

State Auditor Troy Kelley
Insurance Building
Capitol Campus
302 Sid Snyder Avenue SW
Olympia, Washington 98504-0021

November 17, 2016

Subject: Need for an audit of Seattle's Human Services Department

Dear Mr. Kelley:

We are community volunteers who have been working with homeless people and following the homelessness crisis in the Seattle area for a number of years. Seattle's Human Service Department (HSD) funds many of the private non-profit organizations that provide homeless services, and we have studied HSD's practices in depth. Much of what we see at HSD troubles us, and particularly troubling is HSD's relationship to a non-profit homeless service group known as the Seattle Housing and Resource Effort (SHARE).

For several years, HSD has not been following its own rules and procedures in monitoring its contracts with SHARE. Based on our research – which we have been publishing on the Internet – we believe that SHARE has embezzled and otherwise misappropriated hundreds of thousands of dollars of taxpayer money. This is money that was intended to pay for shelter for homeless people. We have been trying to bring this issue to HSD's attention for several years, but our concerns have been routinely dismissed. Recently, HSD staff told us they simply will not answer our questions.

Your office has identified several deficiencies in HSD's contract oversight generally and has given HSD specific directives to improve its performance; however, HSD has failed to make the needed changes. We therefore believe that other measures need to be taken. We are asking you to do a targeted audit of HSD and to use the strongest tools at your disposal to bring HSD into compliance with its own rules and with good oversight practices. Please consider the following:

1. HSD does not require SHARE to submit audited financials as required by its own rules

HSD's Master Agency Service Agreement (MASA - attachment A) states in Section 340(2) that any agency receiving over \$300,000 per year through HSD must annually

submit a “financial statement audit.” Page 4 of an HSD internal memorandum dated November 5, 2015 (Attachment B) shows that SHARE received well over \$300,000 in 2015, which was a typical recent year. However, a public disclosure request we made to HSD shows that the group has never submitted *any* audited financial records to HSD.

What SHARE *has* been submitting is something HSD’s fiscal audit specialist Efrén Agmata calls a “financial statement report.” (See Attachment B: November 5, 2015 memorandum, top of page 5.)

We have also attached an extract of SHARE’s report to HSD for 2012 and 2013 (Attachment C). On page 3 of that document is included a statement from Steven A. Isaacson (“CPA”), who takes pains to point out to the reader that the following report is not an audited financial statement, of the type that would have allowed him to “express an opinion regarding [SHARE’s] financial statements as a whole,” but rather something “substantially less in scope.” Isaacson describes the report as a summary of “inquiries of company personnel and analytical procedures applied to financial data” – whatever that means. He notes that all “information included in these statements is the representation of SHARE’s management.” There follows several pages of numbers and statements that seem to be just that: the representation by SHARE’s management and nothing more. Isaacson’s cover pages are boilerplate text that doesn’t change much from one year to the next. Isaacson submitted such reports to HSD for several years.

In the second paragraph on page 5 of the HSD internal memo (Attachment B), HSD’s fiscal reviewer Agmata notes that SHARE failed to submit “an audited financial report” for 2012. While that’s true, the fact of the matter is that SHARE has failed to submit an audited financial report for *any* year. Agmata goes on to say, in the next paragraph, that he received an “audited financial statements report” from SHARE for 2013. But that is not true. We have done exhaustive public disclosure requests on the SHARE financials in HSD’s possession. We have asked HSD personnel directly: Is there anything else out there on SHARE that you haven’t given us? – No, they say. We’ve given you everything.

This shows clearly shows that HSD hasn’t been following the MASA.

2. SHARE used an unlicensed accountant for years

In May of this year, we took the liberty of checking the credentials of SHARE’s accountant, Isaacson. We discovered that he’s not a Certified Public Accountant. Isaacson thus represented himself fraudulently not only to HSD but to the IRS, in preparing SHARE’s IRS 990 form. When HSD’s Agmata was asked why he didn’t check Isaacson’s

credentials on his own –a process that takes less than a minute online – he said that he trusts people to be who and what they say they are. We reported Isaacson to the Washington State Board of Accountancy. On November 1, 2016, he signed a consent decree with the Board to cease and desist from claiming he’s an accountant and agreeing to pay a fine of \$5,000. To our knowledge, HSD has not sanctioned SHARE for failing to ensure that Mr. Isaacson had the proper credentials.

