – Comparative statistics.

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government, to which power has been delegated by the state to create a public debt, showing the purpose for which each item of the debt was created, and the provisions made for the payment thereof; (3) a classified statement of all receipts and

expenditures by any public institution; and (4) a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement; together with such other information as may be required by the state auditor.

The reports shall be certified as to their correctness by the state auditor, the state auditor's deputies, or other person legally authorized to make such certification.

Their substance shall be published in an annual volume of comparative statistics at the expense of the state as a public document.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Seattle Indian Services Commission King County July 1, 2012 through December 31, 2015

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

Audit Period: July 1, 2011 through June 30, 2012	Report Ref. No: 1010848	Finding Ref. No: 1
Finding Caption: The Seattle Indian Services Commission was not able to issue timely and accurate annual financial reports.		
Background: It is the responsibility of Commission Board to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. The Seattle Indian Services Commission is required to issue annual financial statements to satisfy the requirements of its debt holders and its charter. During the audit period, the Commission had no employees and the City of Seattle, its oversight agency, was assisting with record keeping. Our audit of the 2012 financial statements identified a significant deficiency in internal controls over financial statement preparation. The Board did not dedicate the necessary resources or prioritize acquiring accounting assistance or establishing processes to prepare accounting records and to ensure accurate and timely financial reporting.		
Status of Corrective Action: <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The Commission has taken the necessary steps to ensure adequate internal controls over recordkeeping and financial statement preparation. Since 2013, the Commission has retained the services of a private certified public accounting firm to conduct audits of its financial statements. The Commission has also improved its recordkeeping by retaining, through the City of Seattle, a property management firm for all recordkeeping/financial management functions. The Commission believes these actions, along with continued support from the City of Seattle, will ensure that accounting records and accurate/timely financial reporting will occur.</i>		

Audit Period: July 1, 2008 through June 30, 2010	Report Ref. No: 1006665	Finding Ref. No: 1
Finding Caption: The Seattle Indian Services Commission Board provided inadequate oversight of commission activities, resulting in questionable expenditures and a decline in the health of Commission's building.		
Background: During the audit period, the Commission's monthly expenses consistently exceeded monthly revenue and the average available monthly balance declined. Subsequent to the audit period, the Commission's available cash balance has gradually increased due to reduction in payroll expenses. The Commission's Board is made up of two representatives from four organizations: the American Indian Women's Service League, the Seattle Indian Center, the Seattle Indian Health Board, and the United Indians of All Tribes. The Seattle Indian Center and the Seattle Indian Health Board are tenants in the Commission's buildings. The Commission's Executive Director and Assistant Director were responsible for all administrative functions until they left employment in 2010. The Board now has sole responsibility for managing the two buildings and for setting and collecting rent sufficient to pay for building debt, operations and maintenance. The following concerns were noted: <u>Financial Reporting:</u> We contacted the Commission in March 2011 to schedule its regular, two-year audit. The Board President stated the Commission did not have money to pay for the audit. She also stated she believed it would be difficult to locate financial records because they had been moved in anticipation of the Commission selling one of its buildings. We also learned the Commission canceled the 2009 financial statement audit that was to be performed by a private firm in 2010 and did not prepare for or schedule the 2010 financial statement audit. The Commission has not issued audited financial statements for 2009 or 2010. The Commission's most recent audited financial statements were for 2008. The Commission does not keep a journal of accounting records and has no general ledger that could be used to prepare financial statements. Bank statements and support for some vendor payments were piled in boxes that we and the Commission organized in an attempt to complete our audit. <u>Internal Controls:</u> The Board delegated all key duties to the former Director who in turn delegated them to the former Assistant Director, including authority to sign checks, keep accounting records, receive bank statements, maintain inventory, and all other business functions. These duties are incompatible and should not be performed by one individual. The Board did not provide adequate oversight of these activities.		

We reviewed all operating bank account and gift shop bank account activity from June 2008 through June 2010 and found questionable expenditures of more than \$73,943.

Four of the Commission's Board members represent two organizations that rent space from the Commission's two buildings. This puts these Board members in a position to set rent for the space their organizations occupy, making them both landlord and tenant. As a landlord, Board members may have to significantly raise rent. As tenants, they are concerned about the costs their organizations pay for space. The two roles can inherently lead to conflicts of interest. State law allows contracts in which public officials are both landlord and tenant, but those officials cannot vote on such contracts. Since four of the members represent tenants, only the four remaining Board members would be eligible to vote. State law (RCW 42.23.040) requires a majority of Board Members to approve such contracts.

