KING COUNTY

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES TO
THE FINANCIAL SYSTEMS REPLACEMENT PROGRAM

Cheryle A. Broom
King County Auditor
516 Third Avenue, Room W1020
Seattle, WA 98104-3272
(206) 296-1655
TTY/TDD 296-1024

MEMORANDUM

DATE: October 9, 2001

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Independent Accountant's Report on Applying Agreed-Upon Procedures – Financial-Related Audit of the Financial Systems Replacement Program (FSRP)

Attached for your review is the independent accountant's report on applying agreed-upon procedures for the FSRP. This financial-related audit was performed by Francis & Kirschner PLLC, under a consultant contract with the King County Auditor's Office.

The primary objective of the agreed-upon procedures was to provide reasonable assurance whether funds were spent in accordance with the program objective and the approved budget during the course of the FSRP. To accomplish this, the consultant analyzed the financial status of the FSRP, including a review of revenues, expenditures, liabilities, fund balances, and any other appropriate indicators of financial status to determine whether:

- payments were made in accordance with contract provisions,
- capital and operating funds were properly segregated,
- funds spent by the FSRP were charged to appropriate projects and expenditure categories,
- estimated work program budgets were monitored and compared to actual expenditures to identify where material discrepancies occurred,
- accounting for fixed assets acquisition and disposal was adequate, and
- internal controls were adequate to allow timely detection of budget and schedule overruns.

The consultant's general conclusion is that funds were spent in accordance with the program objectives and approved budget during the course of the FSRP. However, the consultant also determined that the county's policies and procedures regarding development projects could be strengthened or compliance improved.

The Executive Response, included in Appendix 8.1, concurs with most of the report's findings and recommendations. Responses to the individual findings and recommendations are incorporated into the audit text, and the consultant has added comments regarding some areas of disagreement.

The Auditor's Office appreciates the cooperation received from the Department of Finance management and staff.

CB:HR:jl:Cover Letter.doc
Attachment

King County FSRP
Agreed Upon Procedures Report

Table of Contents

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

King County Auditor's Office

We have performed the procedures enumerated below, which were agreed to by King County Auditor's Office, solely to assist you with respect to the accounting records of the Financial System Replacement Project for the period January 1, 1998 through April 30, 2001. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants and by the General Accounting Office's Government Auditing Standards, (i.e. the "yellow book"). The sufficiency of the procedures is solely the responsibility of King County. Consequently, we make no representation regarding the sufficiency of the procedures described in Sections A, B, C, D and E of the attached report either for the purpose for which this report has been requested or for any other purpose.

The procedures and our findings are described in the following sections of the attached report:

Section A. Hardware/Software procedures performed, findings and recommendations

Section B. Personnel Costs procedures performed, findings and recommendations

Section C. Consulting Costs procedures performed, findings and recommendations

Section D. Adjusting Journal Entries procedures performed, findings and recommendations

Section E. Other Costs procedures, findings and recommendations

We were not engaged to, and did not, perform a financial statement audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of King County and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Certified Public Accountants
August 17, 2001

EXECUTIVE SUMMARY

Introduction

An agreed upon procedures engagement relating to the Financial Systems Replacement Program (FSRP) for the period January 1, 1998 through April 30, 2001 was requested by the King County Auditor's Office. The request was prompted by Council's concern regarding how funds were expended and accounted for.

Project Objectives and Scope

The objectives of this project were to examine a significant volume of the financial transactions charged to the FSRP to determine that they were for goods or services relevant to the project, and that the costs were properly accounted for.

The agreed upon procedures were applied to costs incurred for project management office (PMO) (Project #344101), core financials (Project #344102), payroll/human resource (Project #344103), reporting/information distribution (Project #344104), integration/interoperations (Project #344105) and payroll stabilization (Project #344119) during the period from January 1, 1998 through April 30, 2001.

General Conclusions

Our findings indicate that funds were spent in accordance with the program objectives and with the approved program budget during the course of the program.

The findings highlighted in this summary are considered significant based on the nature of the findings, not because of the dollar value. Due to the nature of the engagement, we cannot make judgments regarding materiality. Agreed upon procedures engagement requires us to perform the procedures agreed to and report the findings regardless of the amount or nature of the finding.

Our application of agreed upon procedures to the financial records resulted in questioned costs aggregating $3,791,699. See **Basis for Questioned Costs and Proposed Adjusting Journal Entries** on page 6 for discussion of the criteria used for classifying these costs. While total questioned costs are material, most costs are questioned only with regard to compliance with County Policy not with regard to the validity of the cost. Of total questioned costs $3,608,971 falls into this category. The remaining $182,728 is questioned because documentation to support the validity of these transactions could not be located. Again this is not a statement as to the validity of the costs.

Also our work with selected FSRP financial records resulted in 33 proposed adjusting entries. Most of these entries are to move costs from the year in which they were recorded to the year of benefit. The net difference between Appendices 1.2 and 1.9 (the unadjusted and adjusted total FSRP costs) is an increase to costs of $1,746,271. Of this amount, $1,655,989 represents amounts ultimately charged against the financial operating budget per Ordinance 13905. (See **Explanatory Comment** on page 42). Therefore, the net amount of adjustments is $90,282.

County finance management should review the proposed adjusting journal entries to determine which will be recorded in the County's general ledger. Further, management will determine whether any costs are recoverable from vendors.

Our findings are indicative that there is room for improvement in both policies and procedures relevant to development projects and in compliance with existing policies and procedures.

Hardware/Software

Five recommendations are included in Section A. relating to improving controls over the purchasing, recording and safeguarding of assets. Most of these recommendations are applicable to all fixed asset purchases, not specifically to assets purchased for development projects. Only one recommendation is specific to development projects. That recommendation is that assets be tagged and a list of assets, which includes location, be maintained during the course of the project.

Findings

Significant findings in this area are:

- Use tax was not paid on the SAP software. The tax liability is $90,769. **Finding A. 7.** on page 11.
- Assets purchased for this project with costs totaling $1,937,699 ($1,164,492 of software and $773,207 of hardware) are currently idle. **Finding A. 6.** on page 10.
- Assets with a cost of $5,209 could not be located. **Finding A. 6.** on page 10.
- A piece of hardware was returned to the vendor. There is no evidence that credit for the purchase price of $3,448 was ever received. **Finding A. 4.** on page 10.

Personnel Costs

Three recommendations are included in Section B. Only one relates exclusively to development projects. Currently, paid time off is sometimes charged directly to projects via employee timesheets. An allocation of paid time off to projects based on the ratio of salaries charged to projects to total salaries for each cost center is always made whether or not direct costs are charged. Therefore, projects are sometimes overcharged for paid time off. We recommend that one method be selected for charging paid time off to projects and that procedures be implemented to ensure that the policy is carried out.

Findings

Significant findings in this area are:

- Two instances were noted where County Code 2.12.060 regarding record retention was not fully complied with. **Finding B. 1.** on page 15.

- There were eight posting or computation errors noted in our selection of 145 items. **Finding B. 3.** on page 16, **Findings B. 4.** and **B. 6.** on page 17 and **Finding B. 7.** on page 18.

- Not all supporting documentation could be located for 7 of the items in our selection. **Findings B. 5.** on page 17.

Consulting Costs

Eleven recommendations are included in Section C. Many of these relate to following County policies more completely. For example, instances were noted where work commenced prior to the related contract being signed. Procurement waivers were not always obtained when amendments were outside the scope of work of the original contract.

Findings

Significant findings in this area are:

- Work orders were signed by a consulting group named in the original contract as a subcontractor. The original contractor did not sign any of the eleven work orders to the contract. **Finding C. 14.** on page 29.

- The contractor originally engaged as PMO (344101) was subsequently asked to perform significant operational work in the payroll area. No procurement waiver was obtained for this work which appears to be outside the scope of services of the original contract. **Findings C. 5.** on page 23 and **C. 6.** on page 25.

- Other instances where it appears that contract amendments were used for work outside the scope of the original contract without either a procurement waiver or a RFP are described in **Finding C. 20.** on page 31.

- Services were rendered prior to the effective date of the contract. **Findings C. 10.** on page 27, **Findings C. 15.** and **C. 16.** and on page 30.

- It appears that attempts to identify which costs were operating and which were capital, in relation to FSRP, relied more on where there was remaining budget than on the nature of the work being performed. **Findings C. 22.** and **C. 23.** on page 33.

- Consulting invoices were paid, which contained errors or charges for amounts that did not agree to the supporting documentation provided by the contractor. **Findings C. 3.** on page 22**, C. 11.** on page 28**, C. 19.** on page 31 and **C. 27.** on page 35.

- Supporting documentation was not available for direct expense charges on 14 of the 60 items for which this support was requested. **Finding C. 21.** on page 32.

Adjusting Journal Entries

Two recommendations are contained in Section D. The first recommends that distinctions between capital and operating expenditures be clearly defined. In instances where there is borrowing between capital and operating funds, those agreements should be in writing. The second recommends that expenses be accrued to and recorded in the period of benefit regardless of when they are paid. Because the FSRP spanned a number of years, it appears that project management did not believe it was important to ensure that expenses were recorded in the proper year. With the effective date of a new generally accepted accounting standard for government entities, accrual accounting takes on increased significance..

Findings

The significant finding in this area is:

- Interfund transfers for costs related to loaned personnel, rent, etc. may be made monthly, bi-monthly, quarterly or annually. Accruals were not made to record these expenses in the period of benefit. **Finding D. 3.** on page 41.

Other Expenses

There are no recommendations as a result of the procedures performed in this area.

Findings

The only finding in this area is that one invoice requested could not be located. **Finding E. 1.** on page 44.

