

Washington State Auditor's Office
Accountability Audit Report

King County

Report Date
June 1, 2009

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

June 22, 2009

County Council and Executive
King County
Seattle, Washington

Report on Accountability

Please find attached our report on King County's accountability and compliance with state laws and regulations and its own policies and procedures.

In addition to this work, we also audit the County's financial statements and compliance with federal laws and regulations. The results of that audit will be included in a separately issued audit report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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June 1, 2009

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Audit Summary

King County
June 1, 2009

AUDIT RESULTS

This report contains the results of our independent accountability audit of King County.

Overarching Conclusion

The County operates with decentralized and autonomous departments and divisions. Departments are managed by the King County Executive. The King County Council authorizes the budgetary funding of County functions, establishes legislation and provides oversight of County operations.

Our audit found County officials should improve oversight and safeguards over its cash receipts, expenditures and assets. In many instances, oversight and safeguards were impaired by a lack of sufficient monitoring to ensure policies are complete, followed and staff is adequately trained to operate within those policies.

Further, County officials do not consistently provide or enforce performance measures or expectations in holding staff accountable. As a result, the County exposes itself to greater risk of loss, less ability to control expenditures, and increases the risk for non-compliance with laws, regulations and contractual requirements. Consequently, our audit identified 12 findings. We also noted certain issues we communicated to County management.

Overarching Recommendation

In order to resolve the conditions noted in our findings, County officials should improve their oversight of departments and divisions. They should hold top management accountable for the adherence to County policies and the oversight and safeguarding of cash receipts, expenditures and assets.

In turn, top management should hold staff accountable to ensure policies and procedures are followed, monitored and enforced.

In 2007, the County Auditor made a recommendation that the County re-establish its Audit Committee which has not been pursued. We concur with this recommendation.

Summary of Findings

Our detailed recommendations are contained in the findings summarized below:

Executive (Policy Implementation, Operations and Administrative Management of Executive Agencies)

Council (Policy Creation, Budget Adoption, Legislation, Oversight)

Construction Management

1. The lack of adequate performance measures and expectations prevent the King County Executive and Council from providing adequate oversight of construction activity.

- 1A. King County does not have an adequate construction project management information system.
 - 1B. King County does not have standard construction management procedures.
 - 1C. King County construction management data, files, and records are not consistently maintained and are not readily accessible for management oversight and review purposes.
 - 1D. King County does not provide resources that are adequate to enable the Executive Audit Services to comply with County policy requiring construction management audits.
2. The County did not comply with state law governing the use of Real Estate Excise Tax proceeds.

Executive

Cash Management

- 3. King County Metro Transit lacks adequate controls over cash fares collected on its buses and trolleys.
- 4. The King County Jail's Work Education Release Program's internal controls are inadequate, creating the potential for a loss of public funds.
- 5. The Recorder's Office controls over cash-receipting are inadequate. This allowed an employee to misappropriate public funds and destroy public documents.

Inventory Management

- 6. The County lacks adequate internal controls to safeguard drug inventory at public health pharmacies.
- 7. The County lacks adequate controls to safeguard and account for small and attractive assets.

Fleet Replacement Funding

- 8. The King County Fleet Administration Division reserve fund balance for vehicle replacement is not adequately funded.

Assessor (Policy Implementation, Operations and Administrative Oversight)

Cash Management

- 9. King County Assessor's Office does not have adequate procedures to ensure the validity of personal property tax refunds.

Sheriff (Policy Implementation, Operations and Administrative Oversight)

Inventory Management

- 10. The King County Sheriff's Office lacks adequate controls to safeguard and account for inventory.

Cash Management/Contract Management/Legal Compliance

11. The Sheriff's Office does not have adequate internal controls over citations, forfeited vehicles, and reporting on seized and forfeited property.

District Court (Policy Implementation, Operations and Administrative Oversight)

Cash Management / Records and Systems Management

12. The King County District Court's internal controls over processing transactions and reconciling bail were inadequate.

ABOUT THE AUDIT

We performed audit procedures to determine whether the County complied with state laws and regulations and its own policies and procedures. We also examined County management's accountability for public resources. Our work focused on specific areas that have potential for abuse and misuse of public resources.

Areas examined during the audit were selected using financial transactions from July 1, 2007, through June 30, 2008. For the audit of construction management, we examined from July 1, 2005 through June 30, 2008.

We audit the County's operations annually to ensure accountability for public resources and compliance with laws and regulations. We choose the areas to look at based on public concerns, prior audit issues, auditor knowledge of entity operations and the internal control environment.

We also selected construction management as a performance audit area as King County spent approximately \$244,817,000 on capital projects from 2005 through 2007. Using lists provided by King County departments and divisions, we identified 2,046 projects with expenditures of \$2.9 billion from July 1, 2005 through June 30, 2008.

Our primary objectives for the construction management audit were:

1. Over the most recent three years, has King County been effective, efficient and economical at planning, designing and managing construction projects and contracts in order to:
 - Minimize all costs associated with the projects, including but not limited to engineering, land acquisition, environmental review, environmental mitigation, permitting and construction?
 - Minimize unnecessary change orders and delays that result in extra costs?
 - Keep projects on schedule?
 - Minimize risk by identifying it, eliminating it, minimizing it or sharing it with the contractor through good contract terms and contractor management?
 - Obtain the best quality, timeliness, and other value?
2. How effective has King County been at soliciting, procuring and managing engineering, consulting and construction management contracts in order to minimize costs and maximize the value and quality of services provided?
3. How effective has King County been at complying with state and county bidding requirements?

In January 2009, we terminated the performance audit of King County's construction management practices because the County was unable to provide complete and timely access to files and records related to construction projects that we had requested in July 2008. The conditions noted in finding series 1 resulted in scope limitations that did not allow us to complete the audit.

RELATED REPORTS

Our opinion on the County's financial statements and compliance with federal program requirements will be provided in a separate report, which will include the County's financial statements later in 2009.

In addition to these reports, our performance audit report regarding operations of King County's solid waste and wastewater treatment operations will be issued later this year.

Description of the County

King County
June 1, 2009

ABOUT THE COUNTY

With a population of approximately 1.8 million, King County is the most populous county in Washington State and the 13th 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, and is organized under an executive-council form of government. The Metropolitan King County Council is the policy-making body of the County. The Executive is elected to four-year terms and serves full time. The Council's nine members are elected by district to four-year, staggered terms. They also serve full time. We have included an overview of Council and Executive responsibilities in Appendix B.

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

The County has approximately 17,000 full- and part-time employees and annual operating expenses of over \$3.2 billion.

AUDIT HISTORY

We audit the County annually. The past five accountability audits of the County have reported some areas of concern. During that period, the number of findings totaled thirteen; three in 2002, none in 2003, four in 2004, one in 2005 and five in 2007. Of these findings, some were repeats or partial repeats of previous findings.

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	Peter von Reichbauer
District 8	Dow Constantine
District 9	Reagan Dunn
Executive	Ron Sims
Prosecuting Attorney	Dan Satterberg
Assessor	Scott Noble
Sheriff	Susan Rahr
Presiding Judge, King County Superior Court	Bruce Hilyer
Presiding Judge, King County District Court	Barbara Linde

APPOINTED OFFICIALS

County Administrative Office	James Buck
Director of Finance	Ken Guy
County Auditor	Cheryle Broom
Executive Services Auditor	Dave Lawson

ADDRESS

County	401 Fifth Avenue, Suite 300 Seattle, WA 98104 www.kingcounty.gov
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Audit Areas Examined

King County
June 1, 2009

In keeping with general auditing practices, we do not examine every portion of King County's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the County were examined during this audit period:

ACCOUNTABILITY

We evaluated the County's accountability and compliance with laws, regulations, contracts and grant agreements in the following areas:

- Construction management
- Procurement/bid laws equipment and services
- Misappropriations
- Hotline referrals
- Restricted fund use
- Investment pool
- Purchases and payments including travel, procard, petty cash/imprest funds
- Indirect cost allocation
- Fleet administration
- Side sewer replacement program
- Payroll
- Sheriff's Office – citations, seized and forfeited property reporting, and ammunition inventory
- Surplus property/scrap sales
- State grants
- Open public meeting laws
- Safeguarding of assets
- Bond covenant compliance
- Debt limitation
- Cash receipting and revenue for the elections, records, licensing and parks Divisions and the Sheriff's Office
- Transit operations
- Public health operations
- District Court operations
- King County airport operations
- Follow-up over prior year audit findings and management letter items
- One percent for Art program
- Taxes/assessments

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

Construction Management

King County consists of the following organizations that manage construction projects and contracts:

- Department of Natural Resources and Parks (DNRP),
- Department of Transportation (DOT),
- Department of Executive Services, Facilities Management Division (FMD)
- Executive's Office, Office of Information Resources Management (OIRM)

The County reported capital expenditures total \$244,817,000 from 2005 – 2007. The County's total expenditures over the life of all projects that were open during the same period totaled \$2,908,991,977.

Department of Transportation, Metro Transit Division

Metro Transit serves 100 million riders annually. The 2008 adopted budget was \$1.1 billion; Metro has approximately 4,157 full-time employees. Metro operates a fleet of about 1,300 vehicles, including electric trolleys, buses and streetcars. Metro offers a full array of transportation services and assistance to employers of all sizes; assists companies in reducing single occupancy commuting by employees; and operates the largest publicly owned vanpool program in the country with more than 1,200 vans.

- Cash receipts
- Purchases and payments including travel, procard, petty cash/imprest funds
- Procurement of services
- Accounts receivable
- Payroll

Public Health of Seattle and King County

Public Health is the 10th largest metropolitan health department in the United States with 1,900 employees, 39 sites and a budget of \$296 million. The Department serves County residents with 19 acute care hospitals and more than 7,000 medical professionals.

The Department provides disease-prevention and, environmental health programs; community-oriented personal health care; emergency medical services; and services to correctional facilities, among others.

- Cash receipts
- Purchases and payments including travel, procard, petty cash/imprest funds
- Safeguarding of assets
- Pharmacy inventory
- Payroll

District Court

King County District Court is responsible for processing approximately a quarter of a million matters per year. The District Court's 2008 budget was \$26 million; it has 253 employees.

The District Court is funded primarily through the King County current expense fund. The Court generates revenues from filing, probation and passport fees; court fines and costs; and contracts with 13 cities for Court services.

- Cash receipts
- Fines/penalties and other revenue
- Accounts Receivable
- Accounting Adjustments
- Imprest funds/trust accounts
- Disbursements
- Bank statement reconciliations
- Unclaimed restitution

International Airport

King County International Airport, also known as Boeing Field, is one of the busiest primary non-hub airports in the nation. Located just five miles south of downtown Seattle, it averages more than 300,000 takeoffs and landings each year. Regional passenger service and air cargo carriers also operate from the airport.

The 2008 budget was approximately \$29 million, primarily financed by airport tenants' and customers' fees, and receives no general tax revenues. The control tower is operated by the Federal Aviation Administration. The airport is operated by 47 employees seven days a week, 24 hours a day. The airport is also home to the Boeing Company's 737 aircraft flight-test program.

- Cash Receipts
- Purchases and payments including travel,
procard, petty cash/imprest funds
 - Safeguarding of assets
- Procurement/bid laws equipment and services
- Payroll

Schedule of Audit Findings and Responses

Background to Finding Series 1

King County
June 1, 2009

Executive

(Policy Implementation, Operations and Administrative Management of Executive Agencies)

Council

(Policy Creation, Budget Adoption, Legislation, Oversight)

Construction Management

Opportunities

We believe the recommendations provided in the Finding 1 series below may enable the County to better enforce project completion deadlines, liquidated damages and minimize overall construction costs. Liquidated damages represent the amount the County can recover from its contractor for the estimated costs (damages) resulting from schedule delays caused by the contractor.

Before our performance audit was terminated, we obtained project data from the County's Department of Transportation, Roads Services Division. We selected 36 projects for which the County was able to provide complete information and that had been completed during the period under audit. We found the actual costs of 20 of these exceeded the initial authorized costs of \$30,035,383¹. Final total project costs were \$56,617,918, a variance of \$26,582,535. One of these completed projects, construction on South 277th Street, had initial authorized costs of \$2,605,000 and final project costs of \$16,589,882. We were unable to determine the specific causes for the variances. Variances can be the result of one or a combination of the following:

- Owner-approved changes in scope.
- Poor budget estimation.
- Inadequate contract cost controls.
- Unforeseeable circumstances, such as severe weather or natural disaster.
- Inaccurate or incomplete project specifications

Owner-approved changes appear to have a limited effect on the variance between initial budget and final project cost as they usually represent less than 10 percent of the total contract price. Similarly, severe weather or natural disasters are expected to have minimal effect as they are infrequent. The Division and contractors who have operated in the region for decades are familiar with conditions such as weather, which County officials described as a common example of an unforeseen circumstance. Therefore unforeseen circumstances also should have limited effect. We believe some of the variances may be attributed to poor budget estimation, inaccurate or incomplete project specifications and/or inadequate cost controls.

¹ Based on communications received from County officials, we are uncertain as to whether the initial authorized costs represent the entire anticipated cost of the projects or is limited to those costs associated with the design, engineering, and environmental review. However, the County clearly asserts the initial authorized cost for the South 277th Street project was not representative of the total cost of the entire project when approved. We did not audit these assertions due to the termination of the performance audit.

Subsequent to our decision to terminate our performance audit, the County analyzed its cost management of the construction phase of the project, using information it did not provide to us. The County concluded it did not experience significant cost overruns during construction. We did not have opportunity to audit this analysis or the County's representations. However, this analysis, if accurate, may demonstrate that the County could benefit from applying audit recommendations to the design, engineering, architectural and environmental review phases of their construction projects.

Although many of the completed projects were not finished on schedule, the County's Department of Transportation stated it rarely levies liquidated damages on its contractors. The Department told us of two instances in which it assessed liquidated damages; however, they were not due to schedule overrun. The Airport Division provided a description of two assessments of liquidated damages that totaled \$9,785. Unless attributable to unforeseen conditions or natural disasters, responsibility for projects running over schedule resides with the contractor or the public works owner.

The County has performed a calculation that shows its Roads Services Division may have forgone such damages totaling up to \$876,861. As this information was provided subsequent to our decision to terminate our performance audit, we did not audit the County's calculation. If the County or uncontrollable events such as weather caused the schedule overruns, this amount would be smaller.

Recognition and Commendations

We obtained the performance measures developed by the Wastewater Treatment Division to monitor the Brightwater Wastewater Treatment Plant construction project and those developed by the Department of Executive Services, Facilities Management Division. We believe the County could use similar performance measures for other construction projects.

The County Auditor has audited aspects of the Brightwater project that include various phases of the construction process, which are more robust than reviews for cost compliance or a comparison to budget expectations. We believe the County should perform audits of a similar scope on other construction projects.

Schedule of Audit Findings and Responses

King County
June 1, 2009

1. **The lack of adequate performance measures and expectations prevent the King County Executive and Council from providing adequate oversight of construction activity.**

Description of Condition

During our audit, we asked the County how it measures the performance of construction projects. County divisions do not have a common tool to use to assess and report on construction project performance. For example, we found the County's Solid Waste and Airport divisions do not have performance measurement systems, while other County departments and divisions report they are developing performance measurement systems for construction projects.

We also found, rather than reports that measure outcomes, most departments and division use status reports to track schedules and project costs. Some of these status reports could be used in a performance measurement system, but by themselves, without performance goals and defined performance measures, status reports do not constitute a performance measurement system.

Of particular concern is the lack of a countywide system for tracking the two most important measures of construction management performance: scheduling and budget.

Cause of Condition

We could not determine why the County does not have a countywide system for measuring performance of its construction management processes. The County Executive and/or the Council have not made a countywide performance measure system for construction management a priority.

In 2008 the County established the performance measures mandate, but has not included construction management within the context of that mandate. As described in Finding 1A, the County does not have a construction management system capable of identifying all its construction projects and contracts. The lack of standardized policies and procedures, the lack of a project records filing standards and the failure to perform required internal audits, as discussed in Findings 1B, 1C and 1D also contributed to the County's inability to provide adequate oversight of its construction activity.

