



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Accountability Audit Report

King County

For the period July 1, 2013 through June 30, 2014

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Washington State Auditor Troy Kelley

March 26, 2015

Council and Executive
King County
Seattle, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for County operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the County's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Audit Summary	4
Schedule Of Audit Findings And Responses	6
Related Reports	16
Information About The County	17
About The State Auditor’s Office	18

AUDIT SUMMARY

Results in brief

In most areas we audited, County operations complied with applicable requirements and provided adequate safeguarding of public resources. The County also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the County could make improvements.

We recommended the County improve internal controls to ensure compliance with uniformed services leave policy and procedures at the department level:

- Run payroll reports each pay period to verify the military leave charged is allowable and agree to proper documentation received from the military. Moreover, these payroll reports should be used to track military leave days charged to ensure no more than 21 working days of military leave are paid annually.
- Include in the uniformed services leave administration guideline steps to verify the military leave dates charged for pay agree to supporting documentation.
- Update the employee leave guide and uniformed services administration guideline to agree with County code.

We recommended the County adopt and follow policies and procedures over the monitoring of and collection of past due accounts that includes, but is not limited to:

- Reviewing an aged accounts receivable report on a monthly basis to identify past due payments and perform appropriate follow up procedures.
- Defining when late payment notifications are sent to customers.
- Defining which customers are eligible to be sent to collections and when that should occur.

Furthermore, we recommended divisions relying on accounts receivable for the collection of past due payments collaborate with accounts receivable to establish standard operating procedures to ensure roles and responsibilities for monitoring past due payments is clearly defined.

Finally, divisions should annually review aged receivables to determine if they should be written off.

These recommendations were included in our report as findings.

We also noted certain matters that we communicated to County management in a letter dated March 25, 2015, related to service provider payments, contract monitoring, cash receipting, and cost allocation. We appreciate the County's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of King County from July 1, 2013 through June 30, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the County's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Accounts receivable
- Uniformed services – leave
- Payments
- Investments
- Cost allocation
- Contract monitoring
- Cash receipting

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-01 King County does not have adequate internal controls to ensure military leave paid to employees is appropriate.

Background

County employees serving in the United States armed forces reserves are required by military contract to serve a minimum of one weekend a month plus two weeks a year. State law grants public employees serving in the armed forces up to 21 days of paid military leave of absence each federal fiscal year. The federal fiscal year is from October 1 through September 30.

During our fiscal year 2011 and 2013 accountability audits, we communicated to management internal control weaknesses over monitoring the use of paid military leave. After the 2011 audit, the County reviewed the use of military leave and found one employee who charged military leave was not in the military reserves or active duty. The County received court-ordered restitution from the former employee totaling \$54,843.

Description of Condition

During the current audit, we followed up on prior year recommendations related to military leave to determine if corrective action was taken. We found the County implemented new procedures including using a new military leave form and providing training in June 2014. We confirmed the County's written policies and procedures met the minimum federal and state regulations and tested employees charging military leave after July 1 to determine whether the new leave form and procedures are working as intended.

We found the County's employee leave guide and uniformed services administration guidelines were not updated to match county code and policies. County code states all employees in the uniformed services and involuntarily called to active duty that have exhausted the 21 working days will receive military supplemental pay if their military pay is less than the employee's regular job pay with the County. The guide limits employees in the uniformed services who may receive supplemental pay to those who were in the military service on or before September 11, 2001. Furthermore, the uniformed services administration guideline has not been updated since June 2010 and does not reflect current procedures.

We examined all employees paid military leave between July 1 and September 30, 2014 totaling about \$143,000. There were 51 employees examined representing 13 County departments.