The costs associated with FSRP have been summarized in the following project categories:

FSRP Project Balances

Project #	Project Title	Budget	Unadjusted Expenditures	Adjusted Expenditures
344101	Project Management Office	$ 4,800,000	$ 4,347,171	$ 3,562,773
344102	Core Financials	12,442,512	12,356,834	12,871,919
344103	Payroll/Human Resource	10,927,945	12,180,436	12,560,010
344104	Reporting/Information Distribution	2,160,000	1,254,733	1,254,733
344105	Integration/ Interoperations	4,793,620	1,267,526	1,247,547
344119	Payroll Stabilization	2,088,003	1,818,961	3,474,950
		$37,212,080	$ 33,225,661	$34,971,932

Note: The adjusted amounts include a reclassification entry in the amount of $1,655,989, which is the amount of FSRP costs that were absorbed by the Finance Operating Budget. This is not a correction of an error. The amount is included to show the total amount expended for FSRP for the period for which the agreed upon procedures are applied. See Finding **Explanatory Comment** on page 42 for discussion.

Audit Approach

Based on our review of the amounts in Appendices 1.2 - 1.8, which were prepared from the IBIS web reports, we determined that by testing hardware/software, personnel costs, consulting costs, and any adjusting journal entries to these cost categories, we would be testing 92% of total costs for the five projects being tested.

Therefore, the agreed upon procedures report has separate sections which discuss the procedures performed and findings for each of these cost categories and for other expenses.

Basis for Questioned Costs and Proposed Adjusting Journal Entries

For purposes of this report, following criteria were used to identify questioned costs:

- County policy was not complied with fully.
- Supporting documents could not be located.

For purposes of this report, the following criteria were used to identify transactions proposed for adjustment:

- Posted to the incorrect project or year.

- FSRP costs not charged to projects.

- Non FSRP costs charged to projects.

Adjusting journal entries are proposed to the FSRP financial schedules (Appendices 1.2-1.15 on pages 47-60) on which we were asked to apply the agreed upon procedures. Therefore, they have been recorded to line items on these schedules rather than to general ledger accounts.

FINDINGS & RECOMENDATIONS

A. HARDWARE/SOFTWARE

Procedures Performed

We tested the hardware/software costs charged to projects by selecting a sample of 47 invoices paid between January 1, 1998 and December 31, 2000. Our sample covered 87% of the dollars expended for hardware and software during the life of the FSRP.

We physically identified the assets selected, determined whether they were in use or were idle, and identified assets that were obviously damaged.

We selected items from the Vendor History Report for several vendors that had supplied a significant number of the assets for FSRP and determined that those items were properly included or excluded from the FSRP accounts payable detail, depending on the purpose for which they were purchased.

Finding - A. 1.

King County Policy FIN 10-1 requires invoices to be processed within the discount period.

Master Computers offers a 1% discount for payments within 20 days of the invoice date. Our sample included twelve Master Computers invoices. Only once was the discount taken. The County lost $955 by not taking the discount on eleven of the Master Computer invoices tested. Because loss of discounts is in violation of County Policy, this is considered a questioned cost.

Executive Response
The finding is correct. Because of the control process the County follows in approving invoices for payment it is often difficult to take advantage of discounts. The Department of Finance, in conjunction with the Departments of Natural Resources and Transportation, is considering a pilot program focused on improving invoice processing and taking greater advantage of discounts offered by vendors

Finding - A. 2.

County personnel were unable to locate two of the invoices we requested for our detail testing. We were able to obtain other supporting documents for these purchases. Therefore, we were able to ascertain that the purchases were properly authorized, that the goods and/or services were received and that the entries were properly recorded in the accounting records. The only attribute we were unable to test was that the amount paid agreed to the amount invoiced. We do not consider these to be questioned costs.

See Appendix 7.1 on page 76 for list of missing documents.

Executive Response

The Accounts Payable (AP) supervisor indicated that the records were there at one time. Staff has looked for them several times over the course of the audit and since the audit work was completed and has been unable to find them. A number of people have been in and out of the files during this time period. AP allows agency staff access to voucher records for research and information management purposes. Although an "out" card is supposed to be placed in the file to indicate who has taken a voucher, resources are not available to monitor this on an ongoing basis. AP will continue to look for the missing documents.

Finding - A. 3.

While testing hardware purchased for FSRP, we noted that there was an inconsistency in the methods used to account for service contract/extended warranties. Sometimes they were recorded in the hardware/software general ledger account with the related asset. Sometimes they were charged to general and administration. We noted two instances where 3-year service contracts with aggregate values of $79,248 and $122,928 were charged to general administration. Because these contracts had a three year period of benefit, they should be expensed over a three year period. This could be done by capitalizing them as a part of the related asset which has a three year useful life or it could be done by setting up a prepaid asset account. Because we were unable to locate a County policy addressing how such costs are to be accounted for, we have reclassified them to the hardware account.

See proposed adjusting journal entries # 211 and 310 on Appendix 6.1. on pages 72 and 74.

See related recommendation at A. a. on page 12.

Executive Response

We agree that the 3-year service agreement costs should be expensed over three years. However, we disagree with the adjusting entries in which they reclassified the service agreement costs to the asset account with the expectation these costs would be capitalized over the three year asset life. Service contracts for assets purchased from governmental funds (non-enterprise or internal service funds) should be recorded as an administrative expense and not added to the asset cost. Assets in governmental funds are not capitalized in the fund and expensed (as depreciation) over the life of the asset. They are only listed as an asset within the General Fixed Asset Account Group. In addition, service agreements are operating costs, not part of the value of that asset. The proper entry would be to set up a prepaid asset account and write it off each year by recording a general administration expense in each of the three years of the agreement. The adjusting entries to each of the schedules in the audit report should reflect general administration expense in each year for one third of the total cost of each agreement and a balance in prepaid expense that remains for the agreement year(s) not used. The service agreement costs should not be "capitalized" in the hardware account.

Finding - A. 4.

One 14 Bay Deluxe Network Tower purchased in July of 1998 for $3,448 could not be located. We were informed that this equipment was returned to the vendor, however, there was no written documentation of this return. Accounts payable personnel were unable to locate a credit memo related to this return. We have reduced the Hardware/Software line item by this amount on the adjusted financial schedules.

See proposed adjusting journal entry #105 on Appendix 6.1. on page 70.

See related recommendation at A. d. on page 14.

Executive Response
We verified that the expenditure had been made and that no credit had been recorded or refund received for the return of this piece of equipment. An adjusting entry will be made to the fixed asset records of the County in addition to the adjusting entry made to the schedules of the audit report if the asset was recorded in the County's fixed asset accounting system. We will also pursue obtaining credit from the vendor.

Finding - A. 5.

One Pentium II system that was purchased for FSRP could not be located. The cost of this unit is $1,761. Because the asset could not be located, we will propose an adjusting journal entry to remove its cost from the FSRP financial schedules. Further, it was noted that an inventory list showing locations of the project assets was not maintained.

See proposed adjusting journal entry # 210 on Appendix 6.1. on page 72.

See related recommendation at A. b. on page 13.

Executive Response
Some of the computers purchased for the FSRP program were not tagged due to confusion between Metro and King County tagging requirements. Under Metro policies, computers did not need to be tagged, while King County policies require tagging. These policies have now been reconciled and computers are tagged when put in service. An adjusting entry will be made to the fixed asset records of the County in addition to the adjusting entry made to the schedules of the audit report if the asset was recorded in the County's fixed asset accounting system.

Finding - A. 6.

During our physical identification of selected assets purchased for FSRP, we noted the following:

- Assets with costs totaling $1,937,699 ($1,164,492 of software and $773,207 of hardware) were not currently being used.

- One asset with a cost of $5,568 was obviously damaged.

- Assets with a cost of $5,209 could not be located.

See related recommendations at A. b. and A. c. on page 13.

See Appendix 2.2 Summary of Physically Identified Assets on page 64.

Executive Response
We acknowledge that of $6.1 million dollars in assets purchased for the FSRP, $1.937 million remain idle. This includes $1.2 million in SAP and related software that cannot be used until an FSRP restart strategy is developed, approved by the Council and a determination is made as to whether SAP will be the core financial program used by the County.

The remaining idle equipment is being redeployed as quickly as possible. Most of the equipment can be used in other applications or by other agencies in the County. However, we have not aggressively pursued reallocation pending the completion of consultant studies and a decision on the restart of the FSRP.

Finding - A. 7.

It appears that the County did not remit use tax to the State on the purchase of SAP software. Further, it appears that this vendor is not registered with the state of Washington to pay sales tax and did not charge the County sales tax, therefore, it is the County's responsibility to remit the use tax to the State.

Procurement services and accounts payable personnel indicated that they believed software license agreements to be non taxable. This treatment is inconsistent with other software purchases specifically, it was noted that sales tax was paid on the PeopleSoft software also purchased for FSRP.

It appears this was a taxable purchase and that the County is liable for use tax. Based on the total amount invoiced of $1,055,449 for what appears to be canned software and license agreements the use tax is $90,769.

See proposed adjusting journal entry # 208 on Appendix 6.1. on page 72.

Executive Response
At the time the SAP software was purchased, it was unclear whether use tax was payable. SAP would be providing "services" to substantially modify the software to customize it to better fit the County's governmental accounting needs. Under the provisions of WAC 458-20-155 such "services" would not be subject to the sales or use tax. However, the

WAC also states that standard pre-written software programs, sometimes referred to as "canned" or "off-the-shelf" software, which are not originally developed and produced for the user, do not constitute professional services and are subject to use tax. We have now determined that the contracts and licenses with SAP were subject to the use tax even though significant modifications were made to "customize" the software for the County's needs. The use tax will be paid to the State.

Finding - A. 8.

IBM software costing $20,175 was mistakenly coded to general ledger account 56741 EDP Hardware.

See proposed adjusting journal entries #212 and 311 on Appendix 6.1. on pages 72 and 74.

Executive Response
The adjusting entries to the schedules in the audit reports are correct.

Finding - A. 9.

When testing certain items purchased under blanket purchase orders covering more than one year, we were unable to agree amounts paid by the County to the original purchase order since there had been price changes over the course of the purchase contract. Vendors issue new price lists each time prices are changed. These price lists are not always maintained on file.

See related recommendation at A. e. on page 14.

Executive Response
See executive response at recommendation A. e. on page 14.

RECOMMENDATIONS

A. a. Service Contracts/Extended Warranties - Finding A. 3.
King County frequently purchases service contracts/extended warranties for periods in excess of one year. It appears that these costs are sometimes considered part of the cost of the related assets and are capitalized. Sometimes the same type of costs are charged to an expense caption.

We recommend that the County develop a policy governing the accounting surrounding service contracts and that this policy be clearly communicated to all employees who might be involved in the purchase or accounting for this type of asset.

Executive Response
We concur. Although the County does have a policy in place, it may not be consistently applied. We also need to ensure the policy is fully documented and disseminated to all County agencies. Generally, service contracts for assets purchased with governmental funds (non-enterprise or internal service funds) should be recorded as a prepaid expense and expensed in general administration costs over the life of the service agreement. See additional comments in executive response at Finding A.3. on page 9.

A. b. Inventory records of assets - Findings A. 5. and A. 6.
While a policy exists requiring capital assets to be tagged upon receipt and physically inventoried annually, this policy was not applied to the FSRP. Because development projects often span a number of years and can encompass a significant number of assets we believe it is important that strong controls be in place to ensure the security of County assets.

We recommend that assets purchased for development projects be labeled upon receipt and that the accountant charged with responsibility for project accounting maintain a list of all project assets that includes the location and the condition of the asset. Project manager should be required to perform a physical inventory annually and report to the accountant the location and condition of the asset.

Executive Response
We concur. These policies and procedure requirements are already in place and are adhered to by the LAN administrative staff in the Department of Finance. The Financial Management Division (FMD) will review the County's fixed asset accounting policies and procedures and ensure they are properly documented and disseminated to agency, department and project management staff. FMD accounting staff will also work with agency and department financial staff and project managers to ensure that all County assets including those purchased for, used in and developed as a result of the various County capital projects are properly identified and accounted for.

A. c. Physical Safeguards over Assets - Finding A. 6.
There was some difficulty locating the original CDs for the SAP software. Because the CDs were ultimately located, this is not considered a questioned cost. While it is likely that the County could obtain whatever replacement CDs it might require at a nominal cost, it appears that physical safeguards over the hard copies of software could be improved.

We recommend that for significant development projects a responsible employee, be designated as the software custodian. The custodian should maintain the software in a physically secure location with limited access. If software is removed, it should be signed out and a due date for its return noted on the sign out sheet. If the software is not returned by the due date, the custodian should investigate and ensure a prompt return.

Executive Response
We concur. This is a reasonable recommendation and the recommended policies are appropriate. At the present time LAN Administrators are generally designated to perform this function.

A. d. Merchandise Returned to Vendors - Finding A. 4.
A CD tower purchased for the core financials project (344102) was returned to the vendor for a refund. Accounts payable has no record of this return. It appears that no credit was ever received.

We recommend that a policy be established requiring County personnel to notify accounts payable immediately when they return merchandise to a vendor.

Executive Response
We concur. This policy is already in place and there is a process in the IBIS financial system where County personnel record a return of merchandise or equipment purchased. Periodic reminders of system processes and procedures along with ongoing training opportunities will be pursued.

A. e. Vendor Price Lists - Finding A. 9.
We recommend that all price lists be retained in the vendor file for vendors with whom the County does repeat business, especially vendors with whom the County has a blanket purchase order or contract. This will provide evidence that the price paid by the County was the correct price at the time the purchase was made.

Executive Response
Routine and common procurement procedures require all price lists and any changes be part of the bid/vendor file maintained by Procurement. Copies of these prices and/or catalogs are sent to user agencies. Additionally, ARMS AP receives copies of price lists. Verification of correct invoice prices is the responsibility of users. Procurement does not receive invoices and thus cannot verify contract prices are invoiced or paid correctly.

B. PERSONNEL COSTS

Procedures Performed

We tested the personnel costs charged to projects by selecting a sample of 145 payroll transactions occurring during the period January 1, 1998 through April 30, 2001 and charged to any of the five FSRP projects being tested. We tested the validity of these time charges and verified the accuracy of the dollars charged to programs.

To test other personnel costs, such as benefits and paid time off, we selected a total of five mass allocation entries made during the course of the project and tested the allocation of these costs to FSRP projects.

We scanned the detail payroll reports for seemingly unusual entries.

Finally, we made a selection of employees who were assigned to projects from lists maintained by project managers. We traced these employees to the projects indicated for a selected payroll period, to ensure that they were properly charged to the project or that they were no longer assigned to the project if their salaries were not included.

Finding - B. 1.

Two instances were noted where it appears that the County Code 2.12.060, which refers to RCW 40.14.070 regarding record retention requirements, was not fully complied with.

In the first instance timesheets for pay periods prior to June 11, 1999 had been destroyed. The RCW prohibits destruction of public records until they are six or more years old except if they have been reproduced in a manner prescribed in the RCW. Microfiche is one of the acceptable reproduction methods. While data from the timesheets in question were preserved on microfiche, the actual documents had not been reproduced. The microfiche did not contain the employee and supervisor signatures that appeared on the original documents. Therefore, destruction of the original timesheets violates the provisions of the RCW.

Further, we were unable to verify the transfer of net pay to selected employees who have their pay directly deposited into their bank accounts. Neither the reconciliation of the pay stubs to the actual amounts deposited, nor the bank statements for periods prior to June 11, 1999 could be located by payroll personnel. Payroll personnel were uncertain what happened to these documents. They cited personnel turnover as the reason for record misplacement.

See related recommendation at B. a. on page 19.

Executive Response
This finding is inaccurate. Under ISI and during the conversion to PeopleSoft, timesheets were microfilmed with the intention that the microfilm constituted – as allowed under County Code – the official record. The microfilmed documents were images of the timesheet, including approval signatures. That microfilm is in the County's possession, in compliance with County retention periods. Current practice has the timesheets being microfilmed and retained as paper documents following County retention guidelines.

Direct deposit records and the reconciling bank statements that were not found during the audit period were later located and confirmed.

Auditor's Comment
The microfilm documents we were provided with during the audit did not contain signatures.

Finding - B. 2.

There is an inconsistency in the method in which paid time off is charged to projects.

An employee may charge the project to which they are assigned directly for their paid time off via their timesheets. County personnel informed us that this is often not done.

To compensate for the fact that many employees assigned to projects do not charge their paid time off to projects, paid time off is allocated to projects within each cost center based on a ratio of cost center salaries charged to projects to total cost center salaries. Therefore in instances when paid time off is both charged directly to projects and is allocated, projects are overcharged for these costs. The amount of such overcharges cannot be determined.

See related recommendation at B. b. on page 19.

Executive Response
See executive response under Recommendation B.b. on page 19.

Finding - B. 3.

We noted two instances where the project was charged for hours in excess of those shown on the timesheets of the selected employee. Payroll personnel were unable to explain the discrepancies. In both cases the amount of apparent overcharge to FSRP was four hours valued at $75 and $85, respectively. This results in a questioned cost of $160.

Conversely we noted two instances in which hours charged to the project on an employee's timesheet were not posted to the project on the general ledger. This resulted in an undercharge of personnel costs to FSRP in the amount of $1,944.

See proposed adjusting journal entry # 308 on Appendix 6.1. on page 73.

Executive Response
This finding is partially accurate. The two instances where the project appears to have been charged for hours in excess of those shown on the timesheets reflect a peculiarity of the PeopleSoft payroll system. When adjustments are done to an employee's time, PeopleSoft shows the net amount on the next check produced. For example, if an employee's timesheet shows 80 hours of regular time and there is a prior period adjustment changing 16 hours of regular time to vacation time, all of PeopleSoft's reports and the pay stub will show 64 hours of regular time and 16 hours of vacation time. The two instances cited in this finding had prior period adjustments worked during the pay period examined and are reported correctly.

Finding - B. 4.

We noted two instances where the incorrect general ledger account was charged for a payroll related cost. Because all of the general ledger accounts involved are aggregated into the amount shown on the Personnel Costs line in the financial schedules, included in this report, no adjusting entry is proposed.

Executive Response
The two instances where the project was under charged on the general ledger were due to data entry errors, confirmed after the audit period. There is an out of balance edit done against PeopleSoft's batch processing that is intended to catch these types of data entry errors at the department level. These two errors were not corrected prior to completion of the audit period.

Finding - B. 5.

For seven items selected the pay stubs showed an adjustment to gross pay for retroactive pay increases. Payroll personnel were unable to find any documentation to support these adjustments. Because we were unable to substantiate the validity of these adjustments, they are considered questioned costs. The aggregate amount of these adjustments are $520.

Executive Response
This finding is accurate. During the implementation period of PeopleSoft a difficult retroactive payment process was initiated for Transit. The project was inadequately staffed to handle the demands of conversion to a new system and the labor-intensive research and data entry required to produce the retroactive payments accurately within the established timeframes. A conscious decision was made to allow certain members of the FSRP team to make adjustments in PeopleSoft for those employees whose original retroactive payment calculations were incorrect. This decision was made to facilitate the expeditious processing of these off-cycle payments in order to meet the deadlines for delivery.

The processes by which wage and salary changes are introduced into PeopleSoft have been significantly modified since this first retroactive payment experience. Wage tables are prepared in advance and loaded directly into the system, and retroactive and/or special payments are calculated separately, placed on tables and loaded directly into PeopleSoft. Changes to wage treatment must be done via Personnel Change Notification (PCN) with proper authorizing signatures

Finding - B. 6.

We noted an instance where an employee was properly paid for eight hours of vacation leave at $19.55 an hour, the FSRP was, however charged at a rate of $78.18 for these hours. County personnel were unable to explain how an error of this type could occur other than to say it likely resulted from a programming error. This is the only error of this nature encountered for all the items tested. An adjusting entry is proposed to reduce FSRP costs by $469.

See proposed adjusting journal entry # 305 on Appendix 6.1. on page 73.

Executive Response

The finding is accurate. However, the employee was paid correctly, and PeopleSoft's audit trail is correct. The problem is with an SQL program in IBIS and how it translates some of the data PeopleSoft sends. If the employee is non-exempt and is reporting a split in hours – for instance, 6 regular hours and 2 vacation hours – IBIS rolls up the hours and their dollars incorrectly when it prepares its journal entry. Several alternative fixes to the program problem have been discussed. FMD will determine which is the best fix and direct its implementation.

Payroll records are reconciled to the general ledger each pay period and we do not believe there is any material misstatement of the amounts reported in the general ledger as a result of this problem.

Finding - B. 7.

One employee's timesheet showed time valued at $9,520 charged to the project management office (344101). In the general ledger this time was actually posted to an operating account. County personnel indicated this was likely the result of a data entry error.

See proposed adjusting journal entry # 307 on Appendix 6.1. on page 73.

Executive Response

This is most likely due to a data entry error. FMD accounting staff reconciles the payroll records to the general ledger each pay period and an error of this dollar amount would have been researched and corrected. It appears that the time was charged to the operating account when it was entered into the payroll system.

Finding - B. 8.

For flex benefits we verified all aspects of the calculation except for the number of eligible employees for the cost center. Verifying eligibility of employees would have been extremely time consuming and would have added little assurance as to the propriety of FSRP cost.

Because we did not test eligibility, we are not making a recommendation regarding controls over eligibility determination and input. We do propose a recommendation regarding the basis of allocation.

See related recommendation at B. c. on page 20.

Executive Response
The current financial systems cannot calculate and provide data that allocates eligible FTE and partial FTE to a project. Payroll data is posted to the general ledger in IBIS in a summarized format at the cost center level. Please see additional information in the executive response at Recommendation B. c. on page 20.

RECOMMENDATIONS

B. a. Record Retention - Finding B. 1.
We recommend that all employees be fully informed of and trained in compliance with the County's record retention policies and that supervisors check with their subordinates periodically to ensure compliance. Further, we recommend that a discussion of this policy be part of new employee training. Finally, we recommend that supervisors meet with terminating employees to ensure the supervisor has a complete understanding of how records for which the terminating employee is responsible are maintained.

Executive Response
Timesheets and direct deposit transactions are being microfilmed and retained as required by County Code 2.12.060. Payroll Operations staff has been instructed on retention requirements; new members of Payroll Operations are made aware of retention requirements and storage locations as part of the existing orientation program.

B. b. Paid Time Off - Finding B. 2.
Current procedures permit, but do not require, employees assigned to special projects to charge paid time off directly to the project via their timesheets. Regardless of whether paid time off is directly charged to projects, it is allocated to projects based on the ratio of project salaries to total cost center salaries. Therefore, when employees charge their paid time off directly to projects, projects are overcharged for paid time off.

We recommend that the current policy be reviewed and revised in a manner that will more accurately account for paid time off attributable to employees assigned to special projects.

Executive Response
We concur there needs to be a method to accurately account for Paid Time Off (PTO) attributable to employees assigned to projects. However, we feel that the combination of procedures currently used produces a materially accurate method for determining the paid time off costs that should be attributable to special projects.

Allocation programs and policies aim to provide the most reasonable method of spreading cost pools to specific expense coding. Although allocating PTO and Employer-paid Benefits at the employee level would provide the most accurate expense representation, because the allocations in the financial system are produced in the general ledger where payroll data is posted in summary at the cost center level, information is not available to allocate these costs at the employee data level.

All PTO charges could be direct expensed to individual projects; however, that policy is complicated if the employee is working on multiple projects. If the County were to use only cost pooling, projects could conceptually be undercharged when individuals are working on only one project. Therefore, the current PTO/Benefit allocation programming policy is to accept the reasonable project allocation inequities and allow direct PTO project charges where an employee is 100 percent dedicated to a project for that pay period. An option to explore at this point, should a project work unit wish to charge all PTO for a specific project, is to remove that project from the allocation-cost pool program, preventing additional allocation expenses from being charged to that project.

B. c. Flex Benefits - Finding B. 8.

Flex benefits are charged to cost centers based on a predetermined flat rate multiplied by the total number of eligible employees assigned to the cost center. If a given cost center has employees who are assigned to projects, flex benefits are charged to projects using the ratio of regular salaries charged to projects to total regular salaries of the cost center applied to the total benefits charged to the cost center. Because the County has determined that the benefits have relatively the same cost per employee, it seems that would be more appropriate to allocate benefits to projects based on number of employees rather than on salaries.

We recommend that the possibility of allocating flex benefits to projects based on head count rather than salaries be explored.

Executive Response

We can explore a better method for allocating flex benefits in the process of implementing a new financial system. Better methods for allocation of flex benefits include using FTE, if an FTE is determined to be a standard 40-hour per week employee and all others are considered to be fractions of an FTE; or using hours worked on a specific project. Although this type of information is in the payroll system it is not transferred to the general ledger in the financial system where the allocation of flex benefits is made. This would require the development of a different and distinct interface process between the payroll and financial systems that will be used in the future.

C. CONSULTING COSTS

Procedures Performed

We gained an understanding of the County regulations related to contract procurement. During the course of our detail testing, we determined whether County policy was followed with regard to selected contracts. These contracts included KPMG, Bright Star, PeopleSoft and Pacific Consulting Group.

We tested the consulting costs charged to projects by selecting a sample of 259 consulting invoices from the January 1, 1998 through April 30, 2001 charged to any of the five FSRP projects being tested. We compared these invoices to the contracts to ensure that the billings were for services defined in the contract and that amounts billed were not in excess of the total contract amount. We also attempted to ascertain that consulting services were charged to the right project or to operations as indicated by the description of the services performed. For a selection of 60 invoices, we requested the detail support for the charges and tested individual items billed to ensure that amounts agreed to specific contract provisions.

Additionally, we selected 20 invoices from the Vendor History Report for consulting firms with large consulting contracts related to FSRP. We examined these invoices to ascertain whether the services were relevant to FSRP. We ascertained that charges were properly included or excluded from FSRP depending on the nature of the charge.

Finding - C. 1.

Methods employed to accrue unpaid invoices at December 31, 1998 and 1999 resulted in an over accrual of costs. This resulted from the duplication of automatically and manually prepared accruals. The result was that expense and accounts payable were overstated for the years ended December 31, 1998 and 1999.

To correct the financial schedules on a year by year basis we have posted an entry to reduce consulting expenses in the project management office (344101) by $46,738 in 1998 and to increase consulting expenses in 1999 by the same amount. We have proposed an entry to reduce consulting expenses in the project management office (344101) by $103,888 in 1999 and to increase consulting expense in 2000 by the same amount. We also posted an entry to reduce consulting costs in the payroll/human resource project (344103) by $141,840 in 1999 and to increase consulting expense in 2000 by the same amount.

The procedure of booking payments made in one year to an earlier year was discontinued in 2000. Therefore, we are not making a recommendation.

See proposed adjusting journal entry # 101, 201, 202, 301 and 401 on Appendix 6.1. on pages 70, 71, 73 and 75.

Executive Response
We agree with the finding and as the finding indicates steps have already been developed to assure that this will not occur again.

Finding – C. 2.

The County paid a consultant at a higher rate than the rate shown in the contract.

King County entered into a consulting contract with SDC Computer Service for services at the rate of $31 per hour. Subsequently, the County was billed and paid for overtime at a rate of one and a half times the contract rate. Since there was no provision in the contract for this rate, payment is in violation of County policy to pay it. The aggregate amount paid in excess of the contract rate is $279 and is considered a questioned cost.

Executive Response
We acknowledge that the consultant was paid for six overtime hours that were worked. The additional required hours were small and the extra cost ($279) was not considered worth the effort to modify the contract. First, the cost to modify the contract would have exceeded the cost of the overtime. And, second, since the overtime was needed immediately it would not have been possible for the paperwork to be completed before the work was done.

Finding - C. 3.

Timesheets included with a KPMG invoice supported less hours than those billed for one consultant.

An October 1999 KPMG invoice included 32 hours for Aaron Charbonnet. The timesheet supporting those charges showed only 24 hours. According to County policy this invoice should not have been paid until the discrepancy was resolved. Therefore, $2,688 (8 hours at $336) is considered a questioned cost.

Executive Response
We will take steps to recover the overpayment.

Finding - C. 4.

When consulting invoices were received in one year for services rendered in the previous year, they were recorded on a cash basis, i.e., expense was recorded in the year the invoice was received. The project managers indicated that they weren't concerned about having an accurate annual cut off on expenses because the project extended over multiple years, and they were charged only with accounting for their project costs in total.

A summary of transactions not recorded in the year of benefit follows:

Consultant	Invoice Amount	Year Service Rendered	Year Reported
KPMG	122,863	1998	1999
PeopleSoft	113,021	1998	1999
Carrera	71,547	1998	1999
PeopleSoft	37,787	1999	2000
ARIS	16,256	1999	2000
KPMG	20,429	1999	2000
ARIS	5,760	1998	1999
OMG	19,979	1997	1998
Carrera	186,183	1998	1999
ARIS	62,218	1998	1999

See proposed adjusting entry # 102, 103, 104, 108, 204, 205, 206, 207 and 304 on Appendix 6.1. on pages 70, 71 and 73.

Accurate accruals of expense will soon be required when a new government accounting standard, currently in the phase in period, becomes fully effective.

See related recommendation at C. a. on page 35.

Executive Response
We acknowledge the action as reported. However, there is no question as to whether the costs were incurred and appropriate. The FSRP maintained a separate management accounting control system that provided monthly reporting to managers and reported quarterly to the County Council. This was necessary because the IBIS system does not provide encumbrance accounting necessary to maintain the expenditure data that project managers determined was necessary for good control. The external system included encumbrances and estimates of unbilled and projected costs as of the close of the period. The most accurate expenditure information was available to project managers and should have had the expenditures reported in the correct year.

Finding - C. 5.

It appears that services outside of the scope of the PMO contract with KPMG were charged against the KPMG original contract for PMO services.

KPMG invoice 40097353 for services rendered in October 1999 included $65,342 for "payroll support" services was charged against KPMG's original contract. These costs were ultimately charged to payroll operations. Finance personnel believe this is justified because one of the major functions of the contract was to provide technical support for FSRP. If this service was not within the scope of the initial contract, a procurement waiver would have been required to expand the scope of services. No such waiver was obtained.

Supplying consulting personnel to support payroll operations appears to be outside the scope of the original contract to supply PMO services. Therefore, this amount is considered to have been paid in violation of County policy and as such is considered to be a questioned cost.

Note: Later in November of 1999 Amendment 2 was signed which provided for $1.6 million additional program management support; production/development support and implementation of Phase II of PeopleSoft. Because these services were rendered in October prior to the signing of this amendment, the invoice would not be an eligible charge against that amendment.

See related recommendation at C. e. on page 37.

Executive Response

The response (and Recommendation C.g. on page 38) are combined because both deal with the costs that were questioned as out of scope of the original KPMG contract.

We disagree with these findings. The PMO contract was developed to allow broad flexibility to County managers to obtain the expertise needed to successfully implement the FSRP. To that end, the original request for proposal (RFP) that was incorporated into the contract with KPMG called for the contractor to provide technical support defined as:

"Review and advise on technical and business solutions for individuals projects and across program. Provide expertise in hardware configuration, financial systems implementation; organizational change, user training, WEB technology, integration and interfacing of systems and business process alignment"

In addition, the RFP specifically called out the need to lead the individual projects, stating in part:

"PMO will lead the Financial Systems Replacement Program which includes four inter-related, County-wide implementation projects: Core Financials, Payroll/HR, Reporting and Interoperations. Each of the projects will be managed by separate internal project managers. The PMO consultant will be responsible for ensuring the timely and effective implementation of these four projects…"

The invoice questioned in Finding C.5. on page 23 was for consultant support to help identify issues that were arising in the payroll operations area after the PeopleSoft system was implemented. They were directly related to operations and therefore were considered to be a cost of operations. However, they were a result of the implementation and operation of the new system. The situation required a review of the project and operating environment to provide business solutions to problems that were compromising the effectiveness of the system. These services were considered technical support and could be provided within the original contracted amount.

After the completion of the service KPMG offered additional technical support to address the issues that were impacting the PeopleSoft implementation. These issues included continued work on the live PeopleSoft system to improve system stability, creation of a maintenance model and placing a PeopleSoft expert in the Payroll Section to serve as interim supervisor. The objective of this proposal was to provide technical support to stabilize PeopleSoft and review the payroll section organization to determine what organizational change and training were necessary to facilitate payroll staff's use of the system.

All of these services were considered within the scope of the original RFP. There was an additional cost associated with these services and the County and KPMG agreed on the change order. Thus a waiver was not required. Only if the work was not included in the original scope of the RFP, would a waiver have been required.

*We disagree with **Recommendation C. g**. on page 38 stating that procurement procedures regarding waivers and or RFP's are not strictly adhered to when there are scope of work changes. County managers are expected to follow competitive requirements when acquiring services. However, as in this case the County is able to structure RFP's and contracts to allow reasonable changes of service levels.*

Auditor's Comment
There is a legitimate disagreement based on interpretation of the events described in this finding

Finding - C. 6.

Amendment 2 to KPMG's contract allows them to provide management support for the PeopleSoft payroll system and to increase production/development support and implementation of Phase II of PeopleSoft. This amendment also stated that KPMG would provide personnel to perform day to day payroll production. We believe that providing operations support constitutes a change to the scope of service for which they originally contracted, i.e., to provide project management.

King County Policy Con 7-7 AEP requires a procurement waiver to be obtained prior to authorizing the Contract/Consultant to provide services outside the scope of work as defined in the contract. Such a waiver was not obtained because the finance department management did not consider this to be a change in the scope of services.

Because this appears to be an instance of noncompliance with County policy, we considered the value of amendment 2 of $1,692,134 to be a questioned cost.

See related recommendation at C. g. on page 38.

Executive Response
See Executive Response to finding C. 5. on page 24.

Finding - C. 7.

The original contract with KPMG for Project Management Services defined specific limitations on amounts that could be charged for mileage, meals and lodging. It also required receipt for all charges other than meals in amounts above $10. In amendment 2, which became effective on November 19, 1999, direct expenses were addressed in the following paragraph.

> "KPMG will bill King County for all reasonable out-of-pocket expenses, including travel, airfare, lodging, meals, telephone, facsimile, administrative costs, personal car mileage, parking and associated taxes as stipulated in the original contract agreement.

> All reasonable out-of-pocket costs will be approved by the Director or Deputy Director of Finance."

King County Code KCC 4.16.080.D6 requires that contracts "provide for reimbursement of contractor travel and meal expenses a provision that limits such reimbursements to eligible costs based on the rates and criteria in K.C.C. chapter 3.24 (Ord. 13257 § 17, 1998: Ord. 12138 § 11, 1996)."

Therefore, the Code cited above supercedes the statement in amendment 2 cited above. We tested 12 invoices from KPMG dated after the effective date of amendment 2. We noted hotel charges which exceed the allowable $98 per night in an aggregate amount of $7,776. This questioned cost does not include applicable tax or surcharges, nor are these necessarily the only over charges of this nature.

In addition to the amount cited above, KPMG Invoice 400097353 for consulting services rendered in October 1999 was audited by County personnel subsequent to payment using the criteria in the second amendment, which accurately responded to the code cited above. This audit cited $2,836 as being unallowable. The total amount of $10,612 is considered a questioned cost.

Executive Response
We acknowledge that it was necessary to reimburse the consultant for hotel rates higher than the per diem allowed. Hotel rates in Seattle at the time exceeded the allowable amount. Even when consultants asked for and received the government rate the costs sometimes exceeded the allowable amount.

The consultant could not make the services necessary available unless all direct expenses were reimbursed so a decision was made to reimburse the consultants for actual costs.

As to Invoice 400097353 that had audited costs of $2,836, we will review the audit and request reimbursement if appropriate.

Finding – C. 8.

Legal expense charged to FSRP does not appear to be an expense of the project.

King County consulted the Office of the Prosecuting Attorney. The charge of $3,959 for this service was included as a consultant expense to PMO (344101). Because this is not a direct expense of the FSRP, we have proposed an adjusting entry to remove this cost from the project.

See proposed adjusting journal entry # 302 on Appendix 6.1. on page 73.

Executive Response
We disagree with this Finding. Payment for legal advice -- like any other administrative cost -- is a legitimate cost of a capital project. The charges were for services directly related to the FSRP.

Auditor's Comment
The nature of the consultation appears to be an administration cost, and as such is not a direct cost of the FSRP.

Finding - C. 9.

The FSRP was charged for Bright Star consulting services on a cash basis. Because the County retained 20% of their fee, costs were understated in the year incurred.

At the end of 1999 $426,312 of retainage had been withheld and was paid in 2000. Therefore, 1999 costs were understated by $426,312 and 2000 is overstated by the same amount. The adjusted financial schedules reflect this amount in the correct year.

See proposed adjusting entries # 203 and 303 on Appendix 6.1. on page 71 and 73.

Executive Response
Agree. The adjustment has no impact on project or program budget.

Finding - C. 10.

Services were rendered by consultants prior to the effective dates of the change orders.

Bright Star invoices 5059A and 5059B dated July 10, 2000 were for services authorized by change order #'s 10 and 11. The effective dates for change order # 10 was August 8, 2000 and for change order # 11 was September 29, 2000. Because the services were rendered prior to the effective date of these change orders, the total invoice amounts of $438,038 are considered a questioned cost.

See related recommendation at C. h. on page 38.

Executive Response
We note that there is no question whether the services were actually received. We acknowledge that in these instances the work was done before the final paperwork was completed. However, we had agreed in principle and the consultants were on site. In the dynamic environment of an ongoing project it was not possible to send the consultants away until the paperwork was completed.

The change orders were essentially increasing the contract amount within the original scope of services.

Finding - C. 11.

The County paid for consulting hours in excess of those rendered in service of the County.

Kforce.com's invoice 246338 charged 36 hours for A. Chong. Examination of the underlying timesheet indicated that 16 of these hours should have been charged to King County the other 20 should have been charged to the City of Anchorage. This results in a questioned cost in the amount of $3,600

Executive Response
We will pursue reimbursement from K-force.

Finding - C. 12.

The County reimbursed a consultant for out-of-pocket expenses despite the fact that the related contract did not provide for such reimbursement.

Purchase Order 120524 was created to procure the services of A. Chong for consulting service of $58,000 and living expenses of $9,000. Prior to payment, it was discovered that the underlying contract drafted by KPMG did not include a provision for living expenses, and therefore, expenses could not be billed against that contract. King County subsequently entered into a new agreement with A. Chong for an hourly rate of $200 instead of the original $180. This was meant to compensate Mr. Chong for not being able bill expenses. Prior to this new arrangement, Mr. Chong was paid $4,176 for expenses. Because of failure to comply with contract terms, this amount is considered a questioned cost.

This effectively represents a change in rates within the contract term, which violates good procurement practices.

See related recommendation at C. k. on page 40.

Executive Response
This was an effort to correct a contracting error that resulted in an unfair situation for the contractor. Since the contract had not included travel and subsistence expense reimbursement, the contractor would have been required to absorb the charges. Since the services of the contractor's employee were critical to the project it was agreed to reimburse the contractor for expenditures incurred and to rewrite the contract. This was done in order to insure that the consultant would continue to be available to King County.

Finding - C. 13.

A consultant was paid at a rate not authorized at the date the services were provided.

PeopleSoft invoice 180886 for services in December 1998 charged Jack Smith at $190 an hour. Attachment B (effective through December 1998) to contract 85556 between King County and PeopleSoft showed a billing rate of $175 for consultants. This rate was increased to $190 in January 1999. Because services were rendered prior to the effective date of the new rate, the charge was in excess of the contract provisions by an aggregate of $2,625. This is considered a questioned cost.

Executive Response
The consultant was actually a senior consultant that should have been billed at the rate of $225 and hour. PeopleSoft chose to bill the County at the lower amount. Since it was lower, the amount was approved as within authorized limits.

Finding - C. 14.

A consultant was paid directly by the County although there was no contract between the County and the consultant.

King County entered into a time and materials contract (# 85556) for $2,000,000 with PeopleSoft that included Carrera Consulting Group as a subcontractor. After PeopleSoft was no longer providing significant services, the County continued to use the Carrera Consulting Group. Without ever entering into a contract with Carrera Consulting Group, the County began to issue work orders extending contract 85556. PeopleSoft indicated they were unwilling to continue to sign these work orders because they were not involved in any of the work being performed by Carrera Consulting Group. Therefore, Carrera Consulting Group was paid as a consultant and the County had none of legal protection provided by a contract.

Because this methodology violates county policy, payment to Carrera Consulting Group aggregating $1,149,000 on work orders 1 –11 are considered questioned costs.

See related recommendation at C. i. on page 38.

Executive Response
Rough estimates indicate that this agreement saved the County over a half a million dollars on payroll implementation consultant expenditures. As the finding indicates the consultant was a named sub-contractor within the PeopleSoft consultant contract. Rather than pay PeopleSoft rates for these consultants, the County entered into negotiations with PeopleSoft to pay the actual rates charged by the consultant to PeopleSoft. PeopleSoft agreed to this, however, they insisted that the County work directly with the sub-contractor.

We acknowledge that due to this agreement a breakdown in contract administration occurred. Steps will be taken to ensure that this type of breakdown does not happen again. However, it is not practical to implement the auditor's ***Recommendation C. i.*** *on page 38 due to the large volume of work orders that occur within the County. The*

Procurement Division would require a significant staff increase to accomplish this recommendation.

Finding - C. 15.

Invoices KC0317B, KC0407 and KC0421 aggregating charges of $73,625 from Davis Consulting were for services rendered in March and April 2000. The related contract was not signed until May 7, 2000.

County policy prohibits contractors from beginning work until after the contract is signed. As such payment of these invoices was in violation of County policy. This amount is considered a questioned cost.

See related recommendation at C. h. on page 38.

Executive Response
We agree with the facts and will work on procedures that ensure that this does not reoccur. However, we note that there is no question whether the services were needed or received. An agreement had been reached in principle and it was felt that obtaining the services sooner rather than waiting for the paperwork to be finalized was in the best interest of the project.

Finding - C. 16.

Kforce.com's invoice 386485 billed for services rendered January 1 – 31, 2000. The related contract extension was signed on January 12, 2000.

County policy prohibits work from beginning prior to contract signing. Therefore, the charges for January 1 through 11 are ineligible for payment, resulting in $11,600 of questioned costs.

See related recommendation at C. h. on page 38.

Executive Response
See executive response to finding C. 15. above.

Finding - C. 17.

Kforce.com's invoice 461457 was coded against contract extension #6. This extension was for the period April 1 – 30, 2000. Invoice 461457 was for services rendered during July 2000.

Because the contract period had expired prior to the rendering of services, payment of this invoice violates King County policy. Therefore, the contract amount of $25,800 is considered a questioned cost.

See related recommendation at C. h. on page 38.

Executive Response
See executive response to finding C. 15. on page 30.

Finding - C. 18.

Amounts retained against contract payments were not always expensed in the year benefited.

PeopleSoft's contract provided for King County to retain 15% of their billings until both parties agree that their work has been satisfactorily completed. Progress billings from which the retainage was deducted were accounted for on an inconsistent basis. Sometimes the amount retained was properly accrued and charged to the project cost in the period the services were rendered. Other times the retainage was expensed as paid.

No additional adjusting journal entry is proposed because this invoice was included in finding C. 4. on page 23 and an adjustment is proposed in entries 205 and 304 on pages 71 and 73.

See related recommendation at C. b. on page 36.

Executive Response
We acknowledge the practice and note that this does not have an impact on overall project budgets nor does it result in a material misstatement of financial statements.

Finding - C. 19.

Certain out-of-pocket expenses were paid in error.

The County properly disallowed charges totaling $4,045 billed on invoices 4607 and 4642 by Carrera Consulting Group for a consultant not assigned to FSRP. The related direct expenses aggregating $261 were paid in error. This is considered a questioned cost.

Executive Response
We will attempt to recover the expenditure from the consultant.

Finding - C. 20.

King County entered into contract T00714T with Romac International in response to RFP 131-98RLD. That RFP covered 13 categories of service. Romac contracted to provide services in five of those categories as follows:

System Administration for UNIX and Windows NT
PeopleSoft Time & Labor, Payroll and HR Applications

Financial Systems Package Implementation
PeopleSoft Payroll, Time & Labor and HR Interface Development
Financial Systems Interface Development

Paul Leung, a Romac employee, was assigned to work on various aspects of report development for the period January 3, 2000 through July 31, 2000 per Contractor Selection Tracking Sheet related to contract T00714T . That sheet indicated the Category Selected as Category 5 – Report Development. As this is not one of the categories covered by the contract, it is not an allowable charge against that contract. As such, the amount charged for these services of $113,076 is considered a questioned cost.

Executive Response
We do not agree as a technical matter. Mr. Leung was hired thru the K-Force (formerly Romac) on the Information Distribution and Reporting project. His task was to work on custom report development for SAP, the new core financial system. Reports were custom developed for deployment through the SAP system. Only a subset of custom developed reports was designated for deployment via the web. Custom reports were developed using SAP tools, SAP methods and customized SAP web publishing components, in the SAP system environment. Not only report development expertise, but also the SAP package implementation expertise was specifically required. An e-mail solicitation was issued to the vendors expected to offer SAP expertise in the Financial Systems Package Implementation and Reports Development categories. Candidates from both categories were interviewed and the best candidate was selected. Master Contract T00714T included Romac in the Financial Systems Package Implementation category.

Due to an administrative error, the Contractor Selection Tracking Sheet indicated the Report Development category rather than Financial Systems Package Implementation. The contract work was solicited, contracted, performed and resulted in full value deliverables within the Financial Systems Package Implementation category.

Finding - C. 21.

Of 60 consulting invoices selected for comparison of detail support (receipts, timesheets, etc) to amounts billed, the supporting documentation was supplied for only 46. The total of the out-of-pocket expenses on the invoices for which supporting documentation was unavailable or could not be found aggregated $91,325. This amount is considered a questioned cost.

See Appendix 7.1 on page 76 for a detail list of missing documents.

Executive Response
Supporting documentation is verified and maintained by the project. Payments are made by AP after the purchase order is entered and approved in the system, the merchandise or equipment is received, and the vendor submits an invoice. No detailed supporting documentation is required to be filed with the voucher in AP. As was noted to the auditors, the vast majority of FSRP project information has been boxed and stored in the

Department of Finance. This information includes over 130 boxes of materials, which have not been examined to determine if they include the materials sought. The small budget provided to archive materials did not allow the development of a comprehensive archival record for the project.

Finding - C. 22.

During the period of October 1999 through February 2000, KPMG provided a payroll supervisor and supporting consultants to the County. These costs were properly charged as payroll operating costs. Subsequently a portion of these costs aggregating $378,906 were reclassified to the PMO (344101). This was apparently a posting error, these costs should have been charged to payroll/human resource (344103).

See proposed adjusting journal entry # 306 on Appendix 6.1. on page 73.

See related recommendation at C. c. on page 36.

Executive Response
We agree with the reclassification within the FSRP program from PMO project to the Payroll project. See additional comments in Recommendation C. c. on page 36.

Finding - C. 23.

There did not appear to be an attempt to identify which consultants were working on operations and which were working on the payroll development project.

Cost for KPMG personnel who worked in payroll operations and/or stabilization, were not consistently charged to FSRP or to operations. KPMG services for the period October 1999 through January 2000, related to payroll were charged to operations. Beginning in February 2000 these charges were made to the payroll/human resource project (344103) (except for those referred to in finding C. 22. above). We were unable to get clear explanations about how it was determined which services benefited the payroll portion of FSRP and which benefited operations. It sometimes appeared invoices were charged where there was remaining budget.

See related recommendation at C. c. on page 36.

Executive Response
We worked to assure that only capital costs were charged to capital projects. However operating budgets can pay for capital costs. At the end of 1999 the Department of Finance operating budget had resources available for payroll programs. It was determined that the costs of KMPG services for that period would be charged to operations to utilize this appropriation authority. The effect of this was to preserve the capital budget for future needs. Beginning in February 2000 the charges were once again charged to the capital budget.

Finding - C. 24.

The purchase order associated with a contract change order for non monetary changes contained a dollar amount.

The purchase order associated with change order 11 to the Bright Star contract erroneously included an amount of $200,842. This change order authorized services with a cost of $200,842. These costs were to be paid under an existing fixed cost contract. By including a dollar amount on the purchase order, the maximum amount payable to Bright Star was increased by $200,842. While no amounts in excess of the total of the original contract plus change orders 1 – 10 were billed, the system edit would not have rejected such amounts until they exceeded the additional $200,842. Therefore, the intended control function of the purchase order was negated.

See related recommendation at C. j. on page 39.

Executive Response
We agree with the finding and will review procedures to ensure that the recommendation is complied with.

Finding - C. 25.

Of the 259 consulting invoices we tested there were 26 which bore no evidence of approval.

See related recommendation at C. d. on page 37.

Executive Response
We agree.

Finding - C. 26.

KPMG invoice 40305137 in the amount of $118,021 was for services related to project management. These costs were charged against the purchase order in IBIS which initiated contract amendment 5. Amendment 5 was for payroll stabilization services. Therefore, these costs were not allowable under that amendment. Amendment 3 had funds available for PMO services at the time this invoice was paid. Therefore, this is not considered a questioned cost.

Errors of this type erode the control purposes of the dollar limitation checks provided by purchase orders.

See related recommendation at C. e. on page 37.

Executive Response
We acknowledge the finding.

Finding - C. 27.

Numerous PeopleSoft invoices were paid despite the fact that they contained billing errors.

A project assistant was assigned responsibility for reviewing PeopleSoft invoices and ensuring that the charges were correct prior to payment. After this employee left that position, a new project assistant discovered that the current PeopleSoft invoices being reviewed contained multiple errors. Because of this finding, an audit was initiated by the project manager of all paid PeopleSoft invoices. The audit resulted in the discovery of an aggregate overbilling on paid invoices of $96,001. This amount was billed to and paid by PeopleSoft. Because the costs in question were recovered, there are no questioned costs related to this finding.

See related recommendation at C. f. on page 38.

Executive Response
We acknowledge the finding and are pleased to see that correction was made and refund received prior to this audit.

Finding - C. 28.

One consulting invoice selected for detail testing was never found.

The invoice was for $17,318. This is considered a questioned cost.

See Appendix 7.1 on page 76 for a detail list of missing documents.

Executive Response
See executive response to finding A. 2 on page 8 .

RECOMMENDATIONS

C. a Accrual Accounting - Finding C. 4.
Project managers were not concerned about ensuring that costs were recorded in the year of benefit because this program spanned a number of years, and they were charged primarily with accounting for their budget in total. We believe it is important to record costs in the period the service is received so that when comparing actual costs to budgeted costs for the same period, it becomes clear if actual costs exceed budgeted amounts for that period.

We, therefore, recommend that in the future, development project managers be instructed in and charged with the responsibility for ensuring that expenditures are recorded in the period of benefit.

Executive Response
We concur. Generally accepted accounting principles require that expenditures be reported in the proper year. Over the next six months and in anticipation of the implementation of GASB 34, FMD will work with project managers and other financial personnel in County agencies to provide information and training on the proper accounting for and timely reporting of project expenditures.

We note that the adjusting entries made to the schedules in the audit report and listed in various places in Appendix 6.1 that move expenditures from one year to another in order to properly reflect the year in which the expenditure should have been reported should not be made to the actual accounting records of the County. Generally accepted accounting principles (GAAP) require that corrections of errors to revenue and expense in prior periods be recorded in the current year as a prior period adjustment, which is an entry to fund balance. If we are correcting the year in which an expenditure was previously recorded by taking it out of one year and putting it into another year, the net effect of these transactions on fund balance is zero and no adjusting entry should be made in the County's financial statements.

C. b Retainage Accounting - Finding C. 18.
Net amounts paid on contracts were charged to expense for the periods in which service was rendered. This appears to have occurred because employees were unaware that amounts retained were expenses of the period in which the related services were rendered.

We recommend that personnel responsible for processing consulting contracts be trained in the proper methodology for accounting for amounts retained by the County.

Executive Response
We concur that personnel processing consulting contracts should be knowledgeable in the proper method to account for retainage. We note that the adjustment suggested by the auditors has no impact on project or program budget.

C. c. Distinguishing Operating and Capital Expenditures - Finding C. 22. & C. 23.
KPMG provided personnel to perform project management functions, to work on the payroll aspect of FSRP (Project 334103) and to perform payroll operation tasks. There was a period of time in 1999 when the position of Payroll Supervisor was open. A KPMG employee performed the payroll supervision function. During this time, the costs of certain consultants were charged to operations, because they were performing functions normally performed by operating personnel. Once the Payroll Supervisor position was filled, the same consultants working similar hours were charged to Payroll/ Human Resource (344103). It appears that costs were charged where funds were available rather than by determining the function actually benefited.

We recommend that policies be implemented that require project managers to list project related tasks and to ensure that personnel or consulting costs charged to projects are actually related to tasks required by the project.

Executive Response
As noted in executive response to finding C. 22. on page 33, we agree with the reclassification within the FSRP program from PMO project to the Payroll project.

We disagree, however, with the facts stated in the recommendation. The auditor states that the consultant's role changed from acting supervisor to a consultant role. At this time the consultant went back to working on project related work and the costs were charged to the project rather than operations. This was an appropriate expenditure given the consultant's change in role.

See also the comments in executive response to Finding C. 23. on page 33.

Auditor's Comment
There is a legitimate disagreement based on interpretation of the events described in this finding.

C. d. Written Approval - Finding C. 25.
Not all consulting invoices for FSRP services bore an authorized signature indicating approval to pay.

We recommend that accounts payable personnel be instructed not to pay consulting invoices unless the invoice contains a written approval.

Executive Response
We concur with the recommendations.

C. e. Contract Amendments – Findings C. 5 and C. 26.
It is important that invoices be charged against the correct contract amendment. Each amendment covers very specific services and/or time periods. When contractors are providing different services it is possible that they can be paid for amounts that are not allowable for the nature of the work performed even though the total amounts for all amendments has not been exceeded.

We recommend that project managers be responsible for reviewing the application of contract invoices related to their projects to ensure their accuracy.

Executive Response
We concur with the recommendations.

C. f. Contract Payments - Finding C. 27.
Numerous PeopleSoft invoices were paid despite the fact that they contained errors. While a project assistant had the responsibility for auditing contract invoices prior to payment, this procedure proved inadequate to prevent payment of inaccurate invoice.

We recommend that this responsibility be assigned to an employee who is adequately trained and informed to perform this function. Further, in order to ensure that amounts paid comply with both contract terms and County policy, we recommend that assistants work be reviewed and approved by the project managers.

Executive Response
We concur with the recommendations.

C. g. Contract Modifications - Finding C. 6. and C. 20.
It appears that procurement procedures regarding procurement waivers and or RFP's are not strictly adhered to when there are changes in the scope of work with an existing contract.

We recommend that purchasing personnel meet with and fully instruct project managers on all relevant policies with regard to contract and contract extensions.

Executive Response
Procurement personnel can meet with project managers as recommended. Contract Services has done this type of training. However, there is no way to ensure policies are followed, as Procurement and Contract Services does not see the amendments unless requested to actually prepare the amendments.

C. h. Contract Terms - Finding C. 10., C. 15., C. 16. and C. 17.
Several instances occurred where consultants were paid for services rendered prior to the effective date of the related contract.

We recommend that project managers be charged with the responsibility of ensuring that no work commences before contracts are signed.

Executive Response
We concur with the recommendation and in fact it is current County policy. While consultant contract negotiation and execution is performed by the user agency, if PCSD is contacted the agency is advised not to do so or if a necessity, issue a letter stating all work performed before contract execution is at the consultant's risk and expense.

C. i. Contractor - Finding C. 14.
Work orders signatures can only be signed by the parties to the original contract. There were 11 work orders to Contract 85556 with PeopleSoft which were not signed by PeopleSoft. The work orders were signed by the Carrera Consulting Group, who had a subcontractor status in Contract 85556.

We recommend that the purchasing department verify that work orders, amendments and change orders are signed by an authorized representative of the organization with whom the original contract is made.

Executive Response
In the particular case in point (Carrera), attempts were made after the fact to correct the situation. Neither PeopleSoft nor Carrera would sign an amendment, nor was a waiver issued.

However, the Department of Finance strongly disagrees with the recommendations. Users agencies are responsible for executing work orders, amendments and change orders without notification to PCSD and it is their responsibility to assure the process is followed. The volume of work could not be accommodated within existing resources and would be impossible to review. In addition, the determination if they are appropriate would require significant resources and time.

C. j. Change Orders - Finding C. 24.
In one instance when a purchase order was written in response to a change order, an amount was applied to the purchase order when the change order authorized no dollar increase. This appeared to happen because there were seemingly contradictory statements in the change order.

We recommend that the purchasing department route a copy of purchase orders to the employee who originated the change order.

We also recommend that change order procedures be reviewed to make sure there are adequate safeguards in the initial preparation and approval of change orders. Change order forms should clearly identify the items changed. Prior contract amount, plus any changes in amounts should summed to reconcile to revised contract amount.

Executive Response
In the particular case referenced, a mistake was made in processing the change order. The amendment was misread and funds were inadvertently added, when in fact the costs were to be included in the original fixed price. The user did not see the mistake in the change order.

PCSD does route all change orders to the users if performed by PCSD. Most change orders, however, are prepared by user agencies and not by PCSD.

PCSD will set-up refresher training meetings with buyers to review the correct procedures to follow when processing change orders. With regard to the recommendation to address safeguards and make certain all change items are identified, PCSD will review the possibility of developing a checklist and example of a change order.

C. k. Contract Rates – Finding C. 12.
Contract rates should change only after the original contract term is expired.

We recommend that controls be strengthened in this area to prevent payments at rates other than those per the contract effective at the date of payment.

Executive Response
We concur. In conjunction with recommendation C. f. on page 38, project managers will be advised of the importance of reviewing contract rates on invoices to assure they are consistent with contract provisions.

D. ADJUSTING JOURNAL ENTRIES

Procedures Performed

We selected all adjusting journal entries in excess of $10,000 for detail testing. Our selection was made from the special reports prepared for this engagement for Projects PMO (334101), core financials (344102), payroll/human resource (344103), reporting/information distribution (344104), integration/interoperations (344105) and payroll stabilization (344119) for the period from January 1, 1998 through April 30, 2001. Adjusting journal entries were considered to be any entries from sources other than the accounts payable or payroll detail reports. Mass allocation entries, which distribute benefits, taxes and other paid time off, were excluded from this selection because they were tested in conjunction with our personnel costs testing. See Findings and Recommendations – Section B. for a description of the procedures performed. Automatic purchase accrual entries were excluded from this selection because they are tested in conjunction with our testing in the Consulting Cost and Hardware/Software areas.

Finding - D. 1.

Operating expenses were paid for using FSRP funds.

The budget for the payroll project included one printer for producing payroll checks. This item was budgeted at $30,000. The payroll manager requested that two printers be purchased so that there would be a back-up. The project manager agreed to buy two printers with FSRP payroll project funds with the agreement that payroll would reimburse the project for $30,000 from their operating funds with $15,000 being transferred in each of 1999 and 2000. The first transfer was made in accordance with this agreement. However, the second installment was never transferred due to lack of written agreement and the resignation of the payroll supervisor with whom the agreement was made. This is considered as a questioned cost.

See related recommendation at D. a. on page 43.

Executive Response
The costs in question were for legitimate capital purposes. We agree that the events took place as detailed in the finding but disagree that this resulted in capital costs paying operating expenses. The costs in question were for a second printer that could certainly have been considered a capital cost at the time. As such it would have been an allowable cost of the project. The payroll project manager did not feel she could commit project resources at the time so she reached an agreement with the payroll manager to buy the second printer with project funds but receive reimbursement. The fact that the repayment did not occur does not change the nature of the costs. They were capital costs for a second production printer and were an appropriate cost of the project.

Finding - D. 2.

For two of the journal entries selected for detail testing no supporting documentation could be located.

The first entry was for a interfund transfer of $50,000 from payroll/human resource (344103) to Office of Human Resource Management (OHRM) operating. This represents an estimate of the costs incurred by OHRM for the efforts of their operating personnel on behalf of FSRP. Because no support for this transfer could be located, it is considered a questioned cost.

The second entry transfers $11,550 from payroll/human resource (344103) to an operating expense category. Because no support for this transfer could be located, it is considered a questioned cost.

See Appendix 7.1 on page 76 for a detail list of missing documents.

Executive Response
Supporting documentation is maintained by the project or agencies/departments that initiate and process the transfer document. FMD ensures that the transfer document is signed and approved by an approving authority from each agency involved in the transfer. FMD accounting staff also provides an oversight review of all transfers when they are processed.

Finding - D. 3.

We noted that interfund billing for personnel costs, rent, etc. were often done for periods of several months or longer on one invoice. We noted that these costs were not accrued. The control feature of comparing budget to actual is compromised when the actual expenditures do not include all cost incurred.

In one instance, rent expense in the amount of $254,722 for the period January 1, 1999 through May 31, 2000 was invoiced by the King County Department of Construction and Facility Management in July 2000. The full amount of this invoice was expensed in 2000.

We will propose an adjustment entry to accrue 1999 rent expense amounting to $156,469 in 1999 and reduce it from 2000.

See related recommendation at D. b. on page 43.

See proposed adjusting journal entries # 209 and 309 on Appendix 6.1. on pages 72 and 74.

Executive Response
We acknowledge the findings.

Finding - D. 4.

There was no rent charged to the FSRP for five months during 1998. According to the Deputy Director of Finance a management decision was made not to charge rent to FSRP for that period. Because this is a legitimate cost of the project, which was appropriately charged for rent for each of the other months of the projects' duration, we are proposing an adjustment to include rent of $17,665 to Project 344101. This is consistent with where rent charges were shown in subsequent years.

See adjusting journal entry # 107 at Appendix 6.1. on page 70.

Executive Response
We acknowledge the findings.

Finding - D. 5.

We noted an instance where loaned labor in the amount of $99,900 was charged to the line item consulting costs on the FSRP financial schedules rather than to the line item exception- interfund. We will propose an adjusting entry to properly classify this expense. Since this was the only error of this nature encountered for all the items tested, we will not make a recommendation.

See adjusting journal entry # 106 at Appendix 6.1. on page 70.

Executive Response
We acknowledge the findings.

Explanatory Comment

The payroll stabilization project (344119), which continued after the rest of the FSRP was suspended, was funded by a new appropriation of $2,088,033. Additionally, $1,655,989 of these costs were to be absorbed by the finance operating budget. The total amount expended for stabilization was initially charged to FSRP payroll stabilization (344119), payroll stabilization (344119) expenditures was subsequently credited for $1,655,989, to show the amount being absorbed by finance operating budget. While this entry is technically correct per government accounting standards, for purposes of our analysis we will reverse this entry to show the gross amount of FSRP expenditures. This is being done only for the purpose of computing total FSRP expenditures, regardless of the source of funds.

See adjusting journal entry # 312 on Appendix 6.1. on page 74.

RECOMMENDATIONS

D. a. Distinction Between Operating and Capital Expenditures - Finding D. 1.
We recommend that the distinction between capital and operating costs be kept distinct at all times. During the FSRP a project manager made an agreement with a department manager to front capital funds for an expenditure that both managers agreed was an operating expense. The department manager agreed to reimburse the project for the costs. Subsequently, only a portion of the project funds were recaptured from operations due to the lack of a written agreement and employee turnover.

We recommend that such blurring of the capital and operating funds be avoided. We further recommend that agreements distinguishing capital from operating funds be written agreements to ensure that such agreements are complied with.

Executive Response
FMD will be working with agencies to develop policies related to what should be capitalized vs. reported as operating expense. In addition we will need to determine when a project is first set up whether it is a capital project or an operating "project", e.g. maintenance and repair, for financial accounting and reporting purposes. Currently all projects are set up as "capital projects" for budgeting purposes. Better delineation between capital costs and operating expenses will be essential in implementing GASB 34.

D. b. Expense Accrual - Finding D. 3.

Many expenses recorded by interfund transfer (personnel costs for loaned employees, rent, etc.) are invoiced bi-monthly, semi annually or annually. Project managers recognized these expenses to their projects on a cash basis. Because budgets were for the entire life of the project rather than for specific time periods, such as monthly or annually, the project managers were not concerned with matching expenses to the period of benefit.

We recommend that in the future project managers be required to accrue expenses to the period benefited. This will be significant if recommendation F.c. is implemented.

Executive Response
We concur.

E. OTHER EXPENSES

Limited testing was performed in these cost categories, primarily to gain an understanding of the nature of expenses charged to these expense categories.

Finding - E. 1.

Invoices 106655, 106902 and 106075 which were requested for testing were not found. This results in questioned costs of $12,015.

See Appendix 7.1 on page 76 for a detail list of missing documents.

Executive Response
See executive response to finding A. 2. on page 8.

F. GENERAL RECOMMENDATIONS

F. a. Steering Committee
Minutes were not kept for Steering Committee meetings. The Steering Committee was the policy making group for this development project. In order to ensure that policies are enforced and universally applied where applicable, it is important that a written record be maintained of all policies. Formal minutes of the governing group's meeting provides such a record. Further, by reviewing and approving the minutes of the previous meeting committee members are given the opportunity to ensure that the record accurately reflects the policy they established.

We recommend that all committees that have policy setting capacities be required to record, approve and maintain minutes of their meetings.

Executive Response
As a general rule we concur with the recommendation and as applied to the FSRP project we concur. There may be situations or circumstances where such a policy could be overly burdensome, inappropriate or unnecessary, however. The keeping, approval and maintenance of minutes should be determined on a case-by-case basis, considering both the cost of doing so and the benefits achieved.

F. b. Encumbrance Accounting
During our review of procedures, we noted that King County procurement policies and procedures CON 7-4, 7.10 requires funds to be encumbered. The IBIS system does not provide this capability.

It appears that it will be a minimum of 2 to 3 years before a new financial system will be installed, meanwhile, we recommend that management look at possible means for complying with this requirement on a temporary basis.

Executive Response

The County currently uses expenditure accruals in lieu of encumbrances in the IBIS financial system. This Oracle based IBIS system does not have encumbrance accounting capability built into the system processes. We can look at alternative programs and enhancements/modifications to the current system that could provide this capability. There are other mechanisms that can also be explored to provide this type of work process within the County's financial operations on the IBIS side. An alternative is to look at changing the County's policy, which requires the use of encumbrance accounting. We could explore alternative procedures that can provide similar budget and other internal controls. It should be noted that CON 7-4, 7.10 was written for ARMS prior to the merger of METRO.

F. c. Project Budgeting

A more comprehensive budgeting process might have assisted management to more effectively monitor the project costs. The budgeting process for FSRP was based on each manager allocating appropriated dollars to cost categories for the entire life of the project. Managers kept track of expenditures and funds remaining to be spent. The budget was not incorporated as part of the financial reporting system, i.e. the general ledger.

A more comprehensive budget prepared annually, with monthly allocations is considered to be an effective management control tool. Budget analysis should not be limited to determining the amount of funds remaining for the project, it should also be based on solid projections of costs expected to be incurred. The budget should also be incorporated as part of the monthly financial reporting system, preferably included in the general ledger. To enhance the management and control value of budgeting, a management level employee should be assigned the task of ensuring that an effective budgeting process is followed, including timely analysis of budget versus actual results.

Executive Response

We agree that a comprehensive budgeting process of monitoring and control are essential to effective project management. Such a system was designed and implemented for the FSRP. Unfortunately, the IBIS general ledger system was not a satisfactory tool for this purpose because it did not provide for encumbrance accounting.

The FSRP designed a program that reported actual expenditures monthly with comparison to the budget and more detailed expenditure reports quarterly. The quarterly reports included actual and projected expenditures through the end of the quarter. A senior Department of Finance employee as recommended by the comment maintained the system.