Effect of Condition

The County's departments and divisions interpret the elements and requirements of the County's performance measure system differently.

Additionally, the lack of a countywide system to identify, measure and report performance of construction project management denies County senior management, the County Council and citizens the opportunity to assess how efficiently and effectively tax dollars are being spent on construction. If the County is unable to produce complete information for our audit, it is not able to produce complete information for its own audit and oversight purposes.

Recommendation

We recommend the County construction management personnel:

- Inform the County Council that most departments and divisions do not have or have not established a performance measurement system specific to construction management.

We recommend the County:

- Develop and follow a countywide performance measurement system for construction projects that support established activities, measures, objectives, goals and missions on the County level, using benchmarks other than budget expectations given budget figures frequently change from those initially estimated.
- Compare its performance measures to those of similarly sized counties, define its performance measures appropriately and clearly and put the performance measurement system in operation in 2009.
- Immediately begin compiling and reporting on-schedule and within-budget performance measures.

County's Response

Overview Responses for Opportunities Section and Finding #1

Agreement with Findings

The County agrees that further development and improvements can be made in the system for collecting and reporting on countywide construction contract performance using a consistent measurement of cost, budget and schedule as well as, where appropriate, outcome performance of the project. Over time this information can be use as benchmark data for performance measurement within the county and against other entities of similar size, mission, and work plan across all county departments.

Disagreement with Findings

The County does not agree that, as the title can be interpreted, that it does not have construction management oversight.

The County does not agree that County departments do not have any performance measurement or reporting on construction projects.

The County does not agree that the Road Services Division has "forgone" liquidated damages, as the Opportunities Section suggests. The calculation the Auditor refers to was not for the purpose of assessing potential liquidated damages. Liquidated damages are typically applied to construction contracts, and applied when the agency or the public could suffer damage for late delivery or untimely performance. Liquidated damages are not punitive or negative performance incentives, and are applied only after all reasonable steps are taken to mitigate the damages.

Ongoing Activities Relevant to this Finding

Construction contract performance management and reporting has been an ongoing effort among the Council, Directors and county construction management staffs; it continues today. Since 2006 the County has been actively developing a countywide performance management reporting system, and does have a number of measures being monitored and reported. The system has

been evolving over a number of years, as the County continues to refine the alignment of budget, business plans and measures to prioritize, promote efficiencies, economies and accountability for resources used to deliver services. Some of the specific activities include:

- *In 2007, the county compiled and tracked schedule milestones each quarter on a countywide basis for over 90% of all Capital Improvement Project budgets (the "Kingstat" report).*
- *In 2007 and 2008, at the direction of the County Council, capital project reports were prepared to evaluate scope, schedule and budget information for projects of at least \$10 million in the 2007 report and for project of at least \$750,000 of budget in the 2008 report.*
- *The budget performance measure utilized in the 2008 Project Analysis Report (PAR – replacing the Kingstat report) was 15% cost variance from estimated to forecast. The County Office of Management and Budget (OMB) also tested the creation of county-wide capital project delivery performance metrics and project/agency-level scorecards from the PAR. However, these efforts were rescheduled for the 2009 reporting cycles because more input from agencies was needed to make collecting the information more feasible and less costly than what was experienced in 2008.*
- *In December 2008, the County Council passed Motion 12905, approving Project Analysis Reports containing the budget and schedule tracking measures, noted above. This legislation was successful in that it forged a consensus among members of the Executive and Legislative branches regarding capital performance tracking and reporting expectations and deliverables with available staff.*

Anticipated Future Activities Relevant to this Finding

The County will continue with further development and improvements to the countywide construction contract performance system for collecting and reporting on county construction contract performance. Further development of the county construction project performance measurement program will be a collaborative effort between the Office of Strategic Planning and Performance Management, the Office of Management and Budget (OMB), all departments, and agencies or other entities involved, including the King County Auditor's Capital Project Oversight Office. The County will expand its construction project status and performance measures system to include appropriate measures, incorporate benchmarking where feasible, and clearly define the performance measures for construction management. The County will continue to refine the measures and benchmarks to ensure relevance, comparability, and validity.

There is a significant effort underway to move from the point in time reports of 2007 and 2008 to a more systematic and comprehensive capital project monitoring methodology:

- *At the direction of the Office of Management and Budget and the Office of Strategic Planning and Performance Management each capital program is in the process of preparing capital project information to be used to monitor project performance.*
- *The Office of Management and Budget and the King County Auditor's Capital Project Oversight staff have been working together to finalize a report that will draw on CIP program data to evaluate capital project relationship to planned scope, schedule and budget.*
- *A Standards Steering Committee is being formed according to a charter that addresses implementation of minimum standards for procedural guidelines, manuals, and systems related to project and construction management. This effort will bring increased consistency among the capital program procedures and reporting.*

Exceptions and Observations on the Audit and Reports

The auditor does not recognize that a top priority for the County's new Office of Strategic Planning and Performance Management is the continued refinement of construction management performance measures.

The auditor does not recognize the ongoing collaboration between the Executive and Legislative branches to further the development of a performance measurement system. We consider the Council is aware and has been informed on the status of the performance management system as it relates to the capital program.

The auditor does not recognize that the original legislation was drafted by Council and did not specify any specific measures, but only types of measures (outputs, effectiveness, efficiency, and customer). The legislation was not seen as the appropriate place to create a "laundry list" of specific measures due to the complex and diverse nature of the county's various lines of business.

The auditor did not recognize all the information provided regarding construction contract monitoring and performance measurement in the discussion on (the lack of) performance measurement systems. While the pursuit of a countywide construction performance measurement tool is currently under development, many divisions have had performance measurement systems in place for several years:

- *The Facilities Management Division has for some time collected information to monitor project performance in 3 categories; project milestones, expenditures, and cost of project administration. This system was put in place at the recommendation of Management Engineering Associates, a firm who reviewed and assessed the Capital Planning and Development Section's project management practices in 1997 and has been improved since its inception. The information includes:*
 - *Project milestones are tracked by comparing planned vs. actual.*
 - *Planned milestones are setup at the beginning of the project, monitored each quarter and reported annually.*
 - *Project expenditures are tracked by comparing planned vs. actual.*
 - *Annual project cash flows are determined at the beginning of the project, monitored each quarter and reported annually.*
 - *The cost of project administration is tracked by monitoring planned cost of administering a project vs. the actual cost.*
 - *Some of the data are used to determine County performance against industry standards and representative peer groups.*

Performance measures are monitored on a quarterly basis, and formally updated annually. Project managers are responsible for inputting the initial planned milestone, expenditure, and administrative cost information into the database.

- *The Airport tracks certain measures related to CIP program using the "KingStat" and its internal program assessment performance measures. Measures include capital projects as a percentage of capital projects scheduled, and numbers of CIP projects started and completed.*

- *The Road Services Division has had a focus on performance measures and performance management for the capital program since 2000. The division utilizes a robust database to maintain budget and milestone data which is used to measure performance on the project and program level. Since 2006, the Road Services Division has been working with Clark, Snohomish and Pierce counties to identify common performance measures with respect to road construction and maintenance.*
- *The Solid Waste Division uses their monthly Job Status Reports to ensure management-level oversight of the critical project delivery measures on-schedule and within-budget performance.*
- *The Transit Division uses an overall project and construction management system that develops “stop light” reports that indicates whether projects are within budget and schedule expectations.*
- *Wastewater Treatment Division has been tracking budget, cash flow, schedule and contract progress performance on a quarterly basis, since 2006. This information is presented in the Quarterly Capital Projects Status Report. Additionally, the Brightwater project team prepares four reports on a monthly basis that measure construction contract progress.*
- *Water and Land Resources Division uses Financial Tracker a spreadsheet, to ensure management level oversight of project revenues and expenditures.*

The auditor does not recognize the County’s continuing efforts to further develop the countywide performance measures for the capital improvement program. Notably the Offices of Management and Budget and Strategic Planning and Performance Management have signaled that construction management performance measures are a priority, despite not specifically identifying construction management measures as part of implementing Ordinance 16202.

Auditor’s Remarks

With regards to the potential for liquidated damages discussed in the Background to the Schedule of Audit Findings, Opportunities Section of this report, we acknowledge that these potential damages would be reduced for delays that were caused by the County or by uncontrollable conditions such as weather. As we did not audit the County’s calculation, we do not know the degree that these conditions may have contributed to some of the project delays. We also acknowledge that the County’s calculation did not take into account such conditions, which, if present, would reduce the \$876,861 cited in the Opportunities Section.

In addition, the County describes a number of efforts, which should improve its construction oversight. We appreciate the County’s commitment to addressing the conditions cited.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 1, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

1A. King County does not have an adequate construction project management information system.

Description of Condition

During our audit planning, we asked the County to provide the following information on construction projects and all related contracts that were active during the audit period:

- Project name.
- Contract numbers/project (CIP) numbers.
- Contract type (GCCM, design-build, lease-build, design-bid-build, professional services, etc).
- The County department or division responsible for the project/contract
- Name of King County project manager and/or construction manager.
- Initial authorized project/contract cost.
- Current authorized project/contract cost.
- Project/contract actual cost to date.
- Project/contract planned (baseline) start and completion dates.
- Project/contract actual (current) start and completion dates.
- Project/contract phase.
- Name of contractor, design/engineer firm, or consultant firm and the project manager's name.

This request was made of to all County departments, divisions and offices involved in construction management:

- Department of Executive Services, Facility Management Division (FMD)
- Executive Office, Office of Information Resources Management (OIRM)
- Department of Natural Resources and Parks, Water and Land Resources Division (WLRD)
- Department of Natural Resources and Parks, Wastewater Treatment Division (WTD)
- Department of Natural Resources and Parks, Solid Waste Division (SWD)
- Department of Transportation, Transit Division (Transit)
- Department of Transportation, Airport Division (Airport)
- Department of Transportation, Roads Division (Roads)

Completeness of Data

We found none of these departments or divisions was able to provide all information requested, nor did they have systems that were able to provide complete information about all projects within the audit scope in a three-month period that ended October 10, 2008. In response to our request, the audit team received dozens of spreadsheets that were compiled manually and that contained incomplete and conflicting information. The County's Facilities Management Division (FMD) stated a team of six to eight people was assigned to compile this information from hard copy records.

We also later learned information provided contained inaccuracies. For example, information provided by the WLRD for a storm drain project showed initial authorized funding was \$2,050, current authorized funding was \$285,407 and actual cost to date was \$1,240. WLRD later explained the initial authorized funding was \$580,000, current authorized funding was \$1,369,600 and actual cost to date was \$1,277,370. They explained the difference as follows:

. . . much of this complexity results from the Accounting Resource Management System (ARMS) financial system not automatically 'rolling up' the distributed budget authorities or expenditures of subprojects to their master projects. It must be done manually for each program based on the 'master project' code associated with each project.

A WLRD manager stated:

There is no systematized or automated process for monitoring or controlling project expenditures to keep them within their authorized budgets.

Instead, the County depends on a manual review of projects and subprojects "for status against their appropriation. Management is aware of the progress of subprojects and fiscal impacts, and takes the necessary steps to ensure the expenditures will not exceed appropriations".

Completeness of Projects and Contracts

We subsequently learned none of the departments or divisions provided complete lists of projects and contracts. We queried the County's two accounting systems in an effort to identify all on which expenditures were made between July 2005 and June 2008.

We found 791 projects, totaling \$72,571,304, that were not on the original lists provided to us.

County personnel offered a variety of reasons why these projects were not included in the original response:

- Some infrastructure projects did not "involve construction."
- Only subprojects were provided and not the overall projects they were part of.
- Only projects were included and not the subprojects within those projects.
- Projects containing investment earnings or "one-time transfers from operating to CIP fund" were not included.

- Projects were excluded that:
 - Did not “contain construction, they are administrative or design tasks”.
 - Were “contingency projects”.
 - Were “countywide projects”.
 - Were “subprojects of . . . master projects . . . conducted with County labor”.
- Projects were not included that represented:
 - “Accounting projects . . . an administrative mechanism to track overhead charges distributed across the capital projects”.
 - “Planning and budgeting efforts, studies, and reporting work efforts . . . used . . . to capture staff effort on the work”.
- Some organizations stated some projects had been “missed”.

One division indicated it had difficulty locating project and contract information. The Facilities Maintenance Division reported it could not locate approximately 20 contract files out of 310 reported. However, the project and contract lists this division provided referenced 68 contracts that could not be found.

Cause of Condition

The County’s construction project operations are decentralized and departments and divisions operate with considerable autonomy. Some divisions have a more comprehensive construction management information system than others. For example, WTD has more complete information than other divisions at this time.² This likely is due to the high profile of the Brightwater wastewater treatment plant project.

Department and division access to the funding necessary to establish effective systems also affects the quality of the County’s current system. For example, WTD is able to obtain money to develop a more comprehensive system through charges to utility customers, while other departments are dependent on budget appropriations.

FMD is in the process of selecting a construction management information system and anticipates it will be in place by mid- 2010.

Effect of Condition

The County has no method to quickly or routinely identify and track all construction projects at the division, department, executive or County Council level. Thus, it is very difficult for the County to readily identify all potential or current cost or scheduling issues. This makes it possible for scheduling delays and cost overruns to be concealed or reported when it is too late for timely and cost-saving corrective action.

The difficulties that counties experience in providing complete and timely information impairs the ability of higher-level county management to effectively monitor projects to ensure they are on budget and are completed on schedule.

² WTD’s system was able to provide all information we requested except for project phase and planned start dates (although, as noted above, not all projects were reported). WTD is in the process of migrating information from older systems to a newer system. This should improve efficiency.

Additionally, staff time is wasted when information has to be compiled manually from multiple and disjointed records and systems. A lack of accurate information related to authorized contract amounts and actual expenditures increases the risk that project budgets can be exceeded or questionable contracts entered into.

Recommendation

We recommend King County install and use a comprehensive, county-wide construction management information system. This system should capture basic project-, subproject-, and contract-level information on all planned and on-going construction activities. At a minimum, the system should report the following information:

- Project name.
- Contract numbers/project (CIP) numbers.
- Contract type (GCCM, design-build, lease-build, design-bid-build, professional services, etc).
- The County department/division responsible for the project/contract.
- Name of the project and/or construction manager.
- Initial authorized project/contract cost.
- Current authorized project/contract cost.
- Project/contract actual cost to date.
- Project/contract planned (baseline) start and completion dates.
- Project/contract actual (current) start and completion dates.
- Project/contract phase.
- Name of contractor, design/engineer firm, or consultant firm.

The system should also capture and report progress of all activities related to construction projects, including all phases of planning, such as engineering, architecture, design, environmental impact studies, materials, County labor, etc.

County management at all levels should use the system to:

- Provide accountability and transparency to the Council and the public.
- Track performance against budgets and schedules.
- Initiate prompt corrective actions as budget and schedule problems are identified.
- Evaluate the performance of project and contract management personnel and contractors.
- Report to the Executive, Council and public the progress of the entire project as a whole against the total budgeted appropriations for that project.

Reports should be made to the County Executive and County Council at least once a month and should highlight pending or present problems.³

³ An effective means of alerting executive level personnel and those charged with governance to areas requiring attention is to use a red-yellow-green flag to highlight problem projects (red), projects with pending problems (yellow), and projects without problems (green). DOT/Transit currently employs such reporting. The Federal government also uses this type of "scorecard" reporting to track the progress of financial management systems improvements.

County's Response

Overview Response

Agreement with Findings

The County agrees that further development and improvements can be made in collecting and reporting construction project management information at a countywide level.

Disagreement with Findings

The County disagrees with the recommendation that the County should install and use a comprehensive county-wide construction management information system. The County believes that a range of system alternatives should be explored before concluding that a "one-size-fits-all" approach is best for the County.

The County disagrees with the assertion that departments and divisions do not provide higher-level reporting of key project status indicators that would alert senior management to the need to implement corrective actions to prevent cost or schedule overruns.

The County disagrees with the assertion that it was not responsive to the auditor's requests for information; information was provided to the auditor within the system capabilities of the County and our understanding of the audit scope.