Our examination of uniformed services leave found the assigned coordinator within each department's human resources division did not always verify the uniform services leave form and supporting documentation agreed to the leave taken and checked if the employee charged more than 21 days before issuing payments to employees. Specifically, we found:

- a. Coordinators did not receive proper military documentation for 11 employees totaling \$17,603. These payments are considered unsupported payments.
- b. Coordinators did not ensure the uniformed services leave forms were completed consistent with policy for 15 employees.
- c. There were nine employees with no uniformed services leave forms or supporting documents to support the military leave paid. These are included as part of the issues stated above.
- d. Coordinators do not consistently communicate with their respective payroll divisions to ensure payments made for military leave agree with proper military documentation as required by the uniformed services administration guideline.
- e. Two coordinators interviewed during the audit were unaware there were employees in the department charging military leave. In one case, the coordinator contacted department supervisors regarding employees serving in the military reserves but was not told of employees serving in the military reserves.

In addition we tested all employees who charged military paid leave from October 1, 2013 through September 30, 2014 to determine if the County paid employees more than the 21 working days. We found one employee was paid for 15 days over the 21 working days allowed, totaling \$2,476. We considered this an unsupported payment.

Cause of Condition

Coordinators did not ensure military leave charged was supported with the uniformed services leave form, proper military documentation and check the balance of remaining uniformed services leave for each employee.

The uniformed services administration guideline does not include steps to verify the military leave dates charged for pay agree to supporting documentation.

Effect of Condition

The County does not ensure military leave is allowable before issuing payment to employees. Further, the County's monitoring processes do not help ensure the departments comply with military leave policy and procedures. There is a continued risk the County could pay military leave to employees that are not allowable or earned. We determined total unsupported payments amounted to \$20,079.

Recommendation

We recommend the County improve internal controls to ensure compliance with uniformed services leave policy and procedures at the department level. We recommend the County:

- Run payroll reports each pay period to verify the military leave charged are allowable and agree to proper documentation received from the military. Moreover, these payroll reports should be used to track military leave days charged to ensure no more than 21 working days of military leave are paid annually.
- Include in the uniformed services leave administration guideline steps to verify the military leave dates charged for pay agree to supporting documentation.
- Update the employee leave guide and uniformed services administration guideline to agree with County code.

County's Response

The County concurs with the State Auditor's finding and appreciates the thorough review of the area. The County has taken significant steps to ensure compliance with military leave approval pay requirements. In response to the issues raised in the audit, the County has taken the following corrective action:

Feedback: Representatives from the Human Resources Division and the Finance and Business Operations Division met with agency Military Leave Coordinators and/or the Human Resources Service Delivery Managers from each department identified by the State Auditor with inadequately supported leave payments. Each department was provided feedback on appropriate procedure and each has corrected identified issues, including the filing of documents to support payments

identified by the State Auditor as missing documentation and pursuing collection of the noted overpayment. The meetings took place in November 2014.

Policy: *The Human Resources Division has revised the “Military Leaves of Absence, Reemployment, and Recall Rights” HR Bulletin to emphasis the requirement that, in accordance with KCC 3.12.260 and 3.12.262, the County cannot provide any kind of pay or benefits to employees on uniformed services leave without a completed Uniformed Services Leave Form and the receipt of the employee’s most current military orders or training/drill schedules. The anticipated publication date of the revised policy is January 2015.*

Leave Guide: *The Finance and Business Operations Division has revised the “Employee Leave Guide” to include the requirement that, in accordance with KCC 3.12.260 and 3.12.262, the County cannot provide any kind of pay or benefits to employees on uniformed services leave without a completed Uniformed Services Leave Form and the receipt of the employee’s most current military orders or training/drill schedules. The anticipated publication date is January 2015.*

Procedure Guide: *The Finance and Business Operations Division is in the process of revising the “King County Leave Administration Guideline: Uniformed Services Leave of Absence – Military Training or Active Service.” The Guideline will include steps on how departments verify that paid military leave is supported by appropriate documentation. Completion and publication is expected February 2015.*

Form: *The Finance and Business Operations Division has revised the “Uniform Services Leave Form” to include clear requirements that, at least annually, a form must be completed for each employee on uniformed services leave; and employees must submit their most current military orders or training/drill schedules supporting their uniformed services leave before they may receive any kind of pay or benefits. It will be published in January 2015.*

Monitoring Site: *King County Information Technology has constructed the “Military Leave Reporting” SharePoint site in order to administer and track military leave. Department Military Leave Coordinators and payroll representatives will have the ability to review employees’ most current military orders or training/drill schedules, dates of leave, and approval to pay information. Departments are required to upload new information as it becomes available and the Human Resources Division will audit the site monthly. The site will include a payroll query so that departments and the Human Resources*

Division may run monthly reports to verify that paid military leave is supported by appropriate documentation. The site is expected to go live February 2015.

