

Metropolitan King County Council

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MANAGEMENT LETTER

DATE: January 5, 2004

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, ^{cb} County Auditor

SUBJECT: Washington State Auditor's Office 2002 Audit Findings

This letter discusses our review of the most recent Washington State Auditor's Office (SAO) reports on King County. SAO reports 65687 and 65688, which cover the period from January 1, 2002 through December 31, 2002, provide audit findings and recommendations on King County financial management and internal controls. This letter highlights certain of these SAO findings and is intended to assist the council in its oversight of corrective actions taken to address them.

Background:

The Washington State Auditor's Office is established by the state constitution as the auditor of all public accounts in the state. The office regularly conducts audits of 2,400 units of local government and is responsible for ensuring that public funds are properly accounted for and controlled and that governments adhere to required laws and regulations relating to financial matters.

Each year, in October, the SAO releases the results of its review of King County's financial management during the previous year. The King County Auditor's Office (KCAO) reviews the SAO reports as part of its annual work program. When appropriate, the KCAO provides the council with comments regarding the SAO findings and recommendations and the adequacy of the county's response.

Current Review:

This year, the SAO issued two reports on King County. The first of these, the 'Report on Financial Statements and Federal Single Audit,' discusses King County financial statements and compliance with federal laws and regulations. The second of these, the 'Accountability Audit Report,' discusses King County compliance with state laws and regulations.

Summary of 'Report on Financial Statements and Federal Single Audit'

The SAO issued an unqualified (or "clean") opinion regarding the county's financial statements for the year ended December 31, 2002. The SAO also was generally satisfied with the county's responses to prior audit findings and recommendations. However, the SAO reported one

finding of material weakness which was also a repeat finding from the previous year, and expressed concern regarding the county's compliance with certain requirements applicable to its major federal programs, a weakness the SAO also had reported as a finding in 2001. These concerns are described below.

- **Finding 1.** The SAO found that payroll charges against two grants were not supported or were incurred outside the grant period, resulting in questioned costs of \$985,466. In 2001, the SAO had questioned \$58,769 of similar costs charged against four federal grants. For this year's finding, the SAO noted that program managers for the two grants at the Sheriff's Office and Health Department did not understand the grant requirements and how to establish controls to ensure costs were allowable, adequately supported and incurred within the period of availability. Both agencies accept the finding and indicate they will take corrective action.
- **Status of 2001 Finding 4.** The SAO expressed concern regarding the county's response to a 2001 audit finding. That finding stated that the county lacked "adequate controls to ensure compliance with the requirement against awarding federal funds to suspended or debarred parties for nonconstruction contracts." The SAO noted in its 2002 report that while county departments were consistently verifying that subrecipients and vendors were not on the Suspended or Debarred Listing, some departments were not obtaining the required certifications. The county's Finance and Business Operations Division intends to hire a federal grants manager in 2004 who will be responsible for ensuring that all federal reporting requirements are followed in the administration of federal grants.

KCAO Recommendation: To ensure that corrective actions are taken, we recommend that the council request a report from the Sheriff's Office and Public Health regarding this year's SAO finding, and from the Finance and Business Operations Division regarding the qualified opinion on the response to 2001 Finding 4. We believe it is appropriate to expect corrective action by September 2004.

Summary of 'Accountability Audit Report'

The SAO found that in most areas the county complied with state laws and regulations and with its own policies and procedures. However, the SAO identified three conditions significant enough to report as findings. Of these, one is perhaps of greater interest to the council than the others. This finding is described below.

- **Finding 1.** The SAO found that the county had misused certain restricted revenues. Specifically, the county paid for its seven Unincorporated Area Councils with funds from the Public Transportation and Solid Waste Funds, though many services coordinated in conjunction with these councils are provided by other agencies. The SAO noted that this practice was inconsistent with the restricted nature of revenues credited to these funds. The executive has stated his intent to revisit this funding strategy.

KCAO Recommendation: We recommend that the council request a report from the executive regarding review of the current funding strategy for the Unincorporated Area Councils and any proposed revisions to this structure. We believe it is appropriate to expect corrective action by September 2004.

SAO Commendation:

Following the release of the 2002 report, the State Auditor's Office addressed a letter to King County Executive Ron Sims commending the county for its continuously improving audits. The number of new audit findings the county has received has fallen from 13 in 1998 to four in the 2002 audit. We are enclosing a matrix showing the SAO findings from 1998 through 2002.

Bert Golla, Senior Financial Auditor, and David Reynolds, Management Auditor, conducted this follow-up review. Please contact Bert at 296-0378 or me at 296-1655 if you have any questions about the issues discussed in this letter.

