

Washington State Auditor's Office
Accountability Audit Report

King County

Report Date
May 10, 2012

Report No. 1007844

Issue Date
May 29, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

May 29, 2012

Council and Executive
King County
Seattle, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your County to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on King County's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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May 10, 2012

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Audit Summary

King County
May 10, 2012

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of King County from July 1, 2010 through June 30, 2011.

We evaluated internal controls and performed audit procedures on the activities of the County. We also determined whether the County complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Department of Community and Health Services operations
- Department of Public Health operations
- Department of Transportation operations
- Recorder's Office cash handling and fee compliance
- Military leave pay and benefits
- E-commerce program
- Management of non-County funds
- Self-Insurance program
- Contracts and agreements
- Special investigations
- Warrant accountability
- Citizen Hotline examinations
- Software system conversion
- Small Contractors and Suppliers program
- Paid leave at Department of Juvenile and Adult Detention
- Employees paid as vendors
- Restricted tax use
- Creation of new entities
- Follow-up on prior audit issues

Our work focused on specific areas that have potential for abuse and misuse of public resources as follows:

Department of Community and Health Services

The Department of Community and Human Services (DCHS) coordinates regional housing and human services systems, primarily through contracts with community-based agencies. While the department provides a wide range of services, it focuses efforts in four key areas; prevention and early intervention services, ending homelessness, criminal justice services as alternatives to incarceration, and job training and employment services. Programs and services are coordinated through the Director's Office and four divisions: Community Services; Developmental Disabilities; Mental Health, Chemical Abuse and Dependency Services; and the Office of the Public Defender. The Department is responsible for an annual budget of approximately

\$348 million. DCHS revenues come from a variety of sources, including state and federal grants, dedicated taxes, some fees for services (such as the marriage license and divorce fees) and other sources. We examined these areas:

- Revenue collection efforts – Office of the Public Defender
- Billings and receipts
- Eligibility verification
- Electronic Funds Transfer disbursements
- Warrant accountability
- Credit card usage
- Contract monitoring
- Reduced fare bus tickets program
- Safeguarding of small and attractive assets

Department of Public Health

The Department of Public Health provides a wide range of public health services through its five divisions and a Crosscutting and Business Administrative Services organization. The divisions are Community Health Services, Emergency Medical Services, Environmental Health, Jail Health Services, and Prevention Services. The Department is responsible for an annual budget of approximately \$297 million. Public Health receives a variety of revenues. The most significant involve health related permits and grant billings. We examined these areas:

- Billings and receipts
- Cash handling
- Payroll
- Warrant accountability
- Vendor payments
- Travel expenses

Department of Transportation

The Department includes the following divisions: Director's Office, Roads Services Division, Airport Division, Transit Division, Marine Division and Fleet Division. The Department is responsible for an annual budget of approximately \$1.66 billion. We examined the Fleet and Transit divisions based on our perception of risk. Specifically, we examined:

- Fleet inventory processes
- Fleet store activities
- Vehicle warranty work provided by Fleet
- Warrant accountability
- Reduced bus fare tickets program
- Paratransit contract monitoring

RESULTS

In most areas, the County complied with state laws and regulations and its own policies and procedures.

However, we identified conditions significant enough to report as findings:

- The County's Department of Community and Human Services does not maintain documentation to demonstrate that citizens represented by the Office of the

Public Defender are eligible for the legal services. In addition, the Department lacks sufficient controls over payments received from those represented.

- The County does not adequately monitor its e-commerce program, increasing the risk for loss or misuse of public funds.

We also noted certain matters that we communicated to County management. We appreciate the County's commitment to resolving those matters.

Related Reports

**King County
May 10, 2012**

FINANCIAL

Our opinion on the County's financial statements is provided in a separate report, which includes the County's financial statements.

That report includes a finding for significant deficiencies in internal controls to ensure accurate accounting and financial reporting

FEDERAL GRANT PROGRAMS

Our opinion on County's compliance with federal grant program requirements is provided in a separate report. We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal programs, which are listed in the Federal Summary section of the single audit report.