Training: *The Human Resources Division has developed a “Uniformed Services Leave Administration” training curriculum and will provide the training to Executive Branch Military Leave Coordinators and their backups in March 2015.*

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

38 U. S. Code § 4303, [Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1994], states in part:

§ 4303. Definitions

(13) The term 'service in the uniformed services' means the performance of duty on a voluntary or involuntary basis in a uniformed service under competent authority and includes: active duty, active duty for training, initial active duty for training, inactive duty training, full-time National Guard, a period for which a person is absent from a position of employment for the purpose of an examination to determine the fitness of the employment for the purpose of performing funeral honors duty as authorized by section 12503 of title 10 or section 115 of title 32 . . .

(16) The term 'uniformed services' means the Armed Forces, the Army National Guard and the Air National Guard when engaged in active duty for training, inactive duty training, or full-time National Guard duty, the commissioned corps of the Public Health Service, and any other category of persons designated by the President in time of war or national emergency.

38 U.S. Code § 4312, Reemployment rights of persons who serve in the uniformed services, states in part:

(a) Subject to subsections (b), (c), and (d) and to section 4304, any person whose absence from a position of employment is necessitated by reason of service in the uniformed services shall be

entitled to the reemployment rights and benefits and other employment benefits of this chapter if--

- (1) the person (or an appropriate officer of the uniformed service in which such service is performed) has given advance written or verbal notice of such service to such person's employer;
- (2) the cumulative length of the absence and of all previous absences from a position of employment with that employer by reason of service in the uniformed services does not exceed five years; and
- (3) except as provided in subsection (f), the person reports to, or submits an application for reemployment to, such employer in accordance with the provisions of subsection (e).

RCW 38.40.060, Military leave for public employees, states:

Every officer and employee of the state or of any county, city, or other political subdivision thereof who is a member of the Washington national guard or of the army, navy, air force, coast guard, or marine corps reserve of the United States, or of any organized reserve or armed forces of the United States shall be entitled to and shall be granted military leave of absence from such employment for a period not exceeding twenty-one days during each year beginning October 1st and ending the following September 30th in order that the person may report for required military duty, training, or drills including those in the national guard under Title 10 U.S.C., Title 32 U.S.C., or state active status. Such military leave of absence shall be in addition to any vacation or sick leave to which the officer or employee might otherwise be entitled, and shall not involve any loss of efficiency rating, privileges, or pay. During the period of military leave, the officer or employee shall receive from the state, or the county, city, or other political subdivision, his or her normal pay. The officer or employee shall be charged military leave only for days that he or she is scheduled to work for the state or the county, city, or other political subdivision.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-02 The County's internal controls over accounts receivable are not adequate, increasing the risk that it will not collect all amounts owed.

Background

The County has multiple divisions that rely on the Finance & Business Operations Accounts Receivable Unit (AR Unit) to service and collect on past due accounts. The AR Unit is responsible for sending past due notification letters to customers with payments greater than 60 days late and for sending delinquent non-governmental accounts to collections. The divisions are responsible for informing the AR Unit which accounts should receive a past due notification letter or be sent to collections. There are divisions that do not utilize the services of the AR Unit for the collection of past due accounts.

In the prior year's audit, we found that the Roads Division did not have policies and procedures in place for monitoring unpaid invoices, sending delinquent notices or sending delinquent accounts to collections.

Description of Condition

During this audit, we followed up with the Roads Division to determine if corrective action was taken. We found the Division has developed and followed policies and procedures to monitor and collect delinquent accounts.