Ongoing Activities Relevant to this Finding

In 2006 the County established an ongoing Interdepartmental CIP Forum (IDF) to improve the communications, consistency and collaboration among various county agencies in all phases of the contracting process for capital projects. There are also two active oversight groups, the Real Estate and Major Projects Oversight Committee (Executive) and the Office of Capital Projects (Council), who may participate in such analysis. The work of these groups supports some of the improvements discussed in this audit finding.

The Accountable Business Transformation Program (ABT) investigated Project Management system during the High Level Business Plan and Design, and concluded that a project management system was outside the scope of the ABT project. However, the information and reports of the ABT effort are an important part of the information necessary for construction project management information and their work is expected to support some of the improvements discussed in this audit finding.

The Facilities Management Division is in the proposal evaluation phase for a new project management information system, which will be implemented in 2010.

Anticipated Future Activities Relevant to this Finding

The King County Department and Division Directors that implement capital programs are sponsoring a Standards Steering Committee (SSC) that will identify and recommend the implementation of consistent project and construction management standards to be applied across all capital project and construction management programs. The standards will include documentation and reporting, a project records management structure and a common set of performance measures.

The SSC will also:

- *Direct the review of other public agency business models and existing materials within the County related to construction management information system policies and procedures and other procedures where applicable,*

- *Identify required project procedures manuals, develop manual templates for consistency in “look and feel”,*
- *Develop policies, procedures and protocols for implementation across the divisions within Departments of Natural Resources and Parks, Transportation and Executive Services, where appropriate, and*
- *Make recommendations in the form of an Implementation Plan and report to an Executive Oversight Committee comprised of the Department Directors and Division Directors for the participating departments. The Executive Oversight Committee, comprised of Directors from the agencies responsible for capital project delivery will direct and monitor the progress of the SSC.*

Exceptions and Observations on the Audit and Report

The auditor notes that the County could not provide all information requested in the time allowed and that the information was provided on spread sheets. The County acknowledges that much of the information requested is basic construction project information and that there were items requested that are not in a single location within existing project and accounting systems or databases and required manual extraction and assembly to satisfy the request.

The auditor concluded that the County did not provide complete listings of projects. The variety of reasons cited by the auditor for this finding is in large part, the result of unclear and inconsistent requests for information by the auditor. The County staff conducted extensive outreach efforts to meet with the State Auditor’s Office staff and their consultants to discuss and reach clarity and agreement on the following information:

- *The master project/subproject data;*
- *Contracts reported for construction only,*
- *Unclear or inconsistent terminology, i.e. project vs. contract definitions; especially in the discussion of phases;*
- *Type of summary data requested-budget, revenues, and encumbrances related to capital projects;*
- *Whether goods and services contracts (primarily involving materials and supplies for projects relying on force labor) should have been reported;*
- *The use of the CIP as basis for projects and subprojects including non-construction projects.*

On October 9 and 10, 2008, the auditor did meet with County staff to clarify information provided. At that time, the audit scope was discussed and clarified, and agencies provided supplemental information related to projects, after the meetings in early October. As a result, we do not agree that the County did not identify approximately 800 projects with an aggregate amount of \$72.5 million. A review of the lists of unreported projects provided by the auditors show there are a number of projects that are:

- *Not within the scope of the audit including projects completed outside the audit period,*
- *Projects completed prior to audit period,*
- *Non-construction related acquisition,*
- *Information technology projects, debt service,*
- *Default project for revenue,*

- *Operating studies not related to construction,*
- *Accounting activity,*
- *Allocation of indirect overhead,*
- *Cancelled projects-never designed or constructed.*

In our analysis, the County identified 117 projects with total activity of approximately \$2.4 million that should have been provided to the auditor.

The auditor notes that the project listings were inaccurate, and specifically references the program information provided by Water Land Resources (WLR) Division. The auditor was attempting to apply a project-specific concept of authorized funding to WLR's master program funding mechanism, which provides management with the flexibility to manage many small projects in a broad geographic area. The budget figures are not inaccuracies; instead they reflect the logical and necessary result of the master program funding mechanism.

The audit report cites that Facilities Management Division could not locate 20 and 68 (separate references) contract files. The report does not acknowledge that the files were not provided to the auditor as a direct result of a suspension of manual effort (as confirmed by the State Auditor Office) to identify the project/contract elements on the information lists.

The County was responsive to the auditor's requests for information, given system constraints, and our understanding of the audit scope. The County did make numerous attempts to clarify the scope of the audit, and determine common definitions of terms, with both the SAO and consultant, with little success.

The County believes that had the auditor and consultants agreed to the County's request to meet, earlier and more frequently, the misunderstandings regarding the data requests would have been greatly reduced. The County believes the auditor did not anticipate the diversity, complexity, and multiplicity of systems in use by the County to manage its construction projects, and therefore the County did not obtain a clear audit scope from the auditor until well into the audit process. Instead of reaching an understanding of our various project control systems, the auditor deemed all systems insufficient because they are not in a form desired.

Auditor's Remarks

The County indicates that not until October 2008 was the audit scope discussed and clarified and that this clarification resulted in the County better understanding the records we were requesting. However, we communicated the following audit scope and objective at the audit kick-off meeting and entrance in July 2008:

Over the most recent three years, has the County been effective, efficient and economical at planning, designing and managing construction projects and contracts in order to:

- Minimize all costs associated with the projects including but not limited to engineering, land acquisition, environmental review, environmental mitigation, permitting and construction?
- Minimize unnecessary change orders and delays that result in extra costs?
- Keep projects on schedule?
- Minimize risk by identifying it, eliminating it, minimizing it or sharing it with the contractor through good contract terms and contractor management?

- Obtain the best quality, timeliness and other value?

Although we indicate the County failed to provide us with a number of projects that were within the scope of the audit, the County indicates many of these projects were outside this scope. Similar discussion occurred during the audit. For example, during the audit, the County emailed us with definitions of construction that were narrower than the scope and objectives shown above. We politely responded that our audit scope and objectives were broader than the definitions they were providing us.

The County indicates that certain cancelled and completed projects were outside the scope of our audit. However, we note these projects had expenditure activity during the three-year period we were auditing. The County describes further costs and project types they consider outside our audit scope. We point out that many of these costs and projects were accounted for in the County's capital projects funds. We also point out that our scope, shown above, clearly indicates we intended all along to examine all phases of construction projects.

The County describes a number of efforts to identify and pursue a construction management system. We appreciate the County's commitment to addressing the conditions cited.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 1A, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

1B. King County does not have standard construction management procedures.

Description of Condition

Standardized policies and procedures that are consistently used and enforced are critical to a successful construction management program.

The County Executive has adopted policies, procedures and rules that generally apply to all county departments. These provide direction on managing specific functions at County departments. The County has 17 executive policies regarding procurement and contracting management. These policies were established between 1993 and 2008⁴.

With certain exceptions, each department has its own construction management policies and procedures. For example, the Facilities Management Division (FMD) does not have manuals containing construction policies and procedures. The remaining divisions have up to ten different manuals dealing with construction management, but varying in format, content and completeness.

The following conditions show the inconsistencies among County divisions in this area:

- Many of the manuals do not refer to the overarching executive policies. However, all divisions note the Procurement and Contract Services Section of the Finance and Business Operations Division, which is part of the Division of Executive Services, is in charge of bid and award processes.
- The manuals differ on how they present information on the bid and award process. A reference to Executive Policy 7.7.1 – Procurement for Capital Projects would eliminate the need for further discussion in division manuals.
- The Road Services Division (RSD) Project Management Manual does not have a section on contract amendments. The RSD manual should refer the reader to Executive Policy 7.8.1.
- The Water Treatment Division (WTD) addresses the contract amendment process in two places: the Project Control Manual and the Procurement Procedures Manual.
- The Solid Waste Division's (SWD) manual states the change order section is not completed.

⁴ Many policies were revised in April and May of 2009, subsequent to our fieldwork.

Because of the combined volume of these documents, it is not possible to identify all key procedures and policies that have not been included in the manuals. However, we noted:

- Neither the Facilities Management Division (FMD) nor the SWD have quality assurance/quality control procedures built into the final design phase for projects. This phase would allow the County to verify it received what it contracted for in terms of quality.
- The Airports Division did not provide any policy and/or procedure manuals. The “project manual” the Division provided consisted of:
 - Newspaper and magazine articles about projects,
 - A participant workbook for a project management class put on by the King County Office of Human Resources Management.
 - A copy of a presentation on the roles and responsibilities of project managers.
- The Airports Division Professional Services Procurement Processes document was a two-page matrix showing work tasks and assignments of responsibility.

We also found differences in how approval authority is assigned. The County has an overall policy, Delegation of Authority for Signing and Administering Contracts, Change Orders, Deeds, Leases, Amendments and Other Instruments (CON 7-3-2). Numerous “sub-delegation” memoranda set forth inconsistent information on authority delegations.

We question the need for separate construction management manuals for each division. Construction projects are similar in the flow of initiation, bid and award, contract management, design, construction, scheduling, quality assurance/quality control, progress reporting and payments, change management and project closeout. Having standard operating procedures in as many processes as possible for all divisions would greatly reduce the inconsistencies and omissions noted.

Cause of Condition

The County’s departments and divisions operate with considerable autonomy with respect to construction project management. Further, the County has not assessed the value of a standard construction management procedure.

Effect of Condition

By delegating the responsibility for developing policies and procedures to the division level, County management is not providing oversight of construction management. Maintaining oversight and control is more difficult when procedures differ between divisions. The County can provide no assurance that the manuals provide the level of guidance and control for which they are intended.

Additionally, division directors can delegate authority to lower levels of management within their divisions differently in each division. This can result in staff who do not have the authority at their position to be responsible for the enforcement of policies. Also, staff who have the enforcement authority do not have sufficient policies to hold staff accountable.

Further, the number of manuals indicates the County has gone to substantial time and expense to develop, maintain and update them.

It is more cost effective to refer to a principal version of a policy rather than maintain multiple versions across many divisions or within the same division. Maintaining multiple versions also puts the County at risk that divisions may be applying a version that conflicts with other versions if not maintained timely.

Finally, consultants and contractors that do business with more than one County department or division are required to conform to differing rules, policies, procedures and requirements. If the County makes it easier for consultants and contractors to do business with the County, the County could attract more competition and realize lower costs.

Recommendation

We recommend the County Executive develop standard operating procedures for construction management that apply to all departments and divisions, and the County Council enact ordinances to support the Executive's efforts. One manual should be used to cover all construction management processes that are common among the divisions. When specific departments or divisions require supplemental policies and procedures due to the type of construction they are involved in, these should be published as single volumes that do not overlap, duplicate or contradict the overall procedures.

In developing a single set of procedures, King County also should develop a plan to maintain them and department and division supplements that includes regular reviews of all items and updates. The County also should review and update Executive Policies on a more regular basis. Fourteen of the 17 policies on contracting have been in effect since at least 2000.

We recommend that executive management review and update the current assignments of authority to make them consistent and clear across all divisions and ensure that those delegations have the means to hold staff accountable for following policies and procedures.

County's Response

Overview Response

Agreement with Findings

The County agrees that improvements can be made by consolidating the existing set of County-wide policies and procedures into a more cohesive reference document. The County believes the underlying intent of the auditor's recommendation can be addressed by: (1) continuing to maintain and improve a central set of policies and procedures common to all construction projects; (2) further developing agency-level desk manuals that fit with the types of projects in each agency while referencing and using the applicable countywide policies and procedures; and (3) perform regular updating and consistency reviews of the manuals. This three-fold focus will help ensure consistent application of countywide policies while still allowing appropriate customization and flexibility on the day to day management of widely divergent construction projects and conform to existing County policy.

Disagreement with Findings

The County does not agree that it does not have Standard Construction Management procedures as the title of this finding implies.

The County does not agree that County management is not providing oversight of construction management.

The County does not agree that it would be more efficient, economical or appropriate for the County to undertake a single set of policies and procedures governing all facets of construction

management throughout the County. Creating a County-wide desk manual will not allow the unique requirements and features of each agency's construction practices to be adequately addressed and is not expected to reduce but rather shift costs.

Ongoing Activities Relevant to this Finding

The County's central procurement section establishes the procedures associated with contracting and has an up to date web site dedicated to contracting opportunities for prospective vendors and the public.

Most departments do not retain sufficient staffing to perform QA/QC on all projects. It is common to have this responsibility scoped and performed under the design contract (using a separate group of qualified professional within the consultant team or a sub-consultant), or utilizing a CM Consultant team or another design firm. This is particularly true for the smaller departments with limited engineering or design staff. Some QA/QC work is performed using qualified County engineers.

Anticipated Future Activities Relevant to this Finding

FMD intends to incorporate in its next manual an updated a set of policies and procedures related to Quality Assurance/Quality Control (QA/QC) of the Final Design Phase. In the interim, it has provided its project managers a separate set of guidance related to this topic.

The county will evaluate having, QA/QC activities identified as specific contract task (not a subtask) in consultant agreements to clearly identify the activity.

A Standards Steering Committee is being formed according to a charter that addresses implementation of minimum standards for procedural guidelines, manuals, and systems related to project and construction management. This effort will bring increased consistency among the capital program procedures and reporting.

Exceptions and Observations on the Audit and Reports

The auditor notes that Facilities Management Division (FMD) and Road Services Division (RSD) do not have manuals for construction policies and procedures. This is a misrepresentation of the method of work. During the information gathering process, both RSD and FMD provided project management manuals to the auditors.

The auditor notes that the Airport Division did not provide any policy and procedure manuals with the implication that the Airport doesn't follow any policies and procedures; this is not accurate. The Airport uses existing King County construction policies and procedures regarding construction contracts; it does not have a duplicative manual. The King County construction policies and procedures were provided to the auditor.

All Airport construction projects that are funded through the FAA Airport Improvement Program (AIP) use a 95-5 formula (95% paid by FAA, 5% Airport match). Upon authorization from the FA, the Airport will begin the design and engineering phase of a proposed construction project. The Airport follows the protocols established in FAA Advisory Circular 150/5100-14D titled "Architectural, Engineering, and Planning Consultant Services for Airport Grant Projects".

The architectural, engineering, and planning consultant selected will be the engineer of record for the project and perform as the Airport's project/construction manager during the construction and post-construction phases. The FAA favors the use of the engineer of record as the project/construction manager.

The Airport also follows all County protocols, policies, and procedures regarding construction projects and, when necessary, our project/construction manager clarifies any discrepancies between FAA and County rules and regulations.

For those projects not funded by the FAA, the Airport designates a project manager for the project and, if necessary, hires an independent professional construction manager. In these instances all County, State and Federal rules and regulations are followed with regard to construction projects.

The auditor also noted that the Airport Division only provided a two page matrix on procurement processes with the implication that this was insufficient. This comment is inaccurate and out of context; the content of the matrix specifically cited and referenced sixteen separate policies and procedures the Airport uses in twenty-two different functional areas (e.g., amendment process, schedule control, cost control, QA/QC).

The auditor commented on delegation of signing authority on construction contracts. The comment did not acknowledge that the County just recently completed an in-depth examination of the delegation of authority and sub-delegations. This review was initiated in response to a Council Audit recommendation to consider further sub-delegations to reduce delays in projects resulting from the processing time on amendments and changes to contracts. In that work, efforts were made to standardize signing authority as much as possible but allowed each agency to continue establishing their own delegations as allowed by current code/executive order. The process updated the delegation authority and related processes in all county agencies which comply with County Code.

Auditor's Remarks

The County describes a number of efforts to address its construction management policies and procedures. We appreciate the County's commitment to addressing the conditions cited.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 1B, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

- 1C. King County construction management data, files and records are not consistently maintained and are not readily accessible for management oversight and review purposes.**

Description of Condition

In order to monitor and manage construction projects, management must have access to all project data. One way to ensure easy access is to be sure complete information is stored in a central location where management can easily find it.

During our audit, the County did not provide:

- A list of all locations where electronic records related to construction projects and contracts are stored.
- Access to all electronic files stored at the Roads Services Division.

The County's Department of Transportation, Roads Services Division indicated it would fully resolve all access issues by December 10, 2008. That did not occur.

For the files we could access, we observed one file group where the naming conventions did not reflect what project or projects the file contained. The files observed were named after popular science fiction characters.