That report includes federal findings regarding inadequate internal controls to ensure compliance with requirements of the following major programs:

- Federal Transit Grant Programs
- Shelter Plus Care Grant
- Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
- Public Health Emergency Preparedness Grant
- Immunization Grants
- Grants to Health Center Programs
- Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)
- Medical Assistance Program
- Centers for Disease Control and Prevention Investigations and Technical Assistance
- HOME Investment Partnership grant
- Energy Efficiency and Conservation Block Grant Programs
- Community Development Block Grant Program
- Child Support Enforcement Grant
- Homelessness Prevention and Rapid Re-Housing Program
- Homeland Security Grant Program

Description of the County

King County
May 10, 2012

ABOUT THE COUNTY

With a population of approximately 1.9 million, King County is the most populous county in Washington State and the 14th most populous in the country. The County covers 2,131 square miles, giving it the 11th largest geographic area of Washington's 39 counties. It is the financial, economic, transportation and industrial center of the Pacific Northwest.

The County operates under a Home Rule Charter, adopted by a vote of County citizens in 1968, with an executive-council form of government. The King County Council is the policy-making body of the County. Citizens elect the Executive to a four-year, full-time term. Citizens elect the Council's nine members by district to staggered, four-year terms. They also serve full-time.

The County provides public transportation, road construction and maintenance, water quality, flood control, parks and recreation facilities, and agriculture services. The County also provides court services, law enforcement and criminal detention, and coroner services. It assesses and collects taxes, and provides fire inspections, planning, zoning, animal control, public health, election administration, treasury services and waste disposal services.

The County has approximately 14,191 full and part-time employees and annual expenses of approximately \$2.8 billion.

ELECTED OFFICIALS

These officials served during the audit period:

Council:

District 1	Bob Ferguson
District 2	Larry Gossett
District 3	Kathy Lambert
District 4	Larry Phillips
District 5	Julia Patterson
District 6	Jane Hague
District 7	Pete von Reichbauer
District 8	Jan Drago
District 9	Reagan Dunn
Executive	Dow Constantine
Prosecuting Attorney	Daniel Satterberg
Assessor	Lloyd Hara
Sheriff	Susan Rahr
Elections Director	Sherril Huff
Presiding Judge, King County Superior Court	Bruce Hilyer
Presiding Judge, King County District Court	Barbara Linde

APPOINTED OFFICIALS

Deputy County Executive	Fred Jarrett
Assistant Deputy County Executive	Rhonda Berry
County Administrative Office	Caroline Whalen
Director of Budget	Dwight Dively
Director of Finance	Key Guy
County Auditor	Cheryle Broom

COUNTY CONTACT INFORMATION

Address: King County
516 3rd Avenue
County Courthouse
Seattle, WA 98104-3272

Phone: (206) 263-9255

Website: www.kingcounty.gov

AUDIT HISTORY

We audit the County annually. During the past five accountability audits of the County, we have reported 30 findings: one in 2005, five in 2007, 12 in 2008, seven in 2009 and five in 2010. Of these findings, some were repeats or partial repeats of previous findings.

During the current audit, we found the prior year findings related to verification of County insurance benefit plans for spouses, domestic partners and dependents; the Marine Division controls over the safeguarding of cash vaults; and the Sheriff's Office deputies compliance with its firearms policies have been resolved. We will consider performing follow-up procedures for the findings related to the continual lack of adequate internal controls to ensure inter-fund transactions are appropriate, timely, and accurately accounted for and the Sheriff's Office inadequate internal controls to ensure citations are audited through disposition by the courts as required by state law in future audits.

Schedule of Audit Findings and Responses

King County
May 10, 2012

1. **The County's Department of Community and Human Services does not maintain documentation to demonstrate that citizens represented by the Office of the Public Defender are eligible for the legal services. In addition, the Department lacks sufficient internal controls over payments received from those represented.**

Background

The County's Department of Community and Human Services provides services to the region's low-income residents. The Department has four divisions, including the Office of the Public Defender.