In addition, we judgmentally selected six divisions to determine if past due accounts were monitored, including determining if past due accounts should be written off, in accordance with County policy. For the divisions selected, the amount of outstanding receivables greater than 60 days follows:

Division	Transactions	Amount
Office of Public Defense	31,386	\$2,931,063
Solid Waste	4,194	\$ 829,070
Transit	208	\$1,852,252
Water and Land Resources	635	\$1,054,990
Parks	366	\$ 208,462
Real Estate Services	29	\$ 19,343

We found three divisions were not consistently sending accounts aged greater than 60 days a late notice notification or sending eligible accounts to collections.

- For the Office of Public Defense, we tested 30 transactions and found 19 transactions had not been sent late notice notifications or sent to collections.
- For Solid Waste, we tested 45 transactions and found 20 transactions had not been sent late notice notifications and 17 transactions had not been sent to collections.
- For Transit, we tested 25 transactions and found nine transactions had not been sent late notice notifications and one transaction had not been sent to collections.

For the Water and Land Resources Division, we found that no action was taken to collect accounts greater than 60 days late. The Division did provide us with a copy of collection processes and procedures drafted in November 2014. At the time of our audit, these procedures were not yet implemented.

Of the six divisions reviewed, we found that all divisions have reported outstanding accounts going back at least seven years. We confirmed each division has not performed a comprehensive analysis of aged receivables to determine if they should be written off.

Cause of Condition

Divisions do not have policies and procedures over the monitoring of past due accounts and for sending customers to collections.

Divisions relying on the AR Unit in the collection of past due accounts do not have a clear understanding of procedures performed. Moreover, divisions were unaware which of their accounts the AR Unit was monitoring.

AR Unit staff was not aware that past due notification letters were not being generated for all outstanding accounts and staff were also not aware that outstanding accounts were not being sent to collections. As a result of our audit work, the County became aware of the issue and made corrections.

County divisions are not monitoring aged accounts receivables to determine bad debt that should potentially be written off.

Effect of Condition

By not monitoring past due payments, the County is at risk of not collecting millions of dollars of potential revenue. Moreover, the financial statements may be overstated if aged receivables are not effectively monitored.

Recommendation

We recommend the County adopt and follow policies and procedures over the monitoring of past due accounts and sending customers to collections that includes, but is not limited to:

- Reviewing an aged accounts receivable report on a monthly basis to identify past due payments and perform appropriate follow up procedures.
- Defining when late payment notifications are sent to customers.
- Defining which customers are eligible to be sent to collections and when that should occur.

Furthermore, we recommend divisions relying on the AR Unit for the collection of past due payments collaborate with the AR Unit to establish standard operating procedures to ensure roles and responsibilities for monitoring past due payments is clearly defined.

Finally, divisions should annually review aged receivables to determine if they should be written off.

County's Response

We thank the auditor for a thorough review of this area.

King County Finance and Business Operation Division (FBOD) will work with the departments to assure follow-up action is taken on the accounts listed as past due, and to establish up-to-date procedures for the on-going review of aged accounts receivable. The past due accounts will be reviewed to assure inclusion in follow-up collection activities or to assure that steps are taken to write-off the accounts. FBOD will draft a model policy for departmental use and work with departments on specific modifications for managing their receivables. These follow-up actions are expected to be completed by September 30, 2015.

Finance and Business Operations Accounts Receivable Unit has standard procedures for sending AR dunning letters and referring accounts to collections. AR will host a meeting with its customers to assure mutual understanding of central AR and departmental responsibilities. This follow-up action is expected to be accomplished by June 30, 2015.

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

RCW 43.09.200 – Local Government Accounting – Uniform System of Accounting, states:

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.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

The Budgeting, Accounting, and Reporting Systems (BARS) Manual, Accounting Principles and Internal Control, states in part:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in . . . the effectiveness and efficiency of operations.

RELATED REPORTS

Financial

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

Federal Grant Programs

We evaluated internal controls and tested compliance with 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 Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.
- A \$10,000 payment to a subrecipient was not supported by actual costs.

INFORMATION ABOUT THE COUNTY

With a population of approximately two 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 12,696 full-time equivalent employees and annual expenses of approximately \$2.9 billion.

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Information current as of report publish date.

Audit history

You can find current and past audit reports for King County at <http://portal.sao.wa.gov/ReportSearch>.

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.

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