

Metropolitan King County Council

Carolyn Edmonds, *District 1*
Bob Ferguson, *District 2*
Kathy Lambert, *District 3*
Larry Phillips, *District 4*
Dwight Pelz, *District 5*
Reagan Dunn, *District 6*
Pete von Reichbauer, *District 7*
Dow Constantine, *District 8*
Stephen Hammond, *District 9*
Larry Gossett, *District 10*
Jane Hague, *District 11*
David W. Irons, *District 12*
Julia Patterson, *District 13*



Cheryle A. Broom
King County Auditor

516 Third Avenue, Room W1033
Seattle, WA 98104-3272

(206) 296-1655
TTY 296-1024

MANAGEMENT LETTER

DATE: November 28, 2005

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, King County Auditor

SUBJECT: 2004 Audit Findings of the Washington State Auditor and Deloitte & Touche

This letter discusses our review of the most recent Washington State Auditor's Office (SAO) audit reports on King County and the independent audit reports, issued by the public accounting firm of Deloitte and Touche, of King County Public Transportation and Water Quality enterprises.

These reports provide findings and recommendations on King County financial management and internal controls. This letter highlights the 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 SAO conducts a yearly audit of King County, and is responsible for ensuring that public funds are properly accounted for and controlled and that the county adheres to the required laws and regulations relating to financial matters.

At the conclusion of the audit, the SAO issues two reports. The first is the "Report on Financial Statements and Federal Single Audit," which addresses the county's financial statements and compliance with federal laws and regulations. The second is the "Accountability Audit Report," which addresses the county's compliance with state laws and regulations.

The audits of King County Public Transportation and Water Quality enterprises are performed in accordance with bond covenants. These covenants require that an independent certified public accounting firm perform yearly audits, in accordance with Generally Accepted Auditing Standards (GAAS). Currently these audits are provided by Deloitte and Touche.

Each year, usually no later than October, the SAO and Deloitte & Touche release the results of the audits. The King County Auditor's Office (KCAO) reviews these audit reports as part of its annual work program. When appropriate, the KCAO provides the council with comments regarding the findings and recommendations, and the adequacy of the county's response.

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, 2004. The SAO reported three findings concerning internal control over major federal programs. These findings are described below:

- **Finding 1.** The SAO found that the Community Services Division did not comply with housing quality standards for the HOME Investment Partnership Program. Due to scheduling complications, and efforts to migrate from multiple databases used for compliance and contract monitoring, some mandatory property inspections were not performed in a timely manner.
- **Finding 2.** The SAO found that the Public Health Department failed to obtain audit reports from any of the immunization program sub-recipients since 2001. Although the county requested audit reports from some of the sub-recipients, it had no controls in place to ensure those reports were obtained.
- **Finding 3.** The SAO found that the county failed to verify that vendors and sub-recipients paid with federal funds were not debarred or otherwise excluded from participation in federal programs. The SAO found that county departments that administer federal programs were not fully aware of the requirement to obtain evidence that vendors and sub-recipients receiving federal funds had not been debarred or suspended.

Discussion: Actions taken by the King County Finance and Business Operations Division in response to these findings appear to have addressed the issues. The actions include the development of a consolidated Housing and Community Development database and changes to grant management policies and procedures.

Summary of 'Accountability Audit Report'

The SAO determined that in general the county complied with applicable state laws and regulations and with its own policies and procedures. However, the SAO identified four conditions significant enough to report as findings. These finding are described below:

- **Finding 1.** The SAO found that the Solid Waste Fund paid retroactive rent to the General Fund, constituting an unauthorized use of restricted funds. Specifically, the arrangement between the Solid Waste Fund and General Fund resulted in the Solid Waste Fund paying nearly \$5.8 million in retroactive rent for the period

1992 through 2003 for the use of the Cedar Hills landfill when it had no legal obligation to do so.

- **Finding 2.** The SAO found that approximately \$2.9 million in general governmental costs charged to restricted funds were unauthorized or unsupported. General governmental cost originates in the county's General Fund, and may under certain circumstances be allocated to other funds only if two requirements are met: (1) the legal restrictions do not prohibit the county to spend the revenues on general governmental cost and (2) the cost allocations reflect the true and fair value of services rendered to other funds.
- **Finding 3.** The SAO found that the county did not comply with state law governing the use of Real Estate Excise Tax (REET) proceeds. The county spent \$878,688 of REET funds to purchase land use rights in the lower Green River agricultural area as part of its Farmland Conservation Program. Purchase of land for the purpose of conservation is not an authorized use of these funds.
- **Finding 4.** The SAO found that the county did not follow state law when it purchased more than \$320,000 of bio-diesel fuel for its Metro bus fleet.

The county signed a contract dated March 3, 2004 for the purchase of diesel fuel for its buses. On October 12, 2004, the county executed a contract amendment. This amendment changed the fuel for use at two Metro transit bases to a 5-percent diesel and bio-diesel mix. The SAO stated that the contract amendment for bio-diesel was substantially different than the original contract and therefore, should have been handled as a separate contract.

Discussion: Actions taken by the King County Finance and Business Operations Division in response to these findings appear to have addressed the issues raised in the case of findings 1, 2 and 3. These actions include the re-evaluation of the county's cost allocation plan and a commitment that future distributions out of REET funds will conform to the interpretation of statute as presented by SAO. Concerning finding 4, the county and the SAO have determined that they are not in agreement in regard to the contract amendment. The SAO felt that the change in diesel fuel necessitated a new contract and new bidding process and the county believed that the amendment was allowable within the scope of the original contract.

Summary of Deloitte & Touche Financial Statement Audits for King County Public Transportation and Water Quality Enterprises

Deloitte and Touche issued unqualified (clean) opinions on the financial statements for the King County Public Transportation and Water Quality enterprises for the years ended December 31, 2003 and 2004.

Deloitte and Touche developed a letter of recommendations concerning some items related to the enterprises' internal controls accounting functions and information systems. None of the items noted were considered a material weakness.

The King County Finance and Business Operations Division has reviewed the recommendations, and is working to instigate changes, suggested by the SAO, when practical and feasible.

KCAO Recommendations:

We have no recommendations at this time, but we will follow up with the Finance and Business Operations Division on its recommendation implementation status.

Allan Thompson, Senior Financial Auditor, conducted this follow-up review. Please contact Allan at 296-0378 or me at 296-1655 if you have any questions about the issues discussed in this letter.

CB:AT:yr

cc: Ron Sims, County Executive
Kurt Triplett, Chief of Staff, Office of County Executive
Sheryl Whitney, Assistant County Executive
Bob Cowan, Director, Office of Budget and Management
Paul Tanaka, County Administrative Officer, Department of Executive Services
Ken Guy, Division Director, Finance and Business Operations Division, DES
Dave Lawson, Internal Audit Supervisor, Executive Audit Services
Shelley Sutton, Policy Staff Director, County Council
Mike Alvine, Lead Legislative Analyst, Labor, Operations, and Technology Committee
Rebecha Cusack, Lead Legislative Analyst, Budget and Fiscal Management Committee