County personnel stated the County does not have standard procedures for naming, organizing and storing electronic records and does not have protocols for file protection or shared drive access and permissions.

Instead, individual project managers are permitted to name their files whatever they want, organize them however they want and establish whatever restrictions to access they want.

Additionally, we found many construction files are stored on project managers' computer hard drives that are not centrally accessible to auditors or those in the County responsible for overseeing contract compliance.

Divisions and departments are free to use any programs they want for internal construction project management. It is inefficient, costly and cumbersome for organizational units within the same county to use different programs and processes to perform the same tasks.

Cause of Condition

County departments and divisions operate with considerable autonomy and on a decentralized basis and do not have standardized construction records management policies, procedures or protocols.

The County reported:

Executive policy currently does not require consistency in document naming, file content or project document locations. However, Executive Policy CON 7.9.1 subsection 7.9 requires a document indexing system for each project and prescribes what that system should contain.

County policies and procedures do not require all documents related to a project be stored in a central location where they can be easily found in their entirety.

Effect of Condition

The County cannot ensure records retention requirements are met. The County's Procurement and Contract Services Section of the Finance and Business Operations Division and the Supervising Engineer were unable to locate any hard copy files pertaining to the bid and award process, nor the Architectural Engineering (AE) contract for the Northeast Novelty Hill Road project (#100992). This still-active project was originally approved in 1992.

Similarly, the County was unable to find the procurement file for the North SPAR project (#101289). One person who was asked to provide the information speculated the documents had more than likely been destroyed because they were so old (1996). The County located a copy of the contract 36 days after our request.

County management cannot effectively monitor construction management when they cannot review or evaluate files and records without extraordinary and costly effort. In the event a County project manager becomes unavailable, continued effective management of her or his projects could be adversely affected. This can affect the County's ability to complete projects and defend against contractor claims.

Without an effective records management program, the County cannot control the records from project inception to disposition.

Current file management practices do not allow the County to ensure all documents responsive to a public records request are locatable as files are kept on staff hard drives, separate from the network, in various departments and multiple server locations.

Recommendation

We recommend the County design, develop and follow a countywide construction file management structure and a set of data storage and data access protocols for its construction files. The construction file management structure and data access protocols should include standards for:

- Hard copy versus electronic file storage guidelines and hard-copy-to-electronic-copy record conversions.
- Consistent file organization, preparation, maintenance and naming conventions.
- Accountability requirements for records management within each division.
- Security of all information.
- Records retention policies.
- Data access controls.

- Consistent procedures for establishing electronic data access permissions.

The Office of Information Resources Management already has a policy that aligns with our recommendation in requiring all divisions to use Microsoft Project for information technology projects.

County's Response

Overview Response

Agreement with Findings

County agrees that further development and improvements can be made in establishing a thorough set of countywide and department records management policies regarding paper and electronic records, and to the extent possible, the policies should be coordinated, standardized and consistently applied.

Disagreement with Findings

The County does not agree outright that it would be more efficient, economical or appropriate for the County to purchase and develop a single County-wide construction file management structure. The County believes that alternatives to a single file structure model need to be further explored and that benefits arising out of the implementation of the County's Electronic Records Management System (ERMS) project need to be reviewed first before investing in another file structure system.

Ongoing Activities Relevant to this Finding

Ongoing activities that begin to address the audit findings and recommendations include the ERMS project initiated prior to the audit, and the Standards Steering Committee (SSC) which is now being developed.

The ERMS project will develop records management policies and procedures that meet the needs of County agencies, the Prosecuting Attorney's Office, the Executive and Legislative oversight and policy making bodies, and the public. This project will implement a central repository for the management and retention of Public Records in electronic format that will comply with RCW 40.14 for Management and Disposition of Public Records. The system will be rolled-out County-wide in a phased approach over the next four years. The scope of the project encompasses Public Records created on individual user's workstations, digital imaging of Public Records created in paper format, web records management for the County's internet site, implementation of a physical records management component and migration of the County Records Center inventory database for the management of hard copy records in inactive storage, and a digital imaging program for the King County Archives.

The ERMS project will perform all the records management functions required by RCW 40.14, by establishing guidelines for hard copy to electronic copy records conversion; consistent file organization, preparation, maintenance and naming conventions through the development of "plans" by the implementing agencies; assignment of records coordinators in each agency to manage accountability for records management; security of information-once in the system documents are deleted pursuant to the retention schedules established; automated records retention; and access to records is controlled.

Though the determination of the taxonomy or file structures is agency specific, and the development of a County-wide construction file management structure is outside the ERMS project, ERMS project staff will be participating on the SSC, and able to provide input.

The King County Department and Division Directors that implement capital programs are sponsoring the SSC that will identify and recommend the implementation of consistent project and construction management standards to be applied across all capital project and construction management programs. The standards will include documentation and reporting, a project records management structure and a common set of performance measures.

The SSC will also:

- Direct the review of other public agency business models and existing materials within the County related to construction records management policies and procedures and other procedures where applicable,
- Identify required project procedures manuals, develop manual templates for consistency in “look and feel”,
- Develop policies, procedures and protocols for implementation across the divisions within Departments of Natural Resources and Parks, Transportation and Executive Services, where appropriate, and
- Make recommendations in the form of an Implementation Plan and report to an Executive Oversight Committee comprised of the Department Directors and Division Directors for the participating departments. The Executive Oversight Committee, comprised of Directors from the agencies responsible for capital project delivery will direct and monitor the progress of the SSC.

The Airport Division completed and adopted new policies and procedures for CIP and project records management.

Anticipated Future Activities Relevant to this Finding

Road Services Division project managers have also been re-instructed to remove final project documents from their personal hard drives and place them in the appropriate shared project folders.

The Transit Division has assigned a special project manager to review current file management practices within the framework of County policies and procedures. With input from management and staff, a comprehensive file structure will be developed for all construction management. This effort will be performed in conjunction with the ERMS project.

The Facilities Management Division has begun the needs assessment and data gathering phase for its participation in the ERMS.

Exceptions and Observations on the Audit and Report

The auditor’s “all access” request greatly exceeded typical audit procedures, based on our previous audit engagements with the SAO. However, the County attempted to comply with the request, and did provide electronic access to all of the project files related to the auditor’s sample, as well as all project and contract records in the shared folders.

Extreme efforts were put forth by Department of Transportation Information Technology staff to provide access to millions of files/folders for the auditors to meet the direct access requirement for ALL electronic project file records. The delays were caused by the need to provide non-standard access to the project and contract information, remote access, copy and print capabilities, and file transfer protocols to allow for remote download of large files. The County advised the auditor that setting permissions for such a large number of folders would be a difficult task with a very high likelihood of a small percentage of folders not inheriting the proper permissions due to the County’s very deep, very broad and complex folder/file structure.

The auditor notes that the DOT Roads Services Division (RSD) did not resolve access issues by December 10, 2008. This is incorrect. On Dec 10 all shared folders (not just construction related folders) on RSD servers were made available to the auditors. The auditors began accessing folders that day. The auditors encountered a handful of folders which needed permission corrections and those corrections were made immediately. No further requests for folder/file access were received by the auditors

The auditor notes the naming conventions for file groups, and refers to “one file group”. This reference should be revised to “server name”. The general purpose servers which hold construction and non-construction data do have a variety of names chosen by the IT staff which is a common industry practice. However, the folders and files themselves do in fact have names reflective of their contents.

The auditor notes that many Road Services construction files are stored on project managers’ computer hard drives which are not centrally accessible by the auditors or those in the County responsible for overseeing contract compliance. The County agrees that some Road Services project managers do in fact keep some construction documents on their hard drives and that this is not in conformance with the Road Service’s project management procedures. In many cases, these documents are drafts (e.g. memos, emails) and not final, official project documents. Even if stored on employee hard drives, IT staff is able to access all data on any computer and can do so centrally if required or requested by County management. Road Services requires project managers to move all final project documents to pre-defined shared project folders. Road Services has strengthened enforcement of this procedure.

The auditor notes that the County does not have standard protocols for file protection, shared access and permissions. The County has many policies and practices governing access to the County network and therefore the electronic assets residing on that network. In general, the County uses the principle of “Least Privilege” for setting permissions, only those who need access are given access – and no one else. The IT staff control the access permissions for shared standard project and contract folders. Individual project managers can create subfolders and can request specific access restrictions to be set by IT personnel. A project manager can set permissions only on folders for which they are the data owner – typically personal folders. The permissions on the shared standard project folders are controlled by the IT staff.

The auditor notes that the County does not have county-wide standard procedures for naming, organizing and storing electronic records. It should be noted that the Road Services and Finance and Business Operations Divisions do have standardized procedures for naming and organizing project and contract records. This is an area that will be addressed by the SSC.

The report notes that the County was unable to locate contracts for North SPAR and Novelty Hill Road projects. Both of these contracts were executed before Road Services and the Finance and Business Operations Divisions put many of the current systems and controls in place; copies of each contract were subsequently located.

Auditor’s Remarks

The County describes some of the difficulties we encountered in accessing certain shared folders for its Roads Services Division on December 10th. It is true that for some of the folders we could not access, we brought these to the County’s attention and they responded by granting us access to them. However, as we (1) identified more and more shared folders we could not open and assessed how these back and forth efforts would likely persist, (2) learned of additional files on project managers’ personal computers, which we had not been given access to and (3) observed that there was no standardized filing convention for the County’s electronic project records, we decided to terminate these audit efforts. As our original contract with the construction audit specialists was scheduled from July 2008 through January 2009, we recognized that our

contractors would be unable to complete the audit within our contractual period of performance. We want to emphasize that on December 10, we were accessing only a portion (and perhaps a large portion) of those files that related to the Roads Services Division although we had requested access to all electronic construction project files for all County construction projects in July 2008.

We acknowledge the challenges the County encountered in trying to provide us with access to its electronic construction files and servers. And we acknowledge the efforts of the County's staff.

The County describes a number of efforts to address the consistency of its construction management data files and records. We appreciate the County's commitment to addressing the conditions cited.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 1C, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

- 1D. **King County does not provide resources that are adequate to enable the Executive Audit Services to comply with County policy requiring construction management audits.**

Background

County Policy FIN 15-2-1, Audits of Construction Management Practice, effective October 1, 2000, requires Executive Audit Services (EAS) to audit all large capital projects and construction management practices. The policy states Executive Audit Services is to develop a work plan to audit practices of a sample of capital projects that cost less than \$10 million on a risk basis and is required to audit all capital projects with estimated costs of more than \$10 million.

Description of Condition

Executive Audit Services has one employee. It does not have a work plan to audit a sample of small capital projects and has not audited any projects valued at more than \$10 million, as required by the policy, which took effect in 2000. We identified 77 capital projects of more than \$10 million that had been active during July 2005 to June 2008. Of these, 27 had been completed or closed out but not audited. The other 50 large capital projects were in the pre-design, design or construction phase. Except for three projects related to the Brightwater wastewater treatment project, no audits have been planned or performed for large capital projects.

Cause of Condition

The County Executive did not request adequate funding from the County Council to ensure Executive Audit Services was able to carry out the policies.

Effect of Condition

These audits, if performed, would have identified potential risks associated with construction, possible cost savings and could have improved the efficiency and effectiveness of construction management. Noncompliance with this requirement puts public resources at risk.

Recommendation

We recommend County management inform the County Council that Audit Services has not complied with this requirement and seek adequate resources to comply with it or permission to revise the policy as deemed appropriate.

County's Response

Overview Response

Agreement with Findings

The County agrees with the finding that Executive Audit Services (EAS) has not conducted any audits of construction management practices in accordance with policy FIN 15-2-1. (AEP). The policy notes that the audit requirement is dependent on available staff resources.

Disagreement with Findings

As a point of clarification now Executive Audit Services consists of one employee, previously there were two employees.

Ongoing Activities Relevant to this Finding

Since the inception of the policy, EAS has not had the resources to conduct such audits. However, recent audits and oversight activities have been conducted by the King County Auditor for several major projects. The King County Auditor's Office provided and continues to provide oversight for the Brightwater, Jail ISP, and Harborview Ninth and Jefferson Building projects. These reports are prepared by external consultants, and provided to County Council on a periodic basis.

EAS has coordinated its audit work plan with the King County Auditor throughout the audit period.

Additionally in accordance with County policy, CON 7-10-1 Project Control Officer, compliance reviews of capital projects have been conducted by the Finance Division's Project Control Officer (FIN PCO) in cooperation with each Implementing Agency's Project Control Officer (IA PCO), independent of project management. Approximately, ten to twelve project compliance reviews in the design or construction stage are conducted annually by the FIN PCO with selection generally at random. Specific written recommendations are provided to each agency along with a general debriefing. Upon request Executive Audit Services received copies of the compliance reviews. Other audits are conducted at random by IA PCO's with reporting internal to their agency.

Anticipated Future Activities Relevant to this Finding

Executive Audit Services is in the process of revising the policy for Executive approval in 2009.

Auditor's Remarks

We believe the audit efforts required by this policy can be an important tool in providing information to facilitate the oversight responsibilities of the Executive and the Council and would encourage the County to consider this in its revision of the policy to ensure these functions are supported.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 1D, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

2. The County did not comply with state law governing the use of Real Estate Excise Tax proceeds.

Background

State law (RCW 82.46.035) governs the use of Real Estate Excise Tax 2 (REET 2) proceeds, stating they are to be used for capital projects specified in the capital facilities element of a comprehensive plan. Capital projects are defined as public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation or improvement of roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems and planning, construction, reconstruction, repair, rehabilitation or improvement of parks.

In our audit covering the period January 1, 2005, through December 31, 2005, we reported a finding for unallowable use of REET 2 proceeds. The County used REET 2 proceeds to make improvements to trails not located within the boundaries of a park. State law does not allow REET 2 proceeds to be used on improvements to trails not located within park boundaries.

Description of Condition

During our audit covering the period July 1, 2007, through June 30, 2008, the County spent \$144,760 in REET 2 proceeds on the Sammamish River Trail Paving Project. This project was for increasing the width of a segment of the Sammamish River Trail in Redmond between N.E. 124th Street and N.E. 116th Street. A portion of this segment is within the boundaries of Sammamish River Regional Park; however, not the entire segment. As REET 2 proceeds may be used only to fund trail improvements with park boundaries, the use of this money for the portion of the Sammamish River Trail Paving Project that was not within the park is a violation of state law.

Cause of Condition

The County did not fully follow audit recommendations. The County only made changes to REET 2-funded projects on a going-forward basis.

REET 2 funds were budgeted for the project prior to our 2005 report. A subsequent review of the funding source was not performed by County staff.

Effect of Condition

When restricted revenues are used for unallowable purposes, citizens do not receive the full intended benefit of the revenue.

Recommendation

We reiterate our recommendation that the County ensure all restricted revenues are used for legal purposes. We further recommend the County review its records to determine the amount of REET 2 funds improperly spent on the portion of trail that is outside of the park and reimburse the REET 2 fund accordingly.

County's Response

King County respectfully disagrees with the audit finding.

The County consulted with its Prosecuting Attorney on this subject during the 2005 audit and provided an interpretation of the REET 2 statute that would allow the use of REET 2 funds for certain trail projects. This interpretation still remains valid as part of this audit. However, with due respect to the Auditor's alternative interpretation of the law, the County has refrained from budgeting REET 2 monies on trail projects since 2007.

The audit finding states that during the audit period, the County spent \$144,760 in REET 2 proceeds on a project to increase the width of a segment of the Sammamish River Trail in Redmond between Northeast 124th Street and Northeast 116th Street. It is important to note the total length of the project area is 2,542 linear feet, and of that length 1,275 linear feet, or fifty percent, is within the boundary of 60 Acres Park. As such, even under the Auditor's reading of the REET 2 statute, RCW 82.46.035, the County was permitted to spend REET 2 funds on the fifty percent of the project located within park boundaries. Therefore, the dollar amount noted in the audit should be reduced by fifty percent, to \$72,380.