After the bogus accountant story broke in the Seattle *Times*, SHARE claimed that they would contact the Board of Accountancy to file a complaint against Isaacson. They also claimed to be seeking a licensed CPA as a replacement for Isaacson. However, SHARE never contacted the Board of Accountancy to report Isaacson, and it took four months and a series of exchanges between us and the Seattle City Attorney’s office before the City finally compelled SHARE to secure a CPA. To date, SHARE has still not complied with the City Attorney’s directive that they have the new CPA review and resubmit their previous financials. (See July 13, 2016 letter from City Attorney Pete Holmes to SHARE, Attachment D.)

3. HSD not responsive to requests for information

In July 2016, we did a thorough analysis of a SHARE tax return (2012 IRS Form 990) and submitted a list of follow-up questions by certified mail directly to SHARE’s representative Michelle Marchand. (That letter is Attachment E.) One of our questions to Ms. Marchand went to the matter of a specific HSD contract provision: the winter and emergency shelter services. We asked Ms. Marchand to produce records showing that SHARE had actually provided such shelter services, for which they had been reimbursed.

SHARE signed for and received the letter but did not respond. Earlier, we had asked the same question of the Low Income Housing Institute (LIH), which is run by a business associate of SHARE director Scott Morrow and is the owner of the building SHARE had agreed to rent the winter shelter space from. Like SHARE, LIHI did not respond to our request for documentation. We have reason to believe that this shelter was never, in fact, provided, even though it was paid for by HSD. During the winter of 2013, a Kirkland homemaker named Janice Richardson had sought out winter shelter at the Frye for a woman who was a victim of domestic violence. Richardson was turned away by a Frye staff person with the excuse that there was no winter shelter there that year. At the time, Richardson sought an explanation for this from HSD. An employee of HSD named David Takami took Ms. Richardson’s info and promised to return her call. But he never did.

This has been a pattern we have observed: HSD gives money to SHARE to pay for services, but the services are not provided. When citizens ask either HSD or SHARE for verification that the services were provided, they are ignored. We have asked HSD's fiscal audit specialist Agmata and HSD Director Ms. Catherine Lester to sit down with us and answer a series of basic questions about their oversight of the SHARE contracts, and they have refused. Chelsea Kellogg, a public information officer for HSD, has told us that HSD is under no obligation to meet with us or answer our questions.

4. HSD not compliant with State Auditor directives

On September 30, 2014, your office published its findings of a single audit done on the City of Seattle and covering the year 2013 (Document #1012743). The audit was performed to determine how effectively the City is managing funds received from the federal government, which it passes through to service vendors such as SHARE. Your office found a number of deficiencies, which are typical of HSD's contract management generally. For example, on page 7 of the report the Auditor notes:

The Department does not consistently verify the information it receives from service providers. In regard to matching, program income, reporting, and subrecipient monitoring compliance requirements, the Department does not substantiate program information reported by service providers before using the information to submit reports to the federal grantor. The grantor then uses the Department's reports to make program and funding decisions. While subrecipient monitoring processes have improved in some ways in recent years, they do not compensate for lack of adequately documented invoices and program information.

This is just what we have seen *and continue to see* with HSD's SHARE contracts. In spite of directives from your office, HSD still does not verify information it receives from providers.

On pages 9 through 12 of your report, you make specific short- and long-term action recommendations and the City accepts them. The City commits to a target date of January of 2015 through December 2016 for the recommended long-term changes to be made. To our knowledge, the recommended changes have not been made. In any case, since HSD won't respond to our questions, we can't determine whether they're fulfilling their specific agreements or not. What we do know is that HSD continues to fail "to consistently verify information" it receives from SHARE.

Summary

Based on HSD's poor oversight of the SHARE contracts, and based on its unwillingness to engage with the public on problems with these contracts, we feel that an audit is called for. We ask you to meet with us to discuss our findings and then to sit down with HSD and take a hard look at the way that agency is dealing with SHARE and with other contractors. You may be able to apply pressure we were unable to in bringing the agency into compliance. By helping to reform HSD's practices, your office will greatly improve the service HSD provides to Seattle's homeless citizens and to Washington residents generally. Thank you!

Sincerely,

David Preston (for himself and Karen Morris)

[REDACTED]

Seattle WA 98106

[REDACTED]

e-mail: david@roominate.com

For a more specific analysis of SHARE's accounting troubles, see this blog article:

<http://roominate.com/blog/2016/anatomy-of-a-swindle/>

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