



**Office of the Washington State Auditor
Pat McCarthy**

August 20, 2021

Mayor and City Council
City of Seattle
Seattle, 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 Seattle from July 1, 2019, through June 30, 2020. We believe our recommendations will assist you in improving the City's internal controls in this area.

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 (206) 615-0557.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. 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 their cooperation and assistance during the audit.

Sincerely,

Joseph Simmons, Audit Manager

Attachment

Management Letter

City of Seattle

July 1, 2019, through June 30, 2020

King County Equity Now Community Research Project

On November 18, 2020, the Seattle City Council awarded a \$3 million consultant agreement to Freedom Project, a 501(c)(3) nonprofit corporation. Freedom Project later hired King County Equity Now (KCEN), a community organization, to provide independent research to identify priorities for community investments and a participatory budgeting process.

Under Seattle Municipal Code, the City must follow a competitive bidding process or select a consultant from the City's established consultant rosters when hiring a consultant for more than \$54,000. However, a subsection of Seattle Municipal Code allows the City to bypass competitive bidding and the consultant roster in certain circumstances, including awarding contracts to public benefit nonprofit corporations.

Chapter 20.50 of the Seattle Municipal Code relates to the Procurement of Consultant Services. Section 20.50.090 states:

20.50.090 - Requirements inapplicable under certain conditions.

The provisions requiring and related to a formal advertised competitive selection process in this chapter shall be inapplicable in the following circumstances:

- A. When a Department head determines that such provisions would adversely affect the City's interests either because an emergency exists or because compliance with such provisions would have a significant adverse effect. The Department head shall file a written explanation of the determination with the Contract.*
- B. When a Department head determines that only one (1) Consultant is available with the expertise required to provide the services desired. The Department head shall file a written explanation of the determination with the Contract.*
- C. Whenever services are obtained for the City through cooperative and/or joint agreements with any state or governmental agency or subdivision thereof, or any other governmental unit or any public benefit nonprofit corporation.*

(Ord. [121722](#) § 9, 2005; Ord. [120794](#) § 40, 2002; Ord. [120181](#) § 68, 2000; Ord. [118397](#) § 54, 1996; Ord. [116000](#), § 9, 1991; Ord. [112334](#) § 9, 1985; Ord. [108762](#) § 11, 1980.)

At the time the City awarded the contract to Freedom Project, KCEN was not designated by the IRS as a 501(c)(3) organization, so a contract with KCEN would not qualify for the exceptions described above. The City contracted with Freedom Project as the contractor/fiscal agent, and Freedom Project then hired KCEN as a subcontractor to perform the work.

The contract between the City and Freedom Project listed four deliverables, which were summarized on one page:

- Contract Execution
- Project Plan and Schedule
- Preliminary Community Research Report
- Final Community Research Report

The City received the broad deliverables outlined in the agreement. However, we observed several problems in the contract and how it was established.

Usually, a Project Plan and Schedule would include a detailed scope of work, so the City is clear about the work the contractor will perform and what the City will receive. In fact, the City's procurement process typically involves a detailed scope of work in a contract of this size. In this case, the scope of work was not sufficiently defined to protect the City's interests. For example, the City did not specify how the money would be spent, including requirements on administrative costs; a method for compensating community participants; research methodology requirements; and details on how the City would use the results.

The City used the provision under SMC 20.50.090 to award the work to Freedom Project, as the contractor/fiscal agent, and Freedom Project then hired KCEN as a subcontractor to perform the work. This contract was specifically directed to this particular organization that requested the funding before the contract was awarded.

Finally, the agreement stated that Freedom Project could not assign or subcontract its obligations under the agreement without the City's written consent. We found that the City did not provide written consent for Freedom Project to subcontract its obligations before work was done by 13 subcontractors.

We recommended that the City:

- Define a more detailed scope of work in contracts awarded under Seattle Municipal Code 20.50.090.
- Follow the provisions of its own agreements on obtaining written consent for the contractor to hire subcontractors.
- Improve its documentation showing how it determined a contractor is best qualified, including explaining why a contractor would be uniquely qualified under SMC 20.50.090, and including that information in the Council resolution to award the contract.
- Consider conducting a more deliberative public process when awarding contracts under SMC 20.50.090 to improve transparency and accountability for the use of public funds.