The Commission's main source of revenue is charges for building space use. The Board determines rent and fees. Substantially all of the building space not used by the Commission office is subject to long-term leases with the Seattle Indian Health Board and with the Seattle Indian Center. Leases are based on the amount needed to pay off the building-related debt. Tenants pay rent through 30-year leases that began when the buildings were built. The Commission annually establishes and charges the tenants other fees to pay Commission costs. The Commission does not set annual fees that are sufficient to pay for all building-related costs including capital maintenance and repairs and basic operating costs. As a result, the Commission has no capital reserves to pay for future capital costs or currently needed repairs. One of the Commission's buildings is in need of approximately \$2.5 million in repair work to bring the building to rentable condition, but the Commission has no money to pay for it. Additionally, the Commission has no earthquake insurance, placing it at risk of further repairs it would not be able to pay for.

Status of Corrective Action:

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

Corrective Action Taken:

In response to the State Auditor's Findings, the Seattle Indian Services Commission (Commission) has taken the following actions:

The Commission, with the assistance of the City of Seattle, prepared financial statements for fiscal years 2009, 2010 & 2011 that were audited by the State Auditor's Office. The City of Seattle also retained, for the benefit of the Commission, the services of a bookkeeper to assist with electronic recordkeeping that was invaluable in the preparation of the financial statements for fiscal year 2009, 2010 & 2011. These controls are still in place today with the preparation of financial statements by a private audit firm and recordkeeping/financial management tasks performed by a property management company.

The Commission no longer has paid dedicated staff and has, through the City of Seattle,

*retained the services of a property management company that provides financial management services. The Commission's has also put into place a system/process that includes review of **all** invoices by the Commission's Secretary/Treasurer before submittal to the full Board at their monthly meetings (this includes reimbursement requests by individual Board members.) The property management company only makes payments on invoices that have been approved by the Commission. The Commission believes this system of checks and balances provides adequate internal controls and addresses future questionable expenditures.*

In its response to the State Auditor's October 2011 Accountability Audit Report, the Commission acknowledged that past practices led to questionable expenditures during the June 2008 through June 2010 period. The Commission immediately put into place a system that removed all invoice approval/check writing authority from a single individual. In addition, financial records (bank statements) and invoices are reviewed/approved at monthly Board meetings. The Commission believes that this system, along with actions taken under "Internal Controls" should provide adequate safeguard to identify potential questionable expenditures at the onset.

In response to the State Auditor's October 2011 Accountability Audit Report, the Commission amended its Charter to remove members of the Board that were tenants in the Commission's properties (Pearl Warren Building and Leschi Center.) There are no longer any members of the Board that have any conflict of interest associated with tenancy in the properties.

Building Rent and Repairs:

The Commission no longer has long-term tenants in its properties. The Leschi Center was sold to the Seattle Indian Health Board and they are responsible for all operating and maintenance costs. As a result of the sale of the Leschi Center, the Seattle Indian Health Board was allowed to vacate the Pearl Warren Building. The Commission also acknowledges that the Pearl Warren Building is in need of repairs to address damage associated with water infiltration. The Commission is currently exploring various options that range from short-term repairs so that the property can be rented (1 to 5 year period) and has retained a nonprofit developer to explore the potential redevelopment of the property as a long-term option within the next 5-year period.

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available from Seattle Indian Services Commission.

Special investigations

We noted certain matters that we communicated to Commission management in a letter, relating to cash disbursement misappropriation. We appreciate the Commission's commitment to resolving those matters.

INFORMATION ABOUT THE COMMISSION

The Seattle Indian Services Commission is a public corporation formed by the City of Seattle in 1972 to serve the Native American residents of Seattle/King County. The Commission was chartered to act as an umbrella organization for other agencies that provide services. The Commission owns and rents space in the Pearl Warren Building to social service providers. The Commission constructed the Pearl Warren Building and derives approximately 94 percent of its revenue from the rents. Commission offices are located in its building.

The Commission has an annual budget of \$500,000. The Commission is governed by a five-member Board of Directors, consisting of: One member appointed by the Mayor of Seattle, who serves as Chair; and Four members appointed by the Commission's Governing Council. All members are subject to confirmation by the Seattle City Council.

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 Seattle Indian Services Commission 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.

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