More importantly, taxpayers received full value from the County's expenditure of REET 1 and REET 2 revenues. The full \$144,760 was used to construct capital improvements to the County's parks and recreation facilities, rather than for some other purpose. Furthermore, between July 1, 2007 and June 30, 2008, when the challenged \$72,380 in expenditures occurred, the County budgeted more than \$1.0 million dollars of "REET 1" revenue on park improvements that could have been funded with "REET 2" revenue. It is plain that REET 1 revenue may be spent on "trails," and that REET 2 revenue may be spent on "parks"—see RCW 82.46.010(6) and RCW 82.46.035(5)—so the net result is a wash. While King County could re-book the challenged \$72,380 of REET 2 "trail" expenditures under REET 1, and then re-book an equivalent amount of the \$1.0 million of REET 1 "park" projects under REET 2, King County declines to do so because it would amount to a costly and time-consuming paper exercise of no substantive benefit either to taxpayers or to the County's dual REET accounts.

As the Auditor noted, the challenged funds were budgeted for the trail project before the Auditor released its finding regarding the use of REET 2 funds for the East Lake Sammamish Trail in FY2005. Although the County continues to disagree with that finding for the reasons that the County explained in its response to that finding, out of respect for the Auditor the County has subsequently refrained from budgeting any additional REET 2 revenue for trail projects located outside of parks; and the County will further seek to redirect any remaining, unspent REET 2 revenue that may have been budgeted for such trail projects prior to the FY2005 finding.

The legislature considered a bill (HB1744) to harmonize the uses of the two REET taxes, which was not passed in 2009. The County will continue to pursue legislation that will expressly authorize the use of REET 2 revenue for such trails, and will allow for greater efficiency and flexibility by cities and counties which use this revenue source to fund infrastructure improvements in their communities.

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 Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 2, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

3. King County Metro Transit lacks adequate controls over cash fares collected on its buses and trolleys.

Description of Condition

Metro Transit operates a fleet of approximately 1,300 vehicles including buses and electric trolleys that serve an annual ridership of 100 million within a 2,134 square-mile area. Ridership on Metro Transit grew by 110.6 million passengers in 2007, an increase of 7.1 percent over 2006. Riders paid more than \$27.5 million in fares from July 1, 2007, through June 30, 2008.

During our audit, we noted several weaknesses in internal controls over cash handling at the Revenue Processing Center. We found:

Cash at the Center was not secured:

- The vault, with the uncounted currency and unsecured bins containing the money, is left open throughout the day.
- All employees have unrestricted access to the table where the uncounted cash is placed to be sorted. Uncounted currency is stacked in two-foot piles.
- The cash was left unsecured on the sorting table while employees were on lunch break.

Inadequate monitoring of Center personnel:

- Center management stated at least two employees are assigned to each station. During our site visit we noted an individual return from lunch alone and start sorting cash. The supervisor who was present nearby did not take any action to stop this.
- No monitoring of employees when leaving the building.
- Although the facility has surveillance cameras, they do not rotate or zoom.
- Surveillance tapes are not adequately reviewed.

Lack of accountability over fares:

- Bus fares are combined in large bins. They cannot be traced to specific bus routes.
- The eight to ten Center employees rotate through all positions. Each position has access to the uncounted and unsecured cash. Although employees work at different stations on different days, no mechanism is in place to track how much money is being handled at any given time. Employees stationed at different posts within the Center have access to the same uncounted currency from various positions within the Center, with no accountability.

Inadequate reconciliation of fares collected to the amount deposited with the bank:

- The reconciliation of the GFI system report to the Center deposit does not compare totals daily. The GFI system counts the bills and coins inserted in the fare box but does not identify their value. Therefore, we would expect the actual amount deposited to always exceed the number of bills and coins collected. However, we noted, for 69 of 250 days reviewed, the number collected exceeded the amount deposited.
- Our review of fares collected on February 13, 2008, found the amount reported as deposited by the Center was \$5,268.75 less than the amount reported as collected. Of this, \$1,821.75 was in quarters.
- Total daily cash receipts are not deposited in a timely manner, as required by state law. On average, it takes three days to process and deposit the fares.

Fare box maintenance controls not adequate:

- The Vehicle Maintenance staff created a hand-held, mobile device to override the alarm system on fare boxes and to release the cash box from its compartment in the fare box tower. Maintenance staff knows how to use the device and how to build it using parts acquired from any hardware store. In March 2007, an employee was suspected of creating a spare of this device with the intent of misappropriating the cash receipts from the buses.

Cause of Condition

Management had not fully identified the risks associated with Center operations to adequately address the above concerns.

In 1999 the County Treasurer granted the Center a waiver of the requirement to deposit funds within 24 hours. The decision was based on the determination that the loss of interest income would amount to approximately \$10,000 per year, which the County deemed immaterial.

Effect of Condition

Inadequate internal controls over cash handling increase the risk that a loss or misappropriation of public funds may occur and not be detected in a timely manner, if at all.

Recommendation

As the existing policies over the handling of fare box collections are inadequate, we recommend the County enhance, follow and enforce adequate controls to ensure:

- Access to cash is limited.
- Personnel are adequately monitored.
- Accountability for cash receipts.
- The reconciliation of the fare box system to the Center deposit is designed to effectively monitor the cash receipts.
- Compensating controls are in place over the fare box emptying process.
- Staff receives adequate training and is monitored.

We recommend the County ensure funds collected are deposited timely. Taxpayers expect the County to earn all interest income possible. Further, the requirement for depositing funds in a timely manner is designed to reduce the risk of loss and misappropriation of public funds.

County's Response

At the time of the auditors' visit to the Revenue Processing Center (RPC), the building was in the middle of a remodeling project. The purpose of the work is to update and replace the old stand-alone security system with Transit's integrated security network and to make security improvements to the building entrances, roof and shell consistent with operating policy and procedure. Both internal and external security experts consulted on the needs assessment for these improvements as well as the evaluation of alternatives. Remodeling is now approximately 95% complete and is expected to be completely finished in mid-June 2009. Additional security was employed during the course of the project to patrol the facility.

When the remodeling project is done it will address a number of the internal control issues identified by the auditor. RPC policies and procedures are being updated to take into account these changes and all staff training will be brought current within three working days of the completion of the remodeling project.

The following section responds to each of the auditor's recommendations:

Access to cash is limited: *Agree with recommendation to ensure that access is limited and that procedures are followed. The organization of the RPC maintains an open working environment where the activities of all staff assigned to the RPC can be viewed by other staff so assigned, as a mitigating control. Specific areas identified include:*

Vault access is required throughout the day for additional business processes. The vault and vault door are in sight of all working staff in the main workroom. An existing mitigating control is the policy and procedure that employees can only enter the vault in pairs.

The physical layout of the facility places the cash table in the middle of the open workroom and is visible from all parts of the worksite. Employees are not required to sit side-by-side at the cash table but must sit so that they can see and be seen by other staff at the table. Existing working procedures do not require that the table be cleared before staff take their contract-mandated lunch breaks. On most days staff take lunch breaks in staggered shifts, always leaving at least two staff at the cash table. Staff are not allowed to work alone at the cash table. We will continue to reinforce the existing procedure with staff.

Personnel are adequately monitored: *Agree with recommendation that staff be monitored while at the facility. Ingress and Egress from the facility will be modified as a result of the construction project that is currently underway. In addition, the camera system is being updated to a more robust system as described below. Specific areas addressed include:*

Regular staff use key cards to access the facility but they are not required under current process to physically sign in and sign out. Visitors to the facility are required to sign in and out. The current practice also incorporates a system of "all clear" lights at the beginning and end of the workday.

Under the new system all staff will be required to use key cards both to enter and exit the facility as well as maintaining the "all clear" signals. The new system will also maintain a log of the key card access. Visitors will still be required to sign in and sign out.

The new security system being put in place includes cameras that rotate and zoom. The new system will also allow live 24-hour monitoring from remote sites and digital recording.

Lead RPC staff currently review tapes during the course of the business day along with performing other work. Events such as alarms or employee reports of unusual circumstances cause a more detailed review. The new security improvements will allow live monitoring from remote locations and will improve review of the work areas and vaults by replacing the system that could only see events after the fact. The new system will be easier and faster to search for specific times or events. We will be working with a security consultant to regarding the appropriate retention period for digital data retrieved from the new camera system.

Accountability for cash receipts: Agree with need to provide reasonable accountability, although do not agree that accountability is required down to the bus route level.

Transit does not have a business reason to track fares down to the level of specific buses. During the course of any given day a bus could be on the road for more than 15 hours, be driven by several different drivers and provide service on more than one route. Drivers do not have access to the cash that has been collected by the fareboxes. Customers, rather than drivers, deposit their fares into the farebox.

The GFI farebox system was designed and configured as a tool to help with aggregate tracking of fare revenue. It provides data so that each bin could be audited as desired. Each time a farebox is opened it is recorded in the server at the base. If the specific process for probing and opening the farebox is not followed, an alarm sounds and is recorded in the server at the base.

Alarms are monitored by revenue data analysts located outside of an operating base as well as the Revenue Processing Center.

With respect to staff at the Revenue Processing Center rotating through the work functions at the RPC: existing policy allows staff to select daily by seniority from among the eight different types of RPC work functions. The choice made by each person each day is recorded. The cash table is one work function and must be staffed by at least two people. The other workstations are truck driver, bank desk, "white card", lost and found, "sorter/helper", "currency helper" and "passes helper". At some point during the day all staff are working at the cash table.

As currently defined, the overall processes assign separate duties to different staff. RPC staff process cash and coin, verify the counting machines tapes of the totals, prepare the bank deposit, release the deposit to the armored car service for transport to the bank and transmit a revenue receipt to King County Financial Services for entry into the financial system. Revenue data analysts at King Street Center receive the revenue recorded through the farebox system monitor and analyze revenue daily, weekly and monthly to ensure that variances are within established system tolerances. Revenue Coordinators at the RPC do not have access to the information generated by the Revenue data analysts and as a result, do not know how much cash they are supposed to have on hand. Similarly, Revenue data analysts do not have access to the cash that is being counted and deposited by the Revenue Coordinators.

An additional mitigating control is the uniform worn by all staff at the Revenue Processing Center. As part of the new security procedures, RPC staff will each receive several sets of new coveralls and all pockets will be sewn shut. All staff will be required to wear these coveralls when at the worksite.

The reconciliation of the fare box system to the Center deposit is designed to effectively monitor the cash receipts. Agree. Specific areas include:

As noted by the auditor the existing system would generally expect instances where the amount recorded by the farebox is less than the amount deposited.

There are, however, well documented reasons for the amount deposited on a given day to be less than expected for that day. This can be caused by a number of issues including mechanical

problems with farebox retrieval. In instances where farebox data is collected, but the farebox is not emptied until after the data is collected, cash is generally retrieved and deposited on a later day when farebox data is next collected from the operating base.

Revenue data analysts are to be apprised of these situations by base personnel and notations are to be made in the reconciliation worksheet.

The existing reconciliation worksheet used by farebox analysts has been designed to work with the GFI system, to compare totals weekly and monthly and to account for the large bills. The registering fareboxes are able to differentiate coins but not bills.

Starting with 2009, the following changes have been put into place for the reconciliation worksheet to improve the internal control process:

1. Additional detailed functions are performed daily to tally the exact amount of coin to expect in each denomination.
2. The specific amounts of denomination are monitored daily. An additional spreadsheet is filled in with proper amounts of what to expect on each denomination of coinage. This step is performed before the RPC center sends its report of revenue processed. Once RPC finishes preparing and reporting the revenue that will be sent to the bank, the revenue data analysts will compare the amounts and reviews any variances. If the variances are out of the established range (greater than 3%), RPC is contacted to identify any anomalies in the process for that day and these are then documented along with when any adjustment is expected.

Farebox analysts review activity daily for both farebox probing and deposits made and follow up on any variation or trend that is not corrected within 3 days. Incidents are documented in the reconciliation worksheet.

As a result, daily variances in the system are expected and it continues to perform within the specifications of the original bid for purchase, specifically; less than +/- 2% variance over the course of a month. With respect to the results for February 13, 2008 specifically identified by the auditor, on a subsequent date, deposits in excess of the amount identified by the auditor were made for the same bases. The total variance for the month of February 2008 was +1.1%, well within the established limits.

With respect to the auditor's observation that deposits are not made in a timely way consistent with state law, Transit requested and received a waiver from the 24-hour requirement. This waiver has been in place since 1999.

Compensating controls are in place over the fare box emptying process. Agree. This process was most recently reviewed by the King County's Executive Audit Services. As a result of that review, procedures were reinforced with staff and some revised procedures were put into place at the base.

This "portable probe" was designed by staff in Vehicle Maintenance in order to more efficiently and effectively respond to fare box issues while a coach was in service.

Alarms are generated by a number of conditions experienced by the farebox. These include:

1. **If a fare box goes into "by-pass" mode.** The bus driver experiences a cash-box jamb; foreign mater has been inserted into the fare box by a passenger. In order to continue collecting fare, the fare-box has a "by-pass" feature that enables it to continue receiving money but will NOT be able to keep a count of any revenue deposited until the problem

jamb has been resolved by a mechanic. Foreign matter includes: Foreign coins, jewelry, bolt washers, amusement park tokens, etc. When the fare-box is placed in 'by-pass' mode, an alarm will be generated.

2. ***If cash box is kept outside of the fare box enclosure too long.*** *During the probing process, if the cashbox remains outside of the fare box housing, an alarm will be generated.*

If a cash-box is extracted and sent to the shop for maintenance or repairs, *an alarm is generated. As mentioned previously, alarms are monitored and tracked by the Revenue data analysts. Conditions that are not explained, are forwarded to the RPC Lead staff or the Supervisor of the RPC. Farebox analysts follow up and investigate with RPC staff, VM staff and supervisors to explain, document and correct problems as necessary.*

1. ***Staff receives adequate training and is monitored.*** *Agree. All staff will be receiving refresher training on existing policies and procedures at the time that they are being trained on the new security features that will be put into place by June 2009.*

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 Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 3, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

4. The King County Jail's Work Education Release Program's internal controls are inadequate, creating the potential for a loss of public funds.

Background

Offenders in the Work Education Release program go to work, school or treatment during the day and return to a secure facility at night. Offenders who work at night are required to spend the day at the facility. Offenders are required to pay room and board based upon a sliding scale fee on their hourly gross pay.

The County Department of Adult and Juvenile Detention is the custodian of money earned by program participants. County employees collect currency, checks and money orders at the Courthouse and by mail. The earnings are recorded in the computer system and the money is deposited into a County bank account that contains only work release trust funds. In 2006 Department staff received approximately \$1,328,600. For 2007 the Department received approximately \$1,330,190.

The County's cash-handling and receipting policies and procedures require:

- Money received to be deposited within 24 hours of receipt.
- The use of sequentially numbered receipts that show the type of payment (cash or check).
- Voided documents to be marked as such and copies saved in numerical order.
- Missing documents to be accounted for.
- Bank deposits to be made by someone other than the cashier or bookkeeper.
- Money held overnight to be in a secured safe.
- Cash registers, safes and other measures to be used to secure cash.
- No individual is to have complete control over cash-handling.

Description of Condition

Upon release from the Work Release Program, an inmate complained he had deposited \$490 into his account that was not reflected in his discharge paperwork. This prompted an internal review of the Work Release Program.

When money is collected, it is put in an envelope attached to a receipt form, recorded in a log book and placed in a safe. One bookkeeper is responsible for collecting the money from the

safe, bringing it back to bookkeeping, counting the money, recording the transactions into the computer system and preparing the deposit slip. This lack of separation of duties creates a risk of misappropriation.

In our review of the cash-receipting system, we noted neither the log book nor the computer system recorded 100 percent of the money received. In order to perform adequate monitoring and ensure money is received intact, it is essential to record all money when it is received.

We examined records supporting \$1,324,409 in work-release funds deposited from October 2006 through September 2007. We found at least 50 instances in which the cash/check composition shown on the bank deposit slip was not the same as transactions posted to offender accounts. Discrepancies in the composition of funds are an indicator of a potential misappropriation.

We identified \$28,051 in deposits posted to the wrong accounts. This is another indicator of a potential misappropriation. We were unable to determine why this occurred; the bookkeeper stated he is busy and makes mistakes.

We also found 42 checks/money orders, totaling \$12,920, in the bookkeeper's desk. Dates on the documents range from May 1999 to October 2007. Holding unreceipted checks or money orders increases the risk misappropriation or loss. The bookkeeper stated he did not know where to post the checks and money orders so he just kept them in his desk.

Cause of Condition

The County was not monitoring to ensure the bookkeeper was following its policies and procedures. We noted:

- Neither the receipt forms nor the log book identified the check/money order/cash composition of payments.
- Although receipt forms are pre-numbered, the Department does not account for the numerical sequence of the forms. We compared amounts received as shown on the receipt forms to the log book for April through June 2007. We found \$16,714 receipted was not recorded in the log book.
- Receipt form numbers recorded in the log book were not always in sequence.
- Voided receipt forms are not marked and saved.
- The Department bookkeeper does not use a sealed or locked bag to physically secure money funds picked up at the Courthouse.
- Staff members do not verify that all amounts recorded on the log book reconcile with the deposit.
- During the period under audit, when the Bookkeeping Office received checks by mail, staff did not record the amount received in the Courthouse log book as policies require.
- Funds are not deposited intact within 24 hours of receipt as required by state law (RCW 43.09.240) and County policies and procedures.

Effect of Condition

Weak internal controls increase the risk that a misappropriation of work release trust funds could occur and not be detected by management in a timely manner, if at all. Internal control weaknesses allowed misapplication of payments to occur and not be detected in a timely manner. We found at least \$28,051 was not credited to the proper accounts. This matter has been referred to the King County Prosecuting Attorney's Office for any action it deems necessary.

Recommendation

We recommend the Department ensure policies and procedures for cash receipting and depositing of work release trust funds are followed. The Department should:

- Deposit all amounts received in a timely manner.
- Identify the composition of the amount received on the proper form.
- Maintain a complete, reliable written record of all amounts received.
- Monitor staff to ensure cash-handling policies and procedures are followed.

County's Response

The Department of Adult and Juvenile Detention (DAJD) identified questionable work release trust account activity and worked with the State Auditor's Office to develop an investigation plan. The employee referenced in the Description of Condition was terminated from employment. DAJD immediately addressed internal control issues and supported the audit by providing inmate financial account history, bank statements and copies of daily deposits. The department is committed to adhering to policies and procedures which safeguard public and inmate funds.

In accordance with audit protocol DAJD revised work release trust fund policies and procedures to include: receipting, deposits, timeliness and safeguarding of deposits and internal controls, and specifically, segregation of duties. DAJD protocol now requires:

1. *Receipts:*
 - a. *Verify that entry log and receipt information, which consists of the inmate booking number, name and dollar amount, are the same.*
 - b. *Enforce and account for numerical sequence of receipts.*
2. *Deposits:*
 - a. *Immediate deposit of all funds: DAJD staff were directed to post and deposit inmate funds within 24 hours of receipt. However, on occasion, when an inmate was released prior to the deposit, staff made an attempt to locate the inmate and/or payee to return the money order.*
3. *Timeliness: Safeguarding deposits: DAJD staff utilizes a locked bag for all deposits and transports the deposit via the secured skybridge to and from the Courthouse and King County Correctional Facility.*
4. *Internal controls:*
 - Segregation of duties:*
 - a. *One bookkeeper verifies entry log and receipt information in the Work Release area are the same and transports the funds in a locked bag to the secured facility. This bookkeeper does not enter inmate account information into the financial system and does not prepare the deposit.*

- b. *Two bookkeepers are present to open the locked transport bag and count the contents.*
- c. *A bookkeeper not involved in the count enters inmate account information into the financial system and prepares the daily deposit.*
- d. *A separate bookkeeper verifies the daily deposit with the detailed financial system report to ensure cash, checks and money orders are accurately reflected in the the deposit.*
- e. *Maleng Regional Justice Center Accounting Supervisor performs daily a audit of each cash drawer and deposit activity.*
- f. *King County Correctional Facility Accounting Supervisor performs monthly Bank Reconciliation of the Work Release Trust Fund account as well as : random audits to ensure (a) the financial system cash balances correspond to the deposit slip and (b) compliance with procedures.*

Also, a correction to bullet seven in the Cause of Condition: the bookkeeping office does not directly receive cash, checks or money orders through the mail. Mailroom staff forward work release mail to Work Education Release program staff for timely processing.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 4, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

5. **The Recorder's Office controls over cash receipting are inadequate. This allowed an employee to misappropriate public funds and destroy public documents.**

Description of Condition

The Recorder's Office's collects approximately \$45 million annually. The Recorder's Office cash-receipting system lacks effective controls. The system has the following weaknesses:

- Employees can endorse checks more than once with the same receipt number.
- Employees can use co-workers endorsement screens to endorse checks.
- Cashiers have access to payments received in the mail.

These control weaknesses allowed an employee to misappropriate public funds. When the employee received a cash payment from a customer to record a document, the employee entered the payment in the system as a check and recorded the document. The employee then took the cash. To conceal the misappropriation, the employee went through the mail received at the Recorder's Office to find a check in the same amount as the misappropriated cash. The employee then endorsed the check using the endorsement screen and receipt number of a co-worker. The employee then used this check to make the register balance and destroyed the document associated with the misappropriated check.

On two occasions in July 2008, management witnessed the employee taking these actions for transactions totaling \$174. The employee admitted to misappropriating these funds and resigned. The employee stated this had been taking place since January 2008. This condition was reported to our Office in August 2008, and the County performed an investigation. We reviewed the County's investigation and agree with its conclusions.

No federal funds were involved in this case.

Cause of Condition

Management was unaware of the cash-receipting system weaknesses; therefore, controls were inadequate to prevent cash receipting fraud. In addition, the Office lacks adequate segregation of duties over payments received in the mail.

Effect of Condition

Weak internal controls increase the risk that a misappropriation of public funds could occur and not be detected by management in a timely manner, if at all. A former employee of the County misappropriated at least \$174 in public funds and deprived the County of the use of these funds. Due to the lack of controls the total extent of the loss cannot be determined.

The condition led to citizen documents received in the mail not being processed by the County. Therefore, when customers determined their documents had not been processed, but the County had cashed their checks, the County had to process the documents free of charge.

Recommendation

We recommend the County use a cash-receipting system in the Recorder's Office that will protect public resources from misappropriation and that will enable management to detect potential losses in a timely manner. We further recommend the Recorder's Office adequately segregate duties over payments received in the mail.

We refer this matter to the King County Prosecuting Attorney for any action it deems appropriate.

We recommend the County seek recovery of the \$174, and any additional amounts identified by the Prosecuting Attorney, in misappropriated public funds from the former employee and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260. Assistant Attorney General Jean Wilkinson is the contact person for the Attorney General's Office and she can be reached at (360) 586-0812 or jeanw@atg.wa.gov. The contact for the State Auditor's Office is Jan Jutte, Director of Legal Affairs, and she can be reached at (360) 902-0363 or juttej@sao.wa.gov.

County's Response

We agree with auditor's recommendations and the Recorder's Office has adopted revised procedures over cash receipting processes. These procedures were put in place during May 2009. The procedures included segregation of duties over payments received in the mail and preparing and verifying a check log for mail receipts. The procedures also include verification of cash and check composition for each over-the-counter cashiering till.

To prevent a cashier from processing transactions under another staff member's identification, the Recorder's Office cashiering system needs to be upgraded. The upgrade has been planned and a contract to complete the upgrade is expected to be signed in June 2009. The Recorder's Office is also planning to request a follow-up internal control review of the new procedures by the Executive Audit Services Staff.

The Recorder's Office and PAO will seek recovery of the \$174 misappropriated funds; and are completing continuing investigative work to determine whether additional amounts may be sought from the former employee.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 5, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

6. The County lacks adequate internal controls to safeguard drug inventory at public health pharmacies.

Description of Condition

The County Public Health Department operates five pharmacies. The Department spent \$2,459,327 on pharmaceuticals from July 1, 2007, through June 30, 2008. Two of the pharmacies are in the County's correctional facilities: the King County Correctional Facility in Seattle and the Regional Justice Center in Kent. The other three are located at the Downtown, North and Columbia Health Centers. Both correctional facility locations and the Downtown Health Center carry Schedule 2-5 and nonscheduled substances. The North and Columbia Health Centers carry Schedule 3-5 and nonscheduled substances.

Schedule 2 substances are considered to be highly addictive and subject to abuse unless properly managed. Schedule 3-5 substances have a lower potential for addiction and abuse.

Nonscheduled substances, antibiotics and blood pressure medications, must be prescribed by a doctor or other licensed prescriber.

We reviewed the County's internal controls over pharmaceuticals including ordering, receiving, inventory and distribution. We found the following significant weaknesses that increase the risk of misappropriation, loss or misuse of drugs.

Ordering and Receiving

The duties of ordering and receiving Schedule 3-5 substances and nonscheduled substances are not separated. The same employee may order, receive and stock any of these substances.

Inventory and Distribution

The Downtown, North and Columbia Health Centers do not track or monitor purchases, distribution or inventory Schedule 3-5 substances. In addition, all Department pharmacies do not track or monitor purchases, distribution or inventory nonscheduled substances. The pharmacies' inventory system has the capabilities to track inventory, but this system is not being used.

Cause of Condition

The County has not placed a high priority on developing policies and procedures for maintaining an accurate inventory of all scheduled and nonscheduled drugs.

Further, the County lacks adequate policies and procedures over purchasing and receiving pharmaceuticals. Therefore, staff responsible for purchasing and inventory of pharmaceuticals cannot reference specific guidance and are not monitored by management.

Effect of Condition

Without adequate segregation of duties over ordering and receiving drug inventory, the County cannot ensure all purchases are for a valid business purpose.

Without adequate policies, monitoring and internal controls, the County cannot be assured pharmaceuticals are adequately protected from loss or misuse. Furthermore, without adequate policies and procedures, monitoring and internal controls, the County cannot ensure timely identification and reporting of losses.

Although we did not identify any losses or unaccounted Schedule 2 substances, the lack of policies and procedures for inventory of these drugs increases the risk of loss or misuse. If a loss were to occur, it would be difficult for the County to determine who was responsible.

Recommendation

We recommend the County segregate the duties of ordering and receiving Schedule 3-5 substances and nonscheduled substances. We also recommend the County establish and follow policies for all pharmaceuticals and monitor to ensure they are working, including Schedule 2 substances.

County's Response

The County agrees with the audit finding and is taking corrective action.

The Supervising Pharmacists and their staff see the management of inventory as an integral part of their job. They are constantly seeking ways to reduce inventory costs whether through reducing inventory or seeking out the best pricing through the wholesaler. In addition the pharmacy staff works directly on a daily basis with medical providers in the clinic to assure that the providers are utilizing medications that are on the Public Health formulary. The formulary is a list of approved medications that was developed based on cost-effectiveness and evidence based medicine. The overall effect of these efforts is reflected in that fact that Public Health Pharmacies maintain a very low inventory relative to external pharmacies of a similar size.

Public Health does recognize the need to strengthen the ability to track inventory through the system and will continue this work. Policies and procedures have been updated to reflect the management of control substances, schedules V-III. The update became effective at the two Public Health pharmacies on Monday, March 16, 2009. The Chief of Pharmacy has reviewed the applicable policies and procedures for purchasing with the Supervising Pharmacist at each location.

A specific policy and procedure has been written that address control substances, Schedules V-III. This policy and procedures specifically addresses the issue of different individuals ordering and receiving meds as follows:

Medications cannot be ordered and received by the same individual. The staff member who orders the medications can not be the same individual who receives them unless there is extenuating circumstances such as there is no other staff on duty that day. In that case the staff member needs to note the following in writing on the invoice from the wholesaler:

Ordered and Received by _____
No other staff available
Date: _____

Section 7.5 of the policies and procedures for **Control Substances** includes the following language which will require the establishment of a perpetual inventory system for controls meds, schedules V-III. This is currently in place at the Jail Health pharmacies.

7.5 Tracking of Control Substances

7.5.1 All control substances, schedules V-II, received will be immediately logged into a perpetual inventory log. This log will track each dose of controlled substances that is received and dispensed.

7.5.2 An actual physical count must be performed each time a dose is added or removed.

7.5.3 If there is any discrepancy the Supervising Pharmacist will be immediately notified. An investigation will take place which can include reviewing all the transactions for the drug in question during a specific period of time.

7.5.4 If the discrepancy cannot be resolved, the Chief of Pharmacy will be immediately notified and a Public Health Incident/Accident form will be completed and forwarded to the Chief of Pharmacy. If there is a significant loss then the DEA will be notified using DEA form 106. In addition, the Board of Pharmacy will be notified.

With regard to non scheduled drugs the department will perform periodic inventories of drugs and review usage and purchase records as necessary. To try and implement a perpetual inventory at this time with our current system would be extremely cumbersome. The department attempted to pilot a perpetual inventory system at the Columbia Clinic Pharmacy two years ago but was unable to resolve system issues with the vendor. In 2012 Public Health will be seeking a new pharmacy system as part of the Signature replacement project. The goal will be to obtain a system that can provide a functional perpetual inventory system at this time.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 6, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

7. The County lacks adequate controls to safeguard and account for small and attractive assets.

Description of Condition

The County does not have a policy to ensure small and attractive assets are safeguarded. Small and attractive assets are assets valued under \$5,000 that are particularly susceptible to misappropriation, such as computer equipment, scanners, digital cameras and video cameras. Without a formal policy to adequately track these assets, they are at a high risk of being misused or misappropriated without detection in a timely manner, if at all. We were unable to determine the amount of public resources at risk since the County does not have a way to identify these items in their accounting system.

From August 2007 to December 2008, the County reported 27 instances of equipment losses with a known value of \$64,291 to the State Auditor's Office, as required by law:

- Seventeen laptops, two projectors, a digital camera and memory card valued at \$30,809 were reported stolen from employees' personal vehicles, secured County facilities or were found to be missing when employees left work at the County.
- Two thousand bamboo stakes valued at \$280 were taken from a gated area at Ring Hill Forest.
- Two cell phones were reported missing, one by an employee while on vacation and one taken from the Gray Bar jail surplus room.
- One Polaroid camera was noted missing during a department review. The County did not know the value of the camera.
- One gun belt valued at \$310 was reported missing from the men's locker room at the County Jail.
- \$48.47 petty cash was stolen from an employee's personal vehicle. The employee had cashed the petty cash reimbursement check and left the cash in her purse, which was then stolen from the vehicle.
- Two pagers valued at \$130 were misplaced during Department of Community and Human Services fieldwork.
- Construction-related equipment valued at approximately \$32,263 was reported missing from a County vehicle parked at a gated facility and from the County's secured facilities in Kent and Renton.

Since the County does not track small and attractive assets, management was not able to provide an estimated value for each loss. However, the County recovered \$4,413 from the contractor's

insurance company for two laptops stolen from personal vehicles and \$200 for the cell phone missing while the employee was on vacation. The contractors were using County equipment.

Additionally, in 2006 the County notified our Office of eight computer monitors that were misappropriated by an employee in 2005. The monitors were found by the Lynnwood Police Department on unrelated business. The monitors were recovered and the employee resigned.

Cause of Condition

County management did not evaluate the risk for loss of County resources.

The County does not have adequate internal controls and monitoring procedures to ensure small and attractive assets are safeguarded and accounted for.

Effect of Condition

Without adequate policies, monitoring and internal controls, the County cannot be assured its small and attractive assets are adequately protected from loss or misuse. Furthermore, without adequate policies and procedures, monitoring and internal controls, the County cannot ensure timely identification and reporting of losses.

Recommendation

We recommend the County:

- Identify equipment at risk of misappropriation or loss, develop policies for tracking and safeguarding these items and ensure the policy is followed.
- Seek recovery of the \$10,000 in County resources that were lost due to employees leaving County assets in their personal vehicles.

County's Response

We concur with this finding in so far as it addresses small and attractive fixed assets, such as lap top computers and projectors. Fleet Administration Division is revising Executive Policy FES 10-1 (AEP) to provide stronger guidelines in the areas of "small and attractive assets" and "controlled assets." Departments are being directed to develop written internal policies and procedures for managing small and attractive assets. Departments will need to balance the risk of loss and the cost to add additional controls over assets. Given the existing regulations, reporting requirements and revised policies to be circulated, it is believed that state findings will be addressed. Our corrective action will not cover petty cash which is already covered by County policy.

The recommendation to recover assets lost from personal vehicles will be reviewed by the Prosecuting Attorney's Office and the Human Resources Division, and collection actions taken when determined appropriate.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 7, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

8. The King County Fleet Administration Division reserve fund balance for vehicle replacement is not adequately funded.

Description of Condition

The County's Fleet Administration Division manages the acquisition, maintenance, replacement and disposal of a large and diverse fleet of approximately 1,237 vehicles and off-road equipment with a \$12 million annual budget in the Motor Pool Equipment Rental and Revolving Fund.

The Division provides equipment and related services to County departments, including those funded with restricted funds, the state and the Puget Sound Clean Air Authority.

Fund Balance Reserve

The Division charges a rental rate for the use of vehicles or equipment that covers maintenance, operating costs, overhead costs, depreciation and a replacement surcharge. State law and County policy require funds collected in the equipment rental and revolving fund be used only for those purposes. Money collected for replacement and depreciation of equipment is restricted for use to replace equipment. Use of the remaining money is not restricted as long as it relates to Division operations.

During our audit, we noted the Fund Balance Reserved for the Equipment Replacement account as of December 2007 was underfunded based on County policy. The reserve account was approximately 1.3 percent of the estimated replacement costs. County policy requires the reserved fund balance to be between 10 percent and 20 percent of the estimated replacement costs of all equipment. As of December 31, 2007, the estimated replacement cost was \$27,715,360.

The Fund Balance Reserved for the Equipment Replacement account should consist only of the money collected for depreciation and replacement; however, in determining the fund balance reserve, County staff included the unreserved fund balance resulting in an overstatement of the reserve.

Excess Balance Refunds

State law requires governments to pay counties true and full value for the county services, but counties may not benefit from the governments' funds. The County policy states any amounts that cause the Fund Balance Reserved for the Equipment Replacement account to exceed the 20 percent threshold of the estimated replacement cost, may be returned proportionately to the contributing funds.

The Fleet Administration Division would not be aware of County contracts with other government entities that include the motor pool activities. The Fleet Administration Division's customer is the County department.

When the Fleet Administration Division determines a refund is appropriate, it identifies the contributing County departments and the proportional contribution, which was provided to the County Office of Management and Budget (OMB). OMB is responsible for finalizing and posting the transaction to the appropriate funds.

The County contracts with cities to provide law enforcement equipment and services through the County Sheriff's Office. As part of these agreements, the cities pay the County for the maintenance, repair and replacement of their law enforcement vehicles, which are motor pool vehicles. The County passes the full rental rate directly onto the cities.

In 2001 and 2003 the County refunded \$1.3 million and \$1.6 million of excess fund balance in the Motor Pool Equipment Rental and Revolving Fund to the County's General Fund. The County did not refund the contracting outside entities the proportionate share of the excess reserve funds.

By allocating the entire refund amounts to the County's General Fund rather than allocating the refund of the equipment replacement reserve to the contributing cities and other government entities, the County received more than true value from these entities and benefited from the governments' funds.

Cause of Condition

The County's procedures are not adequate to ensure only the funds collected for equipment replacement are accounted for in the Fund Balance Reserved for the Equipment Replacement account.

County staff responsible for allocating the refund was unaware of the need to ensure the County General Fund did not benefit from other governments' funds.

The County does not have a process in place to identify all motor pool activity charged to cities and other government entities.

Effect of Condition

The Fund Balance Reserved for the Equipment Replacement account is underfunded.

The County's General Fund benefited from other governments funds when refunds were paid in 2001 and 2003.

Recommendation

We recommend the County:

- Amend its procedures on how to determine the amount placed into the Fund Balance Reserved for the Equipment Replacement account to comply with state laws and County policy.
- Establish and follow procedures to correctly allocate refunds from the equipment replacement reserve to ensure the County General Fund does not benefit from other governments' funds.

County's Response

The County believes that the money collected for Motor Pool Fund replacement reserve is not restricted to replacing equipment. Based on conversations we have had with the SAO since receiving your draft finding, it is our understanding that the SAO believes the restriction was based on County policy rather than state law. We agree and could find no state law that would restrict the use of those funds for that purpose.

We agree that Executive Policy FES 11-1 is unclear. The policy statements can be interpreted to require restricting replacement reserves, but the procedures for compliance do not support that interpretation. The policy will be amended to clarify intent.

The County's general fund did not benefit from other governmental funds when refunds were made in 2001 and 2003. The county general fund initially purchased and transferred to the Motor Pool Fund ownership of all vehicles leased by the King County Sheriff's Office, including those charged to the cities under contract. When contract cities began using county vehicles they did not reimburse the county for the purchase cost of the vehicles. Until the contract cities contributions to the Motor Pool Fund exceed the value of the equipment (initial acquisition and replacement during term of contract) and services (maintenance, repair, administration) they have received, there would be no basis to lower the rates charged or provide a refund to the cities.

Notwithstanding our disagreement we will implement the Auditor's recommendation.

Auditor's Remarks

We thank the County for the assistance we received during the audit.

Funds charged and collected for equipment replacement are restricted to the purpose for which they are collected, per RWC 43.09.210.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 8, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

9. **The King County Assessor's Office does not have adequate procedures to ensure the validity of personal property tax refunds.**

Description of Condition

The County collected approximately \$511 million in real and personal property taxes in the period under audit.

State law authorizes county assessors to cancel or correct property tax assessments should the value of the property change or be misreported, such as if real property was significantly damaged, resulting in a reduction in the real property value or if personal property was accidentally reported twice. To apply for a refund, the property holder submits a "Petitions for Property Tax Refunds" and additional documentation to support the claim.

Assessor's Office staff examine the paperwork to determine if conditions for a refund are met. Final approval for refunds is given by the Deputy Assessor and the Treasurer's Finance Division. For the year ended June 30, 2008, the County Assessor's Office issued 3,500 personal and real property tax refunds totaling \$6.8 million, six of which exceeded \$100,000.

During our review of personal property tax refunds, we noted, although the County Assessor's Office has review and approval functions for personal property tax refunds, it does not provide employees with specific guidance and criteria on what documentation to support the request would be adequate, how much effort should be put forth when reviewing a refund request, such as the amount of resources to spend when reviewing a \$500 refund request vs. a \$100,000 request, or on how to document how they determined refunds were due.

Cause of Condition

The County does not have sufficient policies and procedures to ensure personal property tax refunds are appropriate and supported.

County management did not re-evaluate the personal property tax refund policy and guidance provided to staff as the volume and associated refunds increased.

Effect of Condition

Due to the lack of adequate policies and procedures over personal property tax refund processes the County cannot ensure refunds are valid.

We examined four of the six refunds that exceeded \$100,000. We found one refund lacked adequate support.

Recommendation

We recommend the County provide specific guidance and criteria to employees issuing personal property tax refunds. Furthermore, we recommend the County establish internal controls and monitoring to ensure personal property tax refunds are appropriate and supported.

County's Response

All Real Property tax refunds were found to have sufficient documentation, and are not the subject of this finding. Regarding the Personal Property findings, the King County Department of Assessments disagrees with the finding that there is a "lack of adequate policies and procedures over the Personal Property tax refund processes". The Department further asserts that necessary controls and monitoring procedures exist and are followed as it relates to the tax refund process.

In 2008 Real Property accounts totaled 689,738 parcels. Personal Property accounts totaled 63,790. The personal property number includes 10,635 mobile homes, 550 floating homes, 405 improvements on exempt land which are treated as Real Property, 34 timber accounts, with the balance (9646) being general business, home office, oil companies, vending equipment, mall & specialty properties considered true Personal Property. Of the 753,528 parcels, Personal Property is around 1% of total parcel count. This is clearly not a systematic problem in refunds issued by King County.

The King County Department of Assessments currently has criteria on authorization of Tax Roll Changes and Refunds. That criterion includes:

1. Verify the accuracy of account number, business name and location, taxpayer name and mailing address, and assessment year.
2. Review the reason for the change:
 - a. Check the supporting documents for validation of the reason for change. Perform a double check using an independent source if available when the supporting documents are not strong enough on their own for validation.
 - b. If there are unanswered questions after checking data sources, talk with the staff initiating the change.
 - c. Verify further if there are still remaining unanswered questions after reviewing with the staff initiating the tax roll change. Study the history of the account including relevant transactions and correspondences using the account file or personal property application. Research the applicable RCWs and or WAC Rules for clarification if needed.
3. Check the overall accuracy of the revised assessed value if a worksheet to compute the AV is provided. Select a few assets in the worksheet to verify their category code and depreciation table.
4. Route the change for review and approval according to the "Assessment Change Request" procedure. (copy of this procedure is attached)

It appears this finding is based on a single refund that mistakenly did not include a note in the Personal Property Application. The changes were made as the result of the Commercial Business Director and the Personal Property Supervisor meeting with the taxpayer and going over changes to the taxpayer's self reported listing.

While Real Property is the Assessor's responsibility to locate, identify, and assess, Personal Property is the taxpayer's responsibility to report to the Assessor. Due to this fact, many changes are considered "manifest errors" as defined in WAC 458-14-005 (14). The error has to be based on facts and not appraiser judgment. It would be difficult, if not impossible to list all facts that might impact value. A procedure was created to ensure all refunds are handled in an equitable and fair manner emphasizing review of the action.

The single 2007 refund at issue was for the 2003 assessment year. The taxpayer filed a listing adding a significant amount of new equipment. This equipment had never been on any previous listing, and has not been reported on any subsequent listing. The refund petition included an amended listing without the new additions. Following the Department's procedures, the request and verification process worked its way up to the Personal Property Supervisor and Commercial Business Director. After meeting with the taxpayer and reviewing all the information, the assessor removed the new additions from the assessment according to the amended listing, signed the change order form and initiated the appropriate refund. While the Department agrees better notes could have accompanied this specific account, it does not agree the validity of the personal property refund is questionable or without appropriate support.

While we do and have had procedures for tax roll corrections for a long time, we are currently working on expanding on those procedures.

Auditor's Remarks

We thank the County for the assistance we received during the audit.

During our fieldwork we spoke with the Personal Property Supervisor and Commercial Business Director about the refund discussed above. We were not notified or provided any documentation evidencing any such meeting with the taxpayer occurred.

The County's policies and procedures can be obtained directly from the County.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 9, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

10. The King County Sheriff's Office lacks adequate controls to safeguard and account for inventory.

Description of Condition

Between July 1, 2007, and June 30, 2008, the County Sheriff's Office purchased more than \$305,282 in ammunition. The ammunition is shipped directly from the vendor to the Property Management Unit. Once the unit receives the ammunition, it is allocated to each of the four precincts and two ranges and tracked on the Ammunition Distribution Log sheet, which records the date, caliber and number of boxes received, receiving unit and the person receiving the ammunition.

We were unable to determine whether ammunition is accounted for due to the following:

- Reconciliation of the ammunition is not conducted.
- An inventory of ammunition is not performed.
- Inconsistencies in the method of recording the quantity of ammunition leaving the Unit. We found ammunition logged out by boxes, bricks, pallets or cases, all of which can contain differing amounts of ammunition.
- On December 6, 2007, one pallet was recorded on the Ammunition Distribution Log. The number of cases on the pallet was not recorded.
- An invoice for 393 cases of ammunition was paid. However, the packing slip reported the Unit received only 392 cases, resulting in a possible overpayment of \$159. The box could have also been misappropriated. The County is unable to identify which happened.
- All four precincts and both ranges are not properly tracking the ammunition once it is received from the Property Management Unit.

Cause of Condition

The County does not have adequate internal controls and monitoring procedures to ensure all ammunition is accounted for.

Effect of Condition

Without adequate policies, monitoring and internal controls, the County cannot be assured its inventory is adequately protected from loss or misuse. Furthermore, without adequate policies and procedures, monitoring and internal controls, the County cannot ensure timely identification and reporting of losses.

Recommendation

We recommend the County establish policies and procedures to track ammunition at each receiving location and perform a reconciliation of the ammunition.

County's Response

The King County Sheriff's Office (KCSO) agrees with the finding and is taking immediate steps to address the recommendation. Existing standard operating procedures for the receipt, distribution and inventory of ammunition have been revised and are proceeding through the approval process. These revised procedures will include a consistent methodology for recording, counting, and distributing ammunition. In addition, new procedures and forms are being implemented that provide for a quarterly physical inventory and reconciliation process for discrepancies. A baseline inventory and reconciliation will be conducted in May 2009, with a mid-quarter review. A full audit report on the second quarter will be distributed in July 2009 and quarterly thereafter.

Lastly, the KCSO will perform a matching of invoice, packing slip and purchase order that ensure payments are for quantities shipped.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 10, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County
June 1, 2009

11. The Sheriff's Office does not have adequate internal controls over citations, forfeited vehicles and reporting on seized and forfeited property.

Description of Condition

In our previous audit, we reported several issues pertaining to the Sheriff's Office to County management. The conditions have not been resolved:

Citations

The Sheriff's Office issues approximately 60,000 traffic citations annually. State law requires citations to be audited monthly to ensure all citations are reported to the Court or appropriately disposed of as required. Since the 2007 audit, citations should have been reconciled 18 times; however, citations were reconciled only twice.

Sale of Forfeited Vehicles

The Sheriff's Office may sell or retain vehicles seized and forfeited due to drug-related convictions. Between June 2007 and July 2008, the Office used an auto auction company to sell 23 vehicles and received \$44,000 for 18 of them. Previously reported issues regarding these sales have not been resolved. Our current audit found:

- While the Narcotics and Organized Crime Unit tracked what happened to forfeited vehicles, no independent reconciliation was done to ensure all vehicles were sold or otherwise accounted for.
- The Narcotics and Organized Crime Unit did not do a monthly reconciliation of its recorded proceeds from forfeited vehicle sales to the records of the auction company or records of sale to ensure all funds owed were collected.
- The Sheriff's Office did not receive one batch of checks from the auction house until 47 days after the vehicles were sold. The purchase order required remittance within 30 days of sale.
- The Sheriff's Office has not received any money for five vehicles, valued at more than \$10,000, it released to the auction agent in February 2008. The Property Management Unit did not ask the auction agent about the status of these vehicles until subsequent to our inquiry in October 2008. The Unit determined the vehicles had been auctioned in February and April 2008. It is unlikely the Sheriff's Office will recover the proceeds of the sale; the auction house went bankrupt in July 2008. A similar loss occurred in 2004 when another auction house went bankrupt.

The Sheriff's Office did not have a contract with the auction house.

Seized and Forfeited Property Reporting

State law requires 10 percent of the fair market value of forfeited property to be remitted to the State Treasurer annually. State law also requires departments to file a quarterly report of property forfeited with the State Treasurer.

We noted eight vehicles, valued at \$20,445, were sold at auction but not included in quarterly reports. The Office also did not remit the required 10 percent of the proceeds or fair market value to the State Treasurer.

Cause of Condition

Citations

The Sheriff's Office uses a database that is unable to reconcile citations issued to Court records. The Records Unit stores citations by date received, rather than by citation number. This requires staff to reconcile the citations manually, a time-intensive process. The Sheriff's Office has upgraded to a new system that will facilitate the audits, but it is not yet operational.

Sale of Forfeited Vehicles

The Sheriff's Office did not sufficiently monitor the auction house to ensure all proceeds were received in a timely manner.

The Sheriff's Office does not have adequate internal controls to ensure valid contracts are in place for all parties performing professional services because they lack the necessary staff.

Staff involved with the sale of forfeited vehicles had not received sufficient training or management support.

Seized and Forfeited Property Reporting

The Sheriff's Office does not have sufficient controls in place to ensure 10 percent of the fair market value of seized property is remitted to the State Treasurer. When the Sheriff's Office began using new processes to address our prior recommendations, it used them only for cases opened subsequent to our audit.

The Office also does not track the actual date property is declared "seized" by the Court or forfeited. The Office has been unable to add this field to the database due to lack of training to ensure seized and forfeited property is reported and the 10 percent remitted to the state in the proper period.

In addition, the Office calculated the remittance based on when proceeds are received. Since no proceeds were received for five vehicles when the auction house entered bankruptcy, no remittance was made.

Effect of Condition

Citations

Without monthly audits, the Sheriff's Office is unable to determine ensure all citations issued are properly reported to the Court or appropriately disposed of.

Sale of Forfeited Vehicles

Without adequate controls in place, the Sheriff's Office cannot ensure all vehicles are accounted for and all funds owed were collected and deposited in a timely manner.

Because of this, the Sheriff's Office was not paid \$10,080 due to it. Without adequate monitoring, the Sheriff's Office is exposed to additional losses.

Seized and Forfeited Property Reporting

The Sheriff's Office did not remit \$2,044.50 to the State Treasurer as required. Without adequate procedures in place for reporting seized and forfeited property to the state, the Office is at risk of continuing inaccurate and untimely reporting.

Recommendation

We recommend that the Sheriff's Office:

- Audit citations monthly as required by state law.
- Monitor vehicle auctions to ensure:
 - All vehicles are accounted for.
 - All funds owed are collected and deposited in a timely manner.
- Seek recovery of \$10,080 from the auction company.
- Ensure contracts are valid and current, and have sufficient detail including the timeline for remittance of proceeds, transfer of title and risk of loss, and all other clauses deemed appropriate to protect the rights of the Sheriff's Office.
- Remit \$2,044.50 to the State Treasurer and ensure future compliance with state law (RCW 69.50.505).

County's Response

The King County Sheriff's office agrees with the findings and recommendations and has taken immediate steps to address the issues:

With respect to citations, the KCSO Records Unit initiated monthly manual audits beginning in February 2009. The reconciliation is completed by the supervisor of the unit and submitted to the Section Commander/Captain who manages the Record Unit. This manual practice will continue until the issues with the records software are resolved, then electronic audits will begin.

The KCSO has clearly identified, defined and assigned roles and responsibilities for the units primarily involved in the seizure and forfeiture of property or vehicles. The Criminal Profiteering Investigation Unit began generating monthly reports in the last quarter of 2008 which provide for the status of sales and inventory of seized vehicles. This monthly reconciliation is reviewed by an alternate section commander to ensure that all seized vehicles are properly accounted for. This monthly report is also provided to the finance group in the KCSO, for receipt of and tracking proceeds from the auction company. Records of auction proceeds will be forwarded to the Criminal Profiteering Investigation Unit to update the reconciliation.

The KCSO streamlined its forfeiture system by modifying the standard for vehicle seizures. Older less valuable vehicles will no longer be seized, only vehicles three years old or newer with no more than 45,000 miles on the odometer will be seized.

The KCSO has initiated the procurement process to obtain the services of a new auction company.

In the first quarterly report of 2009, those eight auctioned vehicles noted in the finding will be reported and the \$2,044.50 will be remitted to the State Treasurer on or before January 31, 2010.

The KCSO is consulting with the King County Prosecutor's Office to determine whether the Sheriff's Office should pursue litigation or other options to attempt to collect the \$10,000. Factors to consider in that determination include the costs and time to pursue litigation weighed against the likelihood of successful collection.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 11, for the criteria, laws and regulations applied in the development of this finding.

Schedule of Audit Findings and Responses

King County June 1, 2009

12. The King County District Court's internal controls over processing transactions and reconciling bail were inadequate.

Description of Condition

The County District Court provides services to more than 1.8 million County residents at ten locations. During our audit, we examined the Court's internal controls over the processing of citations and other activities in the main Courthouse in downtown Seattle. From July 1, 2007, to June 30, 2008, this location collected fines and fees of approximately \$8 million. The Court uses standard, statewide software maintained by the state Administrative Office of the Courts to record transactions. This software is known as the Judicial Information System (JIS).

In our prior audit of the District Court, we reported a finding related to inadequate internal controls over processing transactions and reconciling bail. This year, we noted that while the Court's internal controls improved in some areas, some weaknesses continue that increase the risk of misappropriation, loss or misuse of money collected by the Court.

- Cash bail collected is held in a trust account pending disposition by the Court. The Court could not reconcile this trust account between the amount recorded in JIS, the amount reflected in the check register and the amount in the bank. We examined the reconciliations for May and June 2008 and noted differences between the adjusted bank balance and what was recorded in JIS of \$2,100.87 for both months. The ending account balances for the check register were \$2,080,044 and \$2,397,261, respectively. Although we noted the supervisory review of the reconciliations found the bank statements did not reconcile to the checkbook register, the supervisor did not verify the cause of variance was for a legitimate purpose.
- Within JIS, the trust account summary and general ledger summary balances were not reconciled monthly. We examined reports for May and June 2008 and found:
 - Bail bonds were not reconciled between the trust account summary and the general ledger summary.
 - Bonds in trust represent bail bonds, as opposed to cash bail, in the JIS system. Neither the May nor June 2008 balances for bonds in trust reconciled between the trust account summary and the general ledger summary. The differences noted were \$15,000 and \$6,000. The associated account balances, based on the trust account summary, were \$5.7 million and \$5.8 million.
- The Court did not ensure only current employees had access to JIS. We identified three active user accounts for individuals no longer employed by the Court for the Shoreline Division. One individual identified left employment with the County in 2005. We did not find any transactions processed by these accounts.

- The Court did not retain supporting manual records for cases deleted from the JIS. Case dockets record all entries for case history in an electronic format. The JIS does not retain a record of a case once it is deleted. Therefore, Court policy requires the case dockets, including an entry indicating why the case was to be deleted, be printed out and maintained before the case was deleted. We examined the JIS deleted cases audit reports for June 2008 and found no supporting documentation for five of 43 deleted cases.

Cause of Condition

County management did not implement or adequately enhance policies and procedures over the reconciliation of bail bond accounts, case dockets deletions and JIS user access. Further, management did not monitor staff to ensure procedures that were in place were followed.

Effect of Condition

Internal control weaknesses increase the risk that public funds may be misappropriated without detection and accountability. We did not detect misappropriation related to audit tests performed, however, we verified the weaknesses continue.

Recommendation

We recommend the Court:

- Reconcile the bank accounts to the JIS and check registers to prevent and detect misappropriation of public funds.
- Perform regular supervisory review of bank account reconciliations to ensure differences are investigated and resolved and verify cash balances reconcile.
- Reconcile the trust account and ledger summaries monthly to detect and correct irregularities in bond and bail activity and potential errors in the JIS.
- Monitor current users assigned access to the JIS database and delete computer access for individuals it no longer employs to assure only valid users maintain Court records and ensure integrity of Court records.
- Follow its policies to print and retain sufficient information on cases before they are deleted from the system.

County's Response

The Court agrees with the Auditor's recommendations as a result of this audit and took steps immediately following the initial meetings to implement the recommendations. As the Court's main database (KCD) continues to grow larger and the older databases reduce in size, the Court implemented many improvements last year by adopting audit practices and utilizing training to strengthen its management control system. Although the Court's understaffing situation has not improved, we understand the need to continue to review business processes on a regular basis to identify and correct deficiencies within our internal controls in an effort to minimize the risk of misappropriation, loss or misuse of funds.

The Court has been making an effort to review and identify the reasons for the bank account and check register reconciliation variance and has reallocated staff resources to audit and reconcile the accounts.

The bail bond reconciliation had not been a part of the Court's month end accounting procedures as it was not a requirement under the AOC accounting procedures and not included as part of the AOC month end checklist. However, the Court recognizes this is an important audit tool and has taken steps to include this practice effective immediately.

The variances between the Trust Account Summary and the General Ledger Summary occurred as a result of accounting activity occurring during the end of month processing. Bail/Bond transactions are taking place at the Court locations after the Trust Report has been ordered which is creating the variance between the two reports. The Court has implemented a change in procedure and will begin re-running the Trust Reports at the completion of end of month processing in an attempt to reconcile the accounts by capturing the additional accounting transactions.

The Court conducted a sweep of the user accounts in the KCD database last year and had implemented a process for maintaining the account activity through its payroll notification of new hires and terminations. The personnel identified during this audit were in the Shoreline (SHO) database and were missed in the initial sweep; however, they were promptly removed as of January 8, 2009. The Court has implemented a regular review process of the active user list in all databases to detect and remove user accounts for employees no longer with District Court and a new sweep of all databases has now been completed.

In an effort to improve the control of documentation on deleted cases, the Court has instituted a business practice change for staff who are authorized to process deletions. The Court redistributed its policy on deleted cases to management staff and provided additional training to reinforce the procedures. Although improvements have been made over the past year, it is the Court's goal to have 100% compliance of case documentation prior to deletion in JIS.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Criteria, Laws and Regulations

See Appendix A – Applicable Criteria, Laws and Regulations by Finding, Finding 12, for the criteria, laws and regulations applied in the development of this finding.

Status of Prior Audit Findings

King County
June 1, 2009

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

1. The County did not comply with competitive bid laws for its Correctional Facilities Integrated Security Project.

Report No. 74469, dated March 12, 2008

Background

In July 2003, the County Council passed an ordinance declaring an emergency and waiving competitive bid law requirements for the County Correctional Facilities Integrated Security Project. Over a year later, in September 2004, the County awarded a \$14.2 million construction contract for the project to the same firm it hired to provide development manager services. The County did so under its year-old emergency declaration rather than through a competitive bid process.

The construction contract exceeded the scope of the Council's emergency declaration. The construction contract's overall scope included the security project and the remodeling of health-related and administrative areas in the jail. These areas were not part of the Council's emergency declaration.

The County claimed exemption from competitive bid laws for "special market conditions" for four change orders, totaling approximately \$10 million. State law does not contain an exemption from public works bid requirements for "special market conditions".

Status

The County has partially corrected the internal control weaknesses noted in this finding. The Procurement Department has communicated with staff that special market conditions waivers would no longer be approved for public works. However, we found the County has not revised its code to ensure compliance with bid requirements. King County Code 4.16.040 Proprietary Purchases allows market condition waivers to competitive procurement for personal property and services of any kind.

We recommend the County amend its code accordingly.

2. Petty cash in the amount of \$9,166.25 was missing from the King County Department of Public Health.

Report No. 74469, dated March 12, 2008

Background

The County notified our Office of multiple losses from petty cash accounts totaling \$9,166.25. We found Public Health's internal controls were inadequate to ensure all petty cash was physically secure, accessible only to authorized employees and accounted for.

Status

The County has partially corrected the internal control weaknesses noted in this finding. During this audit, we noted that Public Health's internal controls had improved; however, some weaknesses continue that increase the risk of misappropriation, loss or misuse of petty cash, which we communicated to County management.

3. An employee at the King County Records, Elections and Licensing Services Division falsified vehicle title transactions.

Report No. 74469, dated March 12, 2008

Background

An employee in Licensing Services processed title transfer transactions for herself, family members and friends for at least one year. A review found 16 of 42 transactions were processed incorrectly, 13 had been done for people the employee knew. Most of the 13 title transfers were processed as gifts from one person to another, and as a result, use tax was not collected. The total amount of use tax not collected and remitted to the state is estimated at \$2,300. On November 27, 2007, the employee was terminated from County employment.

Status

Although no additional losses have been identified related to employees processing title transfers for themselves, family or friends, the lack of controls that allowed the misappropriation to occur has not been resolved.

The County's Records and Licensing Services Division management does not monitor vehicle title transfer transactions where the sale amounts have been adjusted below fair market value. County policy allowing employees to initiate personal transactions was not amended until after our current audit inquiry. This increases the risk that vehicle title transactions may be falsified to avoid paying the use tax.

Division officials were not aware of reports available from the Department of Licensing that capture vehicle title transfer transactions.

Division management did not understand they are responsible for detecting when documentation is falsified and the use tax not properly paid.

The County did not take corrective action it identified in response to the prior year finding in a timely manner. The County began taking corrective action after the start of the current audit fieldwork including:

- Restricting employees from processing transactions in which relatives were involved.
- Requiring approval of all transactions of family or friends.
- Communicating policy changes to licensing employees.
- Notifying the parties involved of their obligation to pay taxes at the time of the transactions.

4. **Inadequate internal controls over credit card refunds resulted in a loss of \$30,000 at King County District Court.**

Report No. 74469, dated March 12, 2008

Background

The District Court had inadequate internal controls over credit card refunds resulting in a \$30,000 loss at the County District Court.

Status

We reviewed the County's changes to internal controls. Based on the additional controls established, we consider the finding resolved.

5. **King County District Court's internal controls over processing transactions and reconciling bails were inadequate.**

Report No. 74469, dated March 12, 2008

Background

The District Court has inadequate internal controls over processing transactions and reconciling bails at the County District Court.

Status

The conditions reported during our 2007 audit continue. As a result, we are repeating this finding in our current audit report.

Appendix A

Applicable Criteria, Laws and Regulations by Finding

**King County
June 1, 2009**

Overarching Criteria

The control components identified are those we audit to and are prescribed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These components are interrelated and are integrated with the management process:

- **Control Environment** – sets the tone of the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people, management's philosophy and operating style, the way management assigns authority and responsibility and organizes and develops its people, and attention and direction provided by Legislative, Judicial and Executive authority.
- **Risk Awareness/Assessment** – the identification and analysis of relevant risks to achievement of organizational objectives, forming a basis for determining how the risks should be managed. Mechanisms are needed to identify and deal with the special risks associated with change in the organization's operating environment.
- **Control Activities** – are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.
- **Information and Communication** – Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

- **Monitoring** – Internal control systems need to be monitored – a process that assesses the quality of the system’s performance over time. This is accomplished through ongoing activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

Finding 1

King County Code Chapter 2.10, Performance Measurement, states in part:

2.10.020 Definitions

L. "Performance management" means the systemic use of performance measurement information to help set performance goals, allocate and prioritize resources, inform decision making about program performance, policy and budget, to evaluate results achieved and to report on the success of meeting goals.

M. "Performance measure" means a quantifiable, enduring measurement of the amount, quality, efficiency or effectiveness of products or services produced by an agency, department, office or program.

N. "Performance measurement" means the identification and ongoing monitoring and reporting of program or agency results, particularly progress toward preestablished goals.

2.10.025 Performance measurement and accountability system-development-principles

A. King County shall develop an effective performance management and accountability system designed to enhance government accountability, transparency, service performance and resource allocation.

B. The King County performance management and accountability system should be guided by the following guiding principles:

1. There is consensus among county leadership that the performance management and accountability system effectively aligns collaborative efforts towards common county goals while respecting the needs of individual agencies to pursue organizational goals, and separately elected officials' obligation to deliver on their commitments to the public;
2. The public and elected leaders are engaged to develop countywide prioritized goals and align services to those goals;
3. King County publicly reports on how well it is meeting its performance goals;
4. Performance measures are directly linked to policy and resource allocation decisions;

5. Performance measurement is used by managers for strategic planning, program evaluation, operational improvements and budgeting; and
6. Performance measures are not to be used in a punitive manner but are used to support continuous organizational evaluation and improvement in collaboration with the workforce. (Ord. 16202 § 3, 2008).

King County Motion 11561 (Legislative File ID 2002-0454, introduced on September 16, 2002) was passed to encourage the broader development and use of performance measures throughout King County as a management tool and to enhance accountability to the public. It states in part:

WHEREAS, King County is dedicated to be the best government possible, and

WHEREAS, King County citizens demand the highest level of public services and expect that their tax dollars will be wisely used to provide those services, and

WHEREAS, county government is experiencing a fiscal crisis, and

WHEREAS, the King County executive is committed to the efficient and effective delivery of King County services that improve the lives of citizens, and

WHEREAS, the King County council wishes to partner with and support the executive in this task, and

WHEREAS, performance measurement provides citizens, county elected officials, county managers and staff with ways to measure the performance of its government, to determine how well King County is meeting its objectives, to improve the quality and reduce the cost of government activities, and

WHEREAS, the county council previously adopted two ordinances and the executive has undertaken initiatives to establish departmental goals and appropriate outcome measures, and

WHEREAS, the council commends the executive and his directors for progress in developing performance measures for the departments of natural resources and parks and transportation, and

WHEREAS, the council commends the county assessