

Metropolitan King County Council

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MANAGEMENT LETTER

DATE: November 13, 2001

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Washington State Auditor's Office 2000 Audit Findings

This management letter discusses the results of our review of the audit findings included in Washington State Auditor's Office (SAO) audit report on King County for the period January 1, 2000 through December 31, 2000 (Report No. 62656). The letter is provided to assist the council in its oversight of corrective actions implemented by county agencies to address the SAO findings and recommendations on internal control deficiencies.

Background:

The County Auditor's Office review of the SAO audit report on the King County annual report is included in our annual work program as an on-going item. In the past, the Budget and Fiscal Management (BFM) Committee has asked County Auditor staff to review the SAO report and comment on the SAO findings and recommendations and the adequacy of the county's response.

The 2000 SAO report, dated September 28, 2001, contains one item in the Schedule of Federal Audit Findings section, and nine items in the Status of Prior Audit Findings section. We have reviewed the audit finding and the status of the county's implementation of the prior year's SAO recommendations. We selected the following findings for discussion based on the significance of the issues, the number of times the deficiencies were noted by the SAO in prior audit reports, and the county's responses to the SAO's recommendations. We have also included recommendations for some follow-up work that, in our opinion, would help ensure the adequacy of corrective actions implemented by the agencies.

It should be noted that the SAO issued an unqualified opinion (commonly referred to as a "clean" opinion) on the county's financial statements for the year ended December 31, 2000. The discussions in the SAO's report address the internal control weaknesses noted by the SAO, which they are required to disclose under generally accepted auditing standards.

Schedule of Federal Audit Finding No. 1: “The absence of centralized guidance results in inadequate controls for tracking grants and identifying and reporting expenditures of federal assistance.”

The SAO notes that King County does not have centralized policies and procedures to identify what federal grants it receives or how much federal money it spends. This is contrary to federal requirements. The county’s primary accounting system is not effective in tracing the incoming grant awards and the expenditures of those awards. Despite that difficulty, some county agencies do not establish alternative tracking methods. This condition has resulted in such errors as failing to record revenues in an appropriate period, comingling of various grants with different allowability requirements, and inaccurate expenditure reporting on the Schedule of Expenditures of Federal Awards.

The county spent in excess of \$140 million in federal awards in 2000. We believe that the lack of centralized control over the federal awards is a significant deficiency. The difficulties in monitoring allowability, lack of compliance with cash management requirements, and the errors in the reported expenditures could potentially result in a loss and/or delay in federal funds awarded.

The SAO recommends that the county develop centralized policies and procedures to ensure grants are properly identified and reported, establish a central inventory of all the grants, and appropriately train those administering federal grants. Audit staff met with the manager of Executive Internal Audit and the Chief Accountant, Department of Finance. We discussed the details of the proposed actions by the executive, which include immediate hiring of a new coordinator position to be funded through an internal service charge. The coordinator is to develop and implement the policies and procedures, maintain a centralized inventory of grant awards, train and assist relevant agency personnel, and monitor compliance. Based on our review, the proposed course of action appears adequate; however, the impact cannot be determined until after the coordinator has been hired and centralized policies and procedures have been implemented. Accordingly, **we recommend** that our office conduct a review of the new centralized policies and procedures for grant accounting and reporting soon after their implementation.

Status of Prior Audit Finding No. 5: “The Sheriff’s Office lacked adequate internal controls over several areas.”

The SAO notes that their prior audits have revealed internal control weaknesses in four areas: timely closure of drug seizure cases, accountability for property stored in the evidence room, oversight of the seized vehicles inventory, and accountability over the firearms inventory. All these findings are repeat findings from the 1998 and 1999 audits, and the SAO has been commenting on the evidence room issues since 1996.

In the 2000 report, the SAO indicates that the Sheriff’s Office has made significant progress. However, the SAO goes on to note that continued improvements are necessary in substantially all areas. Such comments included the need to record all evidence in the database, develop formal procedures to establish accountability over cash, document the disposition of auctioned items, establish accountability over drug-seized vehicles, and develop a single database for and conduct a periodic inventory of firearms.

These additional comments by the SAO indicate that the internal controls in these areas may not be yet adequate. Accordingly, **we recommend** that the council request a report from the Sheriff's Office on the current status and the future course of action to address the internal control weaknesses.

Status of Prior Audit Finding No. 6: "Internal controls at the County-owned parking lot at Sixth and Jefferson Street remain inadequate."

The SAO notes that their reports have cited the inadequate internal controls over the collection of revenues at the parking lot each year since 1996. They further note that the internal controls continue to be inadequate, but chose not to include this issue as a finding since the county is in the process of contracting with a private firm for management of the parking lot.

In mid-1999, after issuance of the 1998 SAO report, the BFM Committee requested the Department of Construction and Facilities Management (DCFM) to study potential alternatives for managing the parking lot. In a memo dated November 15, 2000, DCFM outlined six alternatives, including status quo (using county personnel), drop-box, and hiring an outside parking lot manager. It appears that contracting with a private management firm is DCFM's preferred alternative.

Audit staff were recently informed that an RFP for private management of the parking lot has been issued and final selection is to be made in the near future. Subsequently, audit staff requested a copy of the RFP from DCFM. Based on our review, the RFP appears to adequately address operational and financial reporting requirements, including internal controls to detect and prevent theft of parking revenues. However, contract terms will not be finalized until the winning bid is selected and the proposed operation with the specific fee structure is finalized. Accordingly, **we recommend** that the council request a briefing on the parking lot management before the contract is signed. This briefing should include a discussion of the terms of the contract and the procedures for county oversight of the parking lot management.

Mac Fletcher, Principal Financial Auditor; Harriet Richardson, Principal Management Auditor; and Bert Golla, Senior Financial Auditor, conducted this management review. Please contact Mac at 296-0379 or me at 296-1655 if you have any questions about the issues discussed in this letter.

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cc: Ron Sims, County Executive
Dave Reichert, County Sheriff
Paul Tanaka, Deputy County Executive
Steve Call, Budget Director, Budget Office
Bob Cowan, Director, Department of Finance
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