

Schedule of Audit Findings and Responses

Richland Public Facilities District Benton County February 22, 2008

1. The Public Facility District had inadequate internal controls over monitoring of consultant contracts.

Description of Condition

During our review of architecture, design and management contracts and agreements for the District for fiscal years 2004 through 2006, we identified the following:

- Twenty-eight instances in which there were no itemized meal receipts totaling \$2,814 and three instances in which there was no itemized meal receipts for meals purchased with credit cards totaling \$180.
- Five instances in which the consultant billed a total of \$488 for services that should not have been billed to the District.
- Seven instances in which travel expenditures from sub-consultants totaling \$7,471 did not have supporting documentation.
- Six instances totaling \$247 of invalid expenditures for the District.
- Five instances totaling \$678 in unsupported expenditures.
- Eight instances of alcohol purchases for a total of \$128.
- One instance where the District paid for half the expense of a private organization, Reach Board Retreat, totaling \$2,956, which is an unallowable expense.

We further identified in the management consulting contract for services rendered from fiscal years 2004 through 2006:

- There were 14 instances in which the consulting firm billed the District beyond the maximum monthly billing limit of \$24,000 per month in management fees for services totaling \$36,995.
- The original contract signed with the management firm stated the firm would not be paid more than \$440,000 from July 23, 2003, through July 25, 2005. However, the District paid an additional \$88,000 from December 2004 through March 2005. The contract was amended in March 2005 to increase the total contract cost to \$1.5 million to the end of the project date.

We noted that the management firm billed the District for performing services for the REACH Board without a contract in place showing the benefit to the District from the Consulting Firm's services. The total amount paid to the Consulting Firm totaled \$241,013. This is an unallowable expense for the District.

Cause of Condition

The District did not have internal controls in place to monitor contracts and agreements to ensure contracts did not exceed limits and that expenditures were adequately supported and for a valid District purpose.

Effect of Condition

The District paid on contracts and agreements without a contract in place that exceeded the contract limits and paid for expenditures that were not adequately supported or allowed.

Recommendation

We recommend the District establish and follow internal controls to ensure current contracts are in place, contract limits are not exceeded and contract expenditures are allowable, supported and for a valid District purpose.

District's Response

The Richland Public Facilities District hired the City of Richland via contract to manage its finances, including the review and processing of all payments from funds generated from the bond sale and other government contributions. Regrettably, we failed to implement the reimbursement policies of the City of Richland for formal review and adoption by the RPF board.

On September 10, 2007, the Richland Public Facilities District hired Kimberly Camp as its first employee. Camp came to the position with experience in facility construction for governmental agencies. We now have oversight in place to ensure that we are in compliance with Applicable Laws and Regulations for the State of Washington for any and all future contracts. Further, to ensure that we are in compliance, we will develop, for adoption, policies that require all contracts to be in compliance with state statutes.

In December 2007, we adopted policies for check signing, and for short term investments and have approved goals and objective for the new CEO that include evaluation of the City of Richland contract for financial management, increased effectiveness in tracking expenditures and researching financial management software for accommodating future expenditures, investments and contributions.

With regard to the consulting contract for project management services, the RPF recognized its responsibility to raise funds from other public and private sources in order to achieve the fundraising goal of \$40.5 million. To aid in that effort, the RPF increased the scope of consulting contract to include fundraising efforts. These efforts included working with the Hanford Reach Interpretive Center board of directors, in subcontracting fundraising counsel and in the development of materials and presentations for fundraising purposes. The results of this approach required additional expenditure by the RPF. However, these efforts resulted in a total of \$23 million raised to date, \$16 million over the amount provided for with bond sales via the RPF. This reflects a development cost that is below the average for professional fundraising efforts of \$.25 per \$1.00

In 2007, the RPF signed a Memorandum of Agreement with the board of directors of the Hanford Reach Interpretive Center to formalize their role in assisting with fundraising efforts. They also recruited a capital campaign steering committee comprised of civic, industry, political and business leaders from the Tri-Cities and surrounding areas. To date, efforts have included a recent announcement of a \$2.3 million contribution from the private sector, and efforts to get passage of pending legislation by the State of Washington to increase the RPF's tax credit by .025, providing approximately \$6 million in additional dollars for the project.

Auditor's Remarks

We will follow up on this issue during our 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.

RCW 43.09.200 states:

Local government accounting -- Uniform system of accounting.

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Volume I, Part 3, Chapter 1 of the Budgeting, Accounting and Reporting System (BARS) Manual, issued by the State Auditor's Office pursuant to RCW 43.09.230, states in part:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

The ultimate responsibility for good internal controls rest with management.

City of Richland - Richland Public Facilities District Index No. 1420 Policy:

II. B. Non-Allowable Expenses.

Expenses of a personal nature that do not benefit the City which might have been incurred even if the traveler was not on official business are not reimbursable. Examples include but are not limited to dependent expenses, entertainment, traffic fines, loss or damage to personal property, purchase of personal articles, personal telephone calls, in-room movies, laundry service, valet service and alcoholic beverages.

Schedule of Audit Findings and Responses

Richland Public Facilities District Benton County February 22, 2008

2. The District did not follow state law for procuring public works projects and professional service contracts.

Description of Condition

During our review of compliance with bid law requirements for both public works projects and professional service contracts, we identified areas of bid law noncompliance which are noted below.

One Public Works Project Totaling \$177,150:

- Did not have all the original bid documentation of bids submitted by contractors. Thus we were not able to determine if the lowest bidder was selected.
- Did not have a signed contract with the District.
- Did not have a performance bond.
- Did not have a liability insurance document.
- Was paid \$7,255 more than the original contracted amount.

Architect and Design Service Contracts:

- One contract was not formally advertised.
- Two contracts did not have an established dollar threshold in the contract that outlined how much the District would pay for services rendered. The District paid a total of \$1.7 million from 2004 through 2006 for one contract and paid a total of \$2.7 million from 2004 through 2006 for the second contract. Because the contracts did not have a specific dollar amount identified, we cannot determine if the District received adequate services at a reasonable cost.

Cause of Condition

The District did not have internal controls in place to ensure compliance with state procurement and bid laws.

Effect of Condition

The District did not comply with state statute.

Recommendation

We recommend the District establish and follow internal controls to ensure compliance with state law.

District's Response

The Richland Public Facilities District (RPF) exercised due diligence by seeking advice from two Washington law firms, one of which was counsel for several PFDs in other municipalities. Counsel was hired to review contract requirements for commencing the RPF's work, including site preparation and design services. Further, the RPF Board of Directors relied on local government resources for advice and counsel, and contractually retained the City of Richland to manage its finances, including the review and processing of all payments from funds generated from the bond sale and other government contributions, and "... the filing of State and Federal financial documents, coordination of annual State audit and procurement of insurance policies."

In the case of contracts for architectural and design services, the RPF Board exercised due diligence, reviewed and revised these contracts according to recommendations from legal counsel. In order to ensure that there are appropriate controls in place, we are currently renegotiating these contracts to ensure that we are in compliance with state statutes, and that they contain measurable thresholds for performance and payment.

On September 10, 2007, the Richland Public Facilities District hired Kimberly Camp as its CEO. Camp came to the position with experience in facility construction for governmental agencies. In addition, a Finance Manager was hired in January 2008. We now have oversight in place to ensure that we are in compliance with Applicable Laws and Regulations for the State of Washington for any and all future contracts. Further, to ensure that we are in compliance, we will develop, for adoption, policies that require all contracts to be in compliance with state statutes.

Auditor's Remarks

We will follow up on this issue during our next audit.

Applicable Laws and Regulations

RCW 35.22.620 states:

(2) of this section, a first-class city with a population of one hundred fifty thousand or less shall not have public employees perform a public works project in excess of fifty thousand dollars, or sixty-five thousand dollars after January 1, 2010, if more than one craft or trade is involved with the public works project, or a public works project in excess of thirty thousand dollars, or forty thousand dollars after January 1, 2010, if only a single craft or trade is involved with the public works project or the public works project is street signalization or street lighting. A public works project means a complete project. The restrictions in this subsection do not permit the division of the project into units of work or classes of work to avoid the restriction on work that may be performed by day labor on a single project.

RCW 39.08.010 states:

Whenever any board, council, commission, trustees, or body acting for the state or any county or municipality or any public body shall contract with any person or corporation to do any work for the state, county, or municipality, or other public body, city, town, or district, such board, council, commission, trustees, or body shall require the person or persons with whom such contract is made to make, execute, and deliver to such board, council, commission, trustees, or body a good and sufficient bond, with a surety company as surety, conditioned that such person or persons shall faithfully perform all the provisions of such contract and pay all laborers, mechanics, and subcontractors and material suppliers, and all persons who supply such person or persons, or subcontractors, with provisions

and supplies for the carrying on of such work, which bond in cases of cities and towns shall be filed with the clerk or comptroller thereof, and any person or persons performing such services or furnishing material to any subcontractor shall have the same right under the provisions of such bond as if such work, services, or material was furnished to the original contractor

RCW 39.80.030 states:

Each agency shall publish in advance that agency's requirement for professional services. The announcement shall state concisely the general scope and nature of the project or work for which the services are required and the address of a representative of the agency who can provide further details. An agency may comply with this section by: (1) Publishing an announcement on each occasion when professional services provided by a consultant are required by the agency; or (2) announcing generally to the public its projected requirements for any category or type of professional services.

RCW 39.80.050 states:

(1) The agency shall negotiate a contract with the most qualified firm for architectural and engineering services at a price which the agency determines is fair and reasonable to the agency. In making its determination, the agency shall take into account the estimated value of the services to be rendered as well as the scope, complexity, and professional nature thereof.