



# Washington State Auditor's Office

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## Federal Single Audit Report **King County**

**For the period January 1, 2014 through December 31, 2014**

**Published August 31, 2015**

**Report No. 1014974**





## Washington State Auditor's Office

August 31, 2015

Council and Executive  
King County  
Seattle, Washington

### Report on Federal Single Audit

Please find attached our report on King County's compliance with federal laws and regulations.

We are issuing this report in order to provide information on specific activities of the County.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

### King County January 1, 2014 through December 31, 2014

The results of our audit of King County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

#### Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

##### Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

#### Federal Awards

##### Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the County's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants
20.525	Federal Transit Cluster - Federal Transit - State of Good Repair Grants
20.526	Federal Transit Cluster - Federal Transit - Bus and Bus Facilities Formula Program
93.563	Child Support Enforcement
93.914	HIV Emergency Relief Project Grants
93.958	Block Grants for Community Mental Health Services
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$3,000,000.

The County did not qualify as a low-risk auditee under OMB Circular A-133.

# SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

## King County January 1, 2014 through December 31, 2014

### **2014-001 The County did not have adequate internal controls to ensure compliance with federal equipment management requirements.**

<b>CFDA Number and Title:</b>	97.067 Homeland Security Grant Program
<b>Federal Grantor Name:</b>	U.S. Department of Homeland Security
<b>Federal Award/Contract Number:</b>	EMW-2011-SS-00-030, EMW-2011-SS-00030-S01, EMW-2013-SS-00025-S-01, EMW-2012-SS-00115, EMW-2014-SS-00016, EMW-2013-SS-00025
<b>Pass-through Entity Name:</b>	Military Department
<b>Pass-through Award/Contract Number:</b>	E12-251 UASI, E12-253 SHSP, E13-162 UASI, E13-220 SHSP, E14-097 UASI, E14-144 SHSP
<b>Questioned Cost Amount:</b>	\$0

### ***Background***

During the audit period, the County spent \$3,277,150 in federal grant funds for the Homeland Security Grant Program. The funding was used for various activities, including equipment purchases.

Federal regulations require equipment records be maintained and include the following: the manufacturer's serial number or other identification number, use and condition of the equipment, disposition data including the date of disposal and sale price of the property. In addition, a physical inventory of the equipment should be taken at least every two years and results reconciled with equipment records. Equipment, with a current market value over \$5,000 at the time of disposal may be retained or sold and the federal-sponsoring agency compensated for its share.

### *Description of Condition*

The County utilized a manual spreadsheet for tracking equipment purchased with Homeland Security Grant Program funding. The spreadsheet did not contain all required information about the equipment. Sixty assets, totaling \$1,556,325, lacked the required disposition information on the spreadsheet.

Additionally, the spreadsheet contained inaccurate equipment data. The listed serial number of one asset selected for testing, totaling \$21,569, did not match the serial number attached to the asset. We noted several other instances where this field was blank.

Finally, the County did not accurately reconcile results of the physical inventory to the equipment listing. One asset out of 12 tested was on the manual spreadsheet included in the 2014 physical inspection. We determined this asset was transferred to another jurisdiction prior to this inspection and therefore could not have been inspected physically.

We consider these control deficiencies, collectively, to be a material weakness in internal controls over equipment management.

### *Cause of Condition*

The County was not aware that it was required to include disposition data as part of the asset record for retired equipment or equipment no longer used for the federal program.

### *Effect of Condition and Questioned Costs*

The County did not comply with the requirement to maintain adequate equipment management records. Without this information, we were unable to evaluate whether the County disposed of equipment during the audit period and whether it complied with requirements to compensate the awarding agency for the disposal of equipment with a fair market value above \$5,000.

### *Recommendation*

We recommend the County establish internal controls to ensure equipment is accurately tracked and equipment management records meet federal requirements. Additionally, we recommend the County determine if any of the assets disposed of had a current per-unit fair market value of more than \$5,000, and, if so, compensate the grantor for its share in accordance with the grant agreement.

## ***County's Response***

*We thank the State Auditor's Office for its review of the Homeland Security Grant Program (HSGP). We appreciate the opportunity to learn and improve overall grant management, as we strive for outstanding stewardship of Homeland Security Grant Funds.*

*The County respectfully offers clarification regarding the Description of Condition section. The manual spreadsheet used for tracking equipment purchased with HSGP funds includes equipment purchases spanning the life of the program from 2005 to the current period. The sixty assets totaling \$1,556,325 lacking the required disposition information was program-to-date through 2014.*

*The County's responses to the conditions are as follows:*

### ***Disposition Record***

*The County will seek guidance from a Federal Reviewer on the interpretation of 44 CFR 13.32 (d)(1) (Equipment Management Requirements), and add any additional required information to the manual spreadsheet. The county will complete the evaluation in Q4 2015 and make any necessary updates to the manual spreadsheet in Q1 – Q2 of 2016. The County will also determine actions necessary to update central accounting property records to reduce reliance on manual tracking. The central fixed asset team will work with the Office of Emergency Management (OEM) and other departments to update central fixed asset records in Q4 2015.*

### ***Serial Number and Physical Inventory***

*The County concurs with this finding and will work with other County agencies to improve internal controls over this area of equipment management. Going forward, OEM will request that other County agencies provide a serial number or other identification, as applicable, for equipment purchases as part of the reimbursement request package. In addition, OEM will continue to request an annual equipment inventory certification from other County agencies to ensure a physical inspection is performed and reconciled.*

## ***Auditor's Remarks***

We appreciate the County's commitment to resolving this issue and wish to thank County management and staff for its cooperation and assistance during the audit. We will review the corrective action taken during our next regularly scheduled audit.

## *Applicable Laws and Regulations*

U.S. Office of Management and Budget (OMB) Circular A-133 Audits of States Local Governments and Non-Profit Organizations Section 300 states:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws regulations and the provisions of contracts or grant agreements related to each of its Federal programs.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

**Deficiency in internal control over compliance.** A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

**Material weakness in internal control over compliance.** A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and

corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Remote.** The chance of the future event or events occurring is slight.

**Probable.** The future event or events are likely to occur.

**Significant deficiency in internal control over compliance.** A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

44 Code of Federal Regulations § 13.32 Equipment, states in part:

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

(e) Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

## STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of King County. The State Auditor’s Office has reviewed the status as presented by the County.

<b>Audit Period:</b> 2013	<b>Report Ref. No:</b> 1012451	<b>Finding Ref. No:</b> 1	<b>CFDA Number(s):</b> 20.500, 20.507 and 20.525
<b>Federal Program Name and Granting Agency:</b> Federal Transit Cluster, U.S. Department of Transportation		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The County’s internal controls were not adequate to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA)			
<b>Background:</b> The County spent \$70,242,523 in federal funds provided by the U.S. Department of Transportation (DOT) for the Federal Transit Cluster in 2013. Grant funding may be used for financing the planning, acquisition, construction, preventative maintenance, and improvement of facilities and equipment in public transportation services.  We audited six out of thirty-two transit awards, which represents 80 percent of the funds spent during the year. Two of the awards passed through grants funds in the amount of \$4,800,000 and \$1,400,000 to the City of Shoreline and City of Tukwila, respectively.			
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The County submitted the final sub award information into the FFATA Subaward Reporting System (FSRS) on July 15, 2014. The County strengthened departmental procedures to ensure proper oversight and timely report filing. A second Grants Administrator reviews the report prior to its submission. Staff will take part in a County-wide supplemental training in FFATA reporting planned by the Financial Management Section (FMS) of the Finance and Business Operations Division (FBOD) in the second quarter of 2015 to help ensure this oversight does not occur in the future.</i>			

<b>Audit Period:</b> 2013	<b>Report Ref. No:</b> 1012451	<b>Finding Ref. No:</b> 2	<b>CFDA Number(s):</b> 14.267
<b>Federal Program Name and Granting Agency:</b> Continuum of Care, U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The County advanced \$10,000 to a subrecipient to be used as a revolving fund, which is unallowable.			
<b>Background:</b> During the audit period, the County spent \$5,459,934 in federal funds for the Continuum of Care grant. Grant funding may be used to provide rental assistance, medical services, case management and various support services to homeless persons and their eligible family members. The grant period runs from May, 2013 to April, 2014.  The County contracted with a subrecipient to administer the program. The subrecipient contracted with landlords and organizations to provide direct services to eligible participants. Monthly, the subrecipient requested reimbursement from the County for allowable costs to the program.  Federal regulations require direct costs be identifiable with a specific final cost objective. In addition, payment of contingency provisions is unallowable.			
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The DCHS Community Services Division has updated their internal controls over Continuum of Care funding to ensure subrecipient expenditures are allowable and properly supported. If future advances are provided to the subrecipient, prior approval from HUD will be secured or advances will be disbursed from non-federal funds. The advance was reconciled at the end of the grant period and all disbursements were supported by allowable, supported expenditures. Therefore, DCHS does not believe there is any amount to be repaid. This issue was fully resolved in April 2014.</i>			

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**King County  
January 1, 2014 through December 31, 2014**

Council and Executive  
King County  
Seattle, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The County's major federal programs are identified in the accompanying Federal Summary.

The County's basic financial statements include the operations of the Harborview Medical Center, a discretely presented component unit, which expended \$7,484,984 in federal awards which is not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2014. The County's basic financial statements also include the operations of the King County Ferry District, a blended component unit, which expended \$8,408,608 in federal awards which is included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2014. Our audit, described below, did not include the operations of the Harborview Medical Center or the King County Ferry District because these have arranged for a separate audit of their federal awards in accordance with OMB Circular A-133.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the County's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

## **County's Response to Findings**

The County's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

### County's Response to Findings

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

August 24, 2015

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED  
UNDER OMB CIRCULAR A-133**

**King County  
January 1, 2014 through December 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the King County.

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> The County did not have adequate internal controls to ensure compliance with federal equipment management requirements.
<b>Name, address, and telephone of auditee contact person:</b> Pete Anthony, Chief Accountant/Manager Finance Management Section Finance and Business Operations Division 500 Fourth Ave Room 653 Seattle, WA 98104	
<b>Corrective action the auditee plans to take in response to the finding:</b> <u>Disposition Record</u> <i>The County will seek guidance from a Federal Reviewer on the interpretation of 44 CFR 13.32 (d)(1) (Equipment Management Requirements), and add any additional required information to the manual spreadsheet. The county will complete the evaluation in Q4 2015 and make any necessary updates to the manual spreadsheet in Q1 – Q2 of 2016. The County will also determine actions necessary to update central accounting property records to reduce reliance on manual tracking. The central fixed asset team will work with the Office of Emergency Management (OEM) and other departments to update central fixed asset records in Q4 2015.</i>  <u>Serial Number and Physical Inventory</u> <i>The County concurs with this finding and will work with other County agencies to improve internal controls over this area of equipment management. Going forward, OEM will request that other County agencies provide a serial number or other identification, as applicable, for equipment purchases as part of the reimbursement request package. In addition, OEM will continue to request an annual equipment inventory certification from other County agencies to ensure a physical inspection is performed and reconciled.</i>	
<b>Anticipated date to complete the corrective action: Q2 2016</b>	

## 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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

<b>Contact information for the State Auditor's Office</b>	
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