

Washington State Auditor's Office
Accountability Audit Report

**Bellingham-Whatcom
Public Facilities District
Whatcom County**

Report Date
April 14, 2006

Report No. 70948

Issue Date
June 2, 2006



Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

June 2, 2006

Manager and Board of Directors
Bellingham-Whatcom Public Facilities District
Bellingham, Washington

Report on Accountability for Public Resources

Please find attached our report on the Bellingham-Whatcom Public Facilities District's accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**Whatcom Public Facilities District
Whatcom County
April 14, 2006**

Audit Summary.....	1
Description of the District	2
Audit Areas Examined.....	3
Schedule of Audit Findings	4

Audit Summary

Bellingham-Whatcom Public Facilities District Whatcom County April 14, 2006

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Bellingham-Whatcom Public Facilities District.

We performed audit procedures to determine whether the District complied with state laws and regulations and its own policies and procedures. We also examined District management's accountability for public resources. Our work focused on specific areas that have potential for abuse and misuse of public resources.

Areas examined during the audit were selected using financial transactions from January 1, 2002, through December 31, 2004.

RESULTS

In most areas, the District complied with state laws and regulations and its own policies and procedures. However, we identified one condition significant enough to report as finding.

- The District did not comply with state law when it awarded payments to three design competition finalists.

CLOSING REMARKS

We thank District officials and personnel for their assistance and cooperation during the audit.

Description of the District

Bellingham-Whatcom Public Facilities District Whatcom County April 14, 2006

ABOUT THE DISTRICT

The Bellingham-Whatcom Public Facilities District was created in 2002 by the City of Bellingham and Whatcom County. The District's mission is to fund a Regional Center and Cultural District in downtown Bellingham designed to increase economic prosperity and lay a foundation for further public and private investment in the community. The District is governed by a seven-member Board of Directors and an inter-local agreement between the District and the City of Bellingham. It is managed by two part-time staff members with operational support from the City and private service contracts. Expenditures in 2002, 2003 and 2004 were \$403,848, \$1,376,253 and \$4,849,046, respectively.

AUDIT HISTORY

This is the first audit of the District since its inception.

APPOINTED OFFICIALS

Board of Directors:

Dean Brett
Yvonne Bianchi
Jerry Chambers
Dunham Gooding
Charles Self
David Warren
Robin Halliday
Patricia Decker

Manager

ADDRESS

District

Suite 308
104 West Magnolia Street
Bellingham, WA 98225

Audit Areas Examined

Bellingham-Whatcom Public Facilities District Whatcom County April 14, 2006

In keeping with general auditing practices, we do not examine every portion of the Bellingham-Whatcom Public Facilities District's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the District were examined during this audit period:

ACCOUNTABILITY FOR PUBLIC RESOURCES

We evaluated the District's accountability in the following areas:

- Petty cash, change and revolving accounts
- Cash receipting and revenues
- Safeguarding of assets
- Purchase of goods and services
- Expenditures, vouchers and credit cards

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Insurance and bonding
- Ethics/conflict of interest laws
- Open Public Meetings Act
- Legal and supported payments
- Certification and approval of expenditures
- Allowable expenditures
- Competitive bid law compliance
- Contracts and agreements
- Contracting for architecture and engineering, construction, purchased services and personal services

FINANCIAL AREAS

The District is a blended component unit of the City of Bellingham. The City, through an inter-local agreement with the District, provides administrative services and financial management. The District is reported as a non-major special revenue fund in the City's financial statements. The financial operations of the District are reviewed during our annual financial statement audit of the City. Separately issued financial statements can be obtained from the City at 210 Lottie, Bellingham, WA 98225.

Schedule of Audit Findings

Bellingham-Whatcom Public Facilities District Whatcom County January 1, 2003 through December 31, 2004

1. The Bellingham-Whatcom Public Facilities District did not comply with state law when it awarded payments to three design competition finalists.

Description of Condition

The District sponsored a competition to select a design and architectural team for a new children's museum and art museum. Three finalists were selected and each received a payment of \$10,000. At the time the payment was made, it was unclear what services had been received by the District. State law requires goods or services to be provided prior to payment.

Cause of Condition

The District did not clearly document in advance of the payments what services were being provided.

Effect of Condition

Since the District did not clearly document what it received in return for the payments, the payments may be unallowable.

Recommendation

We recommend the District comply with state law.

District's Response

We acknowledge that our contract for services with the finalists in the Art & Children's Museum Design Competition did not clearly set forth which services we would receive in advance of the first \$10,000 payment and that we did not adequately document receipt of services prior to making that first payment.

As noted in our prior submissions to you, the requirements set forth in the October 1, 2004 Competition Kit were incorporated by reference into the October 13, 2004 contract. Competition Kit requirements and timeframes could only be met by delivering services in advance of the first payment, including meetings, site visits, cost estimating services and design services. Although we did not require specific documentation, we knew we did receive substantial services in advance of the first payment. Our detailed response dated May 12, 2006 documents that we did in fact receive more than \$10,000 worth of services in advance of the first payment for that amount.

Only by meeting all requirements, specifications and timelines set forth in the Competition Kit and agreed to in the contract would the service provider be able to succeed in the competition and become eligible to negotiate a substantial design services contract for the facility.

Nevertheless, in any future contracts we enter into as part of a design competition, we will clearly set forth those services to be received and will document the receipt of such services before a payment is made.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during the next audit.

Applicable Laws and Regulations

RCW 42.24.080 states:

Municipal corporations and political subdivisions — Claims against for contractual purposes — Auditing and payment — Forms — Authentication and certification.

All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision. Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision; and no claim shall be paid without such authentication and certification: PROVIDED, That the certificates as to claims of officers and employees of a county, city, district or other municipal corporation or political subdivision, for services rendered, shall be made by the person charged with the duty of preparing and submitting vouchers for the payment of services, and he or she shall certify that the claim is just, true and unpaid, which certificate shall be part of the voucher.

Article VIII SECTION 7 of the Washington State Constitution states:

CREDIT NOT TO BE LOANED. No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm, or become directly or indirectly the owner of any stock in or bonds of any association, company or corporation.