CB:jl:SAO Final Report

Attachment: Washington State Auditor's Office, Report Findings Summary, 1998 through 2002

cc: Ron Sims, County Executive
Sheryl Whitney, Assistant County Executive
Steve Call, Budget Director, Budget Office
Paul Tanaka, County Administrative Officer, Department of Executive Services
Bob Cowan, Director, Business and Finance Division, Department of Executive Services
Dave Lawson, Internal Audit Supervisor, Executive Audit Services
Shelley Sutton, Policy Staff Director, County Council
Mike Alvine, Lead Legislative Analyst, LOT
Rebecha Cusack, Lead Legislative Analyst, BFM

Attachment

Washington State Auditor's Office Report Findings Summary 1999 through 2002							
<u>Year</u>	<u>Report/ Finding #</u>	<u>Findings</u>	<u>New</u>	<u>Repeat</u>	<u>Resolved</u>	<u>Comments Regarding Resolution</u>	<u>Agencies Affected</u>
2002	Schedule of Audit Findings						
		1.	County misused restricted revenues.	1			Community Svcs, DDES, Public Health, Sheriff's Office
		2.	Internal controls over traffic citations were inadequate.	1			Sheriff's Office, District Court
		3.	Medic One funds were misappropriated.	1			EMS
		Schedule of Federal Audit Findings and Questioned Costs					
	1.	Documentation in support of payroll charges to grants was inadequate.	1	1		Public Health, Sheriff's Office	
		Totals	4	1			
2001	Schedule of Audit Findings						
		1.	Control over Commuter Bonus Program was inadequate.	1		n/a	Transit
	Schedule of Federal Audit Findings						
		1.	Control over administration of federally funded program was inadequate.	1		yes	Satisfactory in 2002
		2.	Documentation in support of payroll charges to grants was inadequate.	1		no	Repeat finding in 2002
	3.	Control over eligibility in two programs was inadequate.	1		yes	Satisfactory in 2002	
	4.	Control against awarding funds to suspended or debarred parties was inadequate.	1		no	Improvement in 2002, but SAO sent mgmt letter to executive with residual concern	Community Svcs, Judicial Admin, PAO, Superior Court
		Totals	5	0			
2000	Schedule of Federal Audit Findings						
	1.	County lacked centralized guidance for tracking grants.	1		yes	Satisfactory in 2001	General
		Totals	1	0			
1999	Schedule of Audit Findings						
	1.	Cash reconciliation was untimely and inadequate.	1	1	yes	Satisfactory in 2000	General
	2.	Cash was transferred without accountability being established.	1	1	yes	Satisfactory in 2000	General
	3.	County exceeded appropriation authority; amended budget after year end.	1	1	yes	Satisfactory in 2000	General
	4.	County failed to submit timely and accurate financial reports to SAO.	1	1	yes	Satisfactory in 2000	General
	5.	Sheriff's Office lacked adequate internal controls over several areas.	1	1	no	Improvement in 2000, but SAO communicated residual concern to management	Sheriff's Office

Attachment (continued)

	6. Internal controls at Goat Hill parking lot were inadequate.	1	1	no	No improvement, but SAO did not repeat finding, as County was in process of contracting with private firm to manage lot	Facilities Management
	Schedule of Federal Audit Findings and Questioned Costs					
	1. Controls over reporting of federal assistance expenditures were inadequate.	1	1	no	Repeat finding in 2000	General
	2. Charges under Child Support Enforcement grant were unallowable or improperly supported.	1		no	DSHS has not taken action to resolve finding	Judicial Admin, PAO, Sheriff's Office, Superior Court
	3. Abuse grant were unsupported.	1		no	DSHS has not taken action to resolve finding	MHCADS
	Totals	9	7			
1998	Schedule of Audit Findings					
	1. Cash reconciliation was untimely and inadequate.	1	1	no	Repeat finding in 1999	General
	2. Cash was transferred without accountability being established.	1		no	Repeat finding in 1999	General
	3. County exceeded appropriation authority; amended budget after year end.	1		no	Repeat finding in 1999	General
	4. County failed to submit timely and accurate financial reports to SAO.	1		no	Repeat finding in 1999	General
	5. Internal controls over warrants were inadequate.	1		yes	Satisfactory in 1999	General
	6. Controls over payroll in several agencies was inadequate.	1		yes	Satisfactory in 1999	General
	7. County did not comply with state regulations on travel vouchers.	1		yes	Satisfactory in 1999	Parks, WLRD
	8. Controls over assessment of Mitigation Payment System were inadequate.	1		yes	Satisfactory in 1999	General
	9. Sheriff's Office lacked adequate internal controls over several areas.	1		yes	Satisfactory in 1999	DDES, DOT
	10. Sheriff's Office state remittance was not consistent with state law.	1		no	Repeat finding in 1999	Sheriff's Office
	11. Internal controls at Goat Hill parking lot were inadequate.	1	1	yes	Satisfactory in 1999	Sheriff's Office
	12. Internal controls over cash receipting at Enumclaw golf course were inadequate.	1		no	Repeat finding in 1999	Facilities Management
	13. Internal controls over cash receipts and inventory at WLRD were inadequate.	1		yes	Satisfactory in 1999	Parks
	Totals	13	2			WLRD