The Office provides legal services to defendants in King County Superior and District Courts who cannot afford an attorney. The Office contracts with local law firms to provide these services.

During the period under audit, the Office screened 11,811 defendants. County code requires all applicants for public defense services to pay a \$25 screening fee and if accepted, then pay for legal services on a sliding scale that the Office determines. During the audit period, the Office's revenues total \$937,277 and received \$173,053 in payments.

State law does not require the County to collect the screening fee; however, County code requires the fee be charged. The County stated the collections effort requires a significant amount of resources. The County is working to determine the cost-benefit of these collection efforts

To be eligible, the defendant must meet financial and case requirements contained in state law. Screeners for the Office enter the case number, defendant's name, address, income, and expense information into a case management system, which is known as HOMER. They then determine whether the defendant has an eligible case; is indigent and not able to pay; indigent and able to contribute; or not eligible for representation.

Description of Condition

During the audit, we noted screeners do not require documentation from the defendants to show their address, income, expenses and other information. We found that when documentation is provided, the screener did not retain a copy.

The screener collects the \$25 fee and any additional payment for defense services if the defendant is able to pay at that time. If payment is received the screener is required to enter the information into HOMER and print a receipt, however, the Office has no documentation to demonstrate this occurs.

The Assistant Director of the Office stated it relies on the defendant to ask for a receipt. If the defendant is not able to pay, the screener creates a promissory note for a payment that the defendant is required to sign and the County maintains. The County failed to segregate the duties for determining eligibility and the fees charged from the collection of payments to ensure all payments collected are recorded, reported and deposited.

New case information in HOMER is uploaded weekly into the County's accounts receivable system, AIRS. When the Office receives payments on existing accounts, it must notify accounts receivable to update the account. Accounts Receivable then posts payments on the accounts.

Screeners are able to create a second screening to reevaluate a defendant's ability to pay. The Office's Confidential Secretary then initiates an adjustment to a defendant's account in AIRs for circumstances such as address and income changes. However, the adjustment will not be reflected in AIRs unless Accounts Receivable is notified. The County does not reconcile HOMER and AIRS to ensure account balances are accurate.

The County sends past due accounts to collections. Accounts are past due after 180 days. For the year ending June 30, 2011 22,125 defendant accounts totaling \$1,697,710 were sent to collections. An additional 9,365 defendants had not paid the \$25 screening fee.

The County experiences difficulty collecting past due accounts because defendants' addresses screeners record in the HOMER are entered incorrectly, are not the defendant's correct address, or have changed by the time the account is sent to collections.

Cause of Condition

Management failed to identify risks associated with cash-receipting activities and did not develop controls to address the risk of misappropriation.

Management decided maintaining eligibility documentation would take up too much storage space.

Management does not require screeners to obtain documentation to verify addresses defendants provide.

Effect of Condition

The County cannot be sure that all fees collected are safeguarded. Additionally, it cannot be sure that all those receiving services are eligible.

Recommendation

We recommend that the County establish and follow procedures to adequately detect and prevent misappropriation and maintain documentation demonstrating that the defendant is eligible for services.

County's Response

The Office of Public Defense (OPD) of the Department of Community and Human Services concurs with the recommendation to improve its existing procedures for cash handling and receipt of payments. Additionally, OPD will review and modify its processes regarding client eligibility and documentation retention, as necessary. OPD has several different locations, where the staffing is limited, and eligibility and receipting procedures are performed by a single individual. OPD will determine appropriate compensating control procedures that mitigate this risk. OPD will consult with the Finance and Business Operations Division on appropriate procedures for the review of account balances in HOMER and AIRS.

Under the RCW 10.101.020, individuals seeking appointment of an attorney, are required to sign a statement as to the accuracy of information provided such as their name, address, income, assets and expenses. If an individual does not provide or provides incomplete documentation, OPD has the individual sign the affidavit form, which carries the penalty of perjury if the individual knowingly supplies false information. OPD retains the form for the period required by county retention policy. Prior to sending individuals to collections for account amounts past due, additional resources are used to correct/update address information. OPD will continue to try to obtain the most current data from other sources.

The County will also consider the cost benefit of collecting the \$25 screening fee.

Auditor's Remarks

We appreciate the County's commitment to updating their policies and procedures and we will review the County's corrective action during our next audit.

Applicable Laws and Regulations

RCW 10.101.020, Determination of indigency — Provisional appointment — Promissory note, states:

(1) A determination of indigency shall be made for all persons wishing the appointment of counsel in criminal, juvenile, involuntary commitment, and dependency cases, and any other case where the right to counsel attaches. The court or its designee shall determine whether the person is indigent pursuant to the standards set forth in this chapter.

(2) In making the determination of indigency, the court shall also consider the anticipated length and complexity of the proceedings and the usual and customary charges of an attorney in the community for rendering services, and any other circumstances presented to the court which are relevant to the issue of indigency. The appointment of counsel shall not be denied to the person because the person's friends or relatives, other than a spouse who was not the victim of any offense or offenses allegedly committed by the person, have resources adequate to retain counsel, or because the person has posted or is capable of posting bond.

(3) The determination of indigency shall be made upon the defendant's initial contact with the court or at the earliest time circumstances permit.

The court or its designee shall keep a written record of the determination of indigency. Any information given by the accused under this section or sections shall be confidential and shall not be available for use by the prosecution in the pending case.

(4) If a determination of eligibility cannot be made before the time when the first services are to be rendered, the court shall appoint an attorney on a provisional basis. If the court subsequently determines that the person receiving the services is ineligible, the court shall notify the person of the termination of services, subject to court-ordered reinstatement.

(5) All persons determined to be indigent and able to contribute, shall be required to execute a promissory note at the time counsel is appointed. The person shall be informed whether payment shall be made in the form of a lump sum payment or periodic payments. The payment and payment schedule must be set forth in writing. The person receiving the appointment of counsel shall also sign an affidavit swearing under penalty of perjury that all income and assets reported are complete and accurate. In addition, the person must swear in the affidavit to immediately report any change in financial status to the court.

(6) The office or individual charged by the court to make the determination of indigency shall provide a written report and opinion as to indigency on a form prescribed by the office of public defense, based on information obtained from the defendant and subject to verification. The form shall include information necessary to provide a basis for making a determination with respect to indigency as provided by this chapter.

King County Code Section 2.60 Public Defense, 2.60.054 Fees for applications for counsel, states:

A defendant requesting counsel at public expense shall pay a processing fee of twenty-five dollars as reimbursement to King County for the administrative costs and expenses incurred in the processing of the application. The processing fees is payable at the time the request for public counsel is made to the office of public defense. Processing fees are not refundable, even if the defendant is determined to be not eligible for counsel at public expense. A defendant will not be denied counsel because the defendant cannot pay the processing fee. All processing fee payments received shall be credited to the county current expense fund.

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting, Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Schedule of Audit Findings and Responses

King County
May 10, 2012

2. The County does not adequately monitor its e-commerce program, increasing the risk for loss or misuse of public funds.

Description of Condition

In 2004 the County established its electronic commerce (e-commerce) program. E-commerce allows the County to accept customer payments on line.

The e-commerce payment system accepts 15 payment types. It processed 200,351 transactions totaling \$111.6 million in 2010. The County contracts with a vendor for e-commerce payment processing. The vendor collects a fee for each transaction processed. Fees range from \$1.49 per transaction to 2.49 percent of the transaction depending on the transaction type and amount. In rare circumstances, the Finance Director may grant case-by-case exceptions to use an electronic payment system other than the County's payment system. In these cases, the County contracts separately for payment processing services.

We reviewed three agency payment applications that are part of the e-commerce program to determine if they were set up in compliance with County policy. We selected payment types based on the amount of activity for each in 2010:

- 35,830 property tax transactions totaling \$94,339,283.
- 24,091 capacity charges for new sewer system connections transactions totaling \$4,351,243.
- 22,759 Court fines transactions totaling \$3,383,587.

During our review, we noted:

- The County's e-commerce policy does not provide guidance for monitoring the program once established to ensure departments properly account for payments returned for nonsufficient funds; and payments receipted through the system are reconciled to actual deposits made by the e-commerce vendor.
- The Treasury Operations Manager is not adequately monitoring the contract with the e-commerce vendor.
- The County could not consistently demonstrate the Finance Director's written approval for e-commerce agency payment applications, as required by County policy.

- Daily, the contractor's system creates a file of the payments receipted for each payment type. This file interfaces with the County's general ledger to post payments to customer accounts. The County relies on the automated interface and does not have processes in place to ensure payments are applied to the correct accounts.
- The contract between the County and the e-commerce vendor says compensation to the vendor is not to exceed \$100,000; however, the contract does not include a definition of compensation. Customers using e-commerce services typically pay the transaction fee; however, the County absorbs some of those fees. The contract is unclear whether the fees paid by the customer and/or the county are "compensation".

We estimate the vendor collected transaction fees from customers totaling between \$409,477 to \$2,702,090 in 2010. It also collected \$67,898 in transaction fees from the County.

- In addition to the transaction fees, the contract also says the County will pay the vendor an administrative fee of \$600 annually per payment type. The vendor processes 15 payment types, so we expect the County to pay \$9,000 in 2010. However, the County only paid \$1,119 and could not explain the difference.

Cause of Condition

Management did not develop the e-commerce policy to ensure adequate program monitoring.

Management believes it is sufficient to rely on the contractor interface to post payments to customer accounts since the system has not changed since 2004. It has not established adequate internal controls to monitor the e-commerce program.

Effect of Condition

Without adequate internal controls, the County increases the risk of misappropriation or misuse of public funds will occur and not be detected in a timely manner, if at all. The County is unable demonstrate all e-commerce applications were approved or that the vendor contract was adequately monitored.

Recommendation

We recommend the County establish and follow internal controls and procedures to ensure:

- E-commerce applications are approved accordance with County policy.
- Proper monitoring of the program including accounting for payments returned for nonsufficient funds; payments receipted through the countywide payment system are reconciled to actual deposits made by the e-commerce vendor; payments are posted to the correct customer account; and compensation to the contractor is monitored and appropriate.

County's Response

The County has well-established policies, business plans and operating guidelines that provide an effective foundation for controlling transactions associated with the e-commerce program. That being said, we agree that the control environment could be strengthened by providing additional monitoring guidance and ensuring that user agencies are aware of and in compliance with the policies and guidelines.

Following are the county comments to provide additional context about the e-commerce program and the county's planned actions pertaining to the auditor's review notes:

- *The County's e-commerce policy does not provide guidance for monitoring the program once established to ensure departments properly account for payments returned for nonsufficient funds; and payments receipted through the system are reconciled to actual deposits made by the e-commerce vendor.*

We agree that additional monitoring guidance is needed and have initiated a review of agency practices based on the auditor's note. Treasury contacted certain agencies regarding posting the report activity. Agencies contacted included Treasury-Property tax, WTD-capacity charges and District Courts. The agencies record the amount debited to their bank accounts. If there is an NSF amount the total deposit is adjusted and they post the total revenue and follow up with postings to customers accounts marking them unpaid. This is followed up with notice to the customer of the unpaid item. Any returned items that are not recorded by the agency will be identified in the bank account reconciliation process as a reconciling item. In the case of District Court they may not be able to collect on the NSF amount because the customer has already received the product and they have little recourse. The variances to the deposits are usually for NSF or other adjustments, which are reconciled. Treasury will complete their review of all agencies by the third quarter and use this to implement new monitoring guidelines by the fourth quarter of 2012.

- *The Treasury Operations Manager is not adequately monitoring the contract with the e-commerce vendor.*

The Treasury Section Manager (Manager) is responsible for administering and negotiating the contract to provide for the processing of online payments. The Manager serves as the liaison between the contract service provider and the county agencies handling any issues that might arise. The primary contractual service that is provided is the processing of online payments and the Manager pays due diligence to insure that there is no disruption of service. Each agency is responsible for paying all charges allowed under the contract, as well as accounting for and reconciliation of the online payments received. Any returned items that are not recorded by the agency will be identified in the bank account reconciliation process as reconciling items. A guidance manual provides agencies with directions for their e-commerce transactions, which includes deposits and returned items. As stated above, the county will strengthen monitoring guidelines by the fourth quarter of 2012.

- *The County could not demonstrate the Finance Director's written approval for e-commerce agency payment applications, as required by County policy*

The County has an established process for the review and approval of agencies' e-commerce applications. The e-commerce applications selected by the auditor for

review were those implemented at the outset of the program and approvals were not formally documented for these three applications. Since then, the Finance Director has provided approvals for all subsequent new applications in emails to the requesting agency. Representative examples of such approvals were provided to the auditor. The county believes this issue has been addressed.

- Daily, the contractor's system creates a file of the payments receipted for each payment type. This file interfaces with the County's general ledger to post payments to customer accounts. The County relies on the automated interface and does not have processes in place to ensure payments are applied to the correct accounts.

The County will review whether spot checks of automated postings to customer accounts are needed to provide a commensurate level of additional control. In the case of the property tax application, however, we believe there would be limited value added from spot checking large numbers of payments. The online property tax system has controls in place that ensure property tax payments are posted correctly. A taxpayer selects the tax account to be paid and the payment method. The system captures both the tax account and the payment amount and, at the end of the day, creates a transaction file to be automatically uploaded to the property-based system. The transaction file is released only when the payment is received and balances to the file total. Since it is highly unlikely for the tax information to be altered, there is an extremely remote chance for an account to be posted in error, and a payment cannot be applied against an account that had a different tax amount due. Going forward, the county will spot check a handful of customer accounts to ensure that there are no unusual computer malfunctions that would cause incorrect postings to customer accounts.

- The contract between the County and the e-commerce vendor says compensation to the vendor is not to exceed \$100,000; however, the contract does not include a definition of compensation. Customers using e-commerce services typically pay the transaction fee; however, the County absorbs some of those fees. The contract is unclear whether the fees paid by the customer and/or the county are "compensation".

The county will review the contract language and decide if a clarifying contract amendment is needed. The contract clearly states that "The County shall reimburse the Contractor for satisfactory completion of the services and requirements specified in this Contract in an amount not to exceed \$100,000 Per Contract Term, payable in the following manner: Per received and authorized monthly invoices for requested e-commerce services." The fees paid by the customer are paid directly to the vendor, FIS Metavante, and are not included in an invoice to the county. Our only invoice amounts are for e-commerce services, as specified by the contract. From the county's perspective, there is little ambiguity about the convenience fees paid by the customer; they do not count towards the \$100,000 contract limit. The "not to exceed" amounts stated in the contract are typically based on any agency-absorbed fees, not the convenience fees that are paid by the customer. The county's treatment of these fees is consistent with common industry practice as verified by our e-commerce vendor.

- In addition to the transaction fees, the contract also says the County will pay the vendor an administrative fee of \$600 annually per payment type. The vendor

processes 15 payment types, so we expect the County to pay \$9,000 in 2010. However, the County only paid \$1,119 and could not explain the difference.

Upon further review of payments to the vendor by agencies, we have learned the County is no longer required to pay the annual administrative fee. On April 2, 2012, the County was notified that pursuant to the new contract, the monthly administrative fee was no longer applicable, and the County will be reimbursed approximately \$6,000 for fees paid since February 2010. Therefore, this is no longer an issue.

Auditor's Remarks

We thank the County for the assistance we received during the audit. We have considered the County's response and reaffirm our finding.

Applicable Laws and Regulations

Budget Accounting and Reporting System (BARS) Manual , Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Status of Prior Audit Findings

King County
May 10, 2012

The status of findings contained in the prior years' audit reports of King County is provided below:

1. **The County's Marine Division did not have adequate internal controls over the safeguarding of cash vaults, resulting in a loss of public funds.**

Report No. 1005824, dated May 11, 2011

Background

King County Transportation Department has a Marine Division that provides services to King County Ferry District. The District provides water taxi service from downtown Seattle to Vashon Island and West Seattle. King County has an interlocal agreement with the Ferry District to provide administrative and support services. The agreement states the County will collect ferry fares.

The County collects fares using cash vaults, which securely hold collected cash until it is processed and deposited in the bank. On May 27, 2010, the King County Marine Division reported to the King County Sheriff's Department that 26 cash vaults were missing. As a result of the loss, the County updated its policies and procedures. We performed follow-up audit work and found that the County did not consistently follow the updated policies and procedures.

Status

The County has resolved this finding. The County has established and follows procedures to ensure cash vaults are safeguarded and accounted for.

2. **A misappropriation of benefits occurred because the County's controls continue to be inadequate to ensure spouses, domestic partners and dependents added to employees' insurance benefit plans are valid.**

Report No. 1005824, dated May 11, 2011

Background

In the prior audit, we reported that the County had inadequate controls to ensure spouses, domestic partners and dependents the County added to employees' insurance benefit plans are valid. We also investigated an instance in which a domestic partner may have been ineligible to receive County benefits, but were unable to determine the eligibility status of the domestic partner due to the lack of controls. In addition, the County reported a misappropriation of benefits.

Status

The County has resolved this finding. The County performed a comprehensive review of dependent eligibility in 2011.

3. **The County's internal controls continue to be inadequate to ensure inter-fund transactions are appropriate, timely and accurately accounted for.**

Report No. 1005824, dated May 11, 2011

Background

The Executive Finance Committee must authorize all inter-fund loans in advance. Loans may be made only from one solvent fund to another. The loan agreement must include a schedule for repayment of principal and interest. The borrowing fund must anticipate sufficient revenue for the period of the loan to allow its repayment. The loan may be for more than one year, but may not be a permanent diversion of revenue from the lending fund. The activity must be recorded in the accounting system as it occurs.

In the prior two audits, we reported that the County has inadequate controls to ensure inter-fund transactions are appropriate, timely and accurately accounted for.

Status

In order to allow the County adequate time to take corrective action, we will follow up during the next audit.

4. **Sheriff's Office deputies did not comply with its firearms policies, resulting in the misappropriation of a shotgun and other law enforcement equipment.**

Report No. 1005824, dated May 11, 2011

Background

The Sheriff's Office General Orders Manual states off-duty deputies must lock unattended vehicles at all times. It further states during off-duty hours, days off or when the vehicle is parked in a location where it is susceptible to vandalism or other damage, firearms, portable radios, shotguns and other items of obvious value are to be locked in the trunk or removed from the vehicle.

The Sheriff's Office reported instances to us in which firearms or equipment were misappropriated from its vehicles.

Status

The County has resolved this finding. The Sheriff's Office has completed an inventory of firearms.

5. **The Sheriff's Office continues to have inadequate internal controls to ensure citations are audited through disposition by the courts as required by state law.**

Report No. 1005824, dated May 11, 2011.

Background

The Sheriff's Office Records Unit received approximately 38,000 traffic citations annually from Deputies. State law requires citations to be audited monthly to ensure all citations are reported to the Court or appropriately disposed of. In our previous two audits, we reported the Sheriff's Office was not auditing citations through disposition by the courts. During the current audit, we determined the Sheriff's Office still is not doing so.

Status

We have reported this risk to the County in three prior audits. We have discussed the risks with the Sheriff, who contends the Office does not have resources to establish and follow internal controls to address this risk and believes the risk to be minimal. Therefore, the Sheriff's Office has not resolved this finding; however, we have determined not to repeat the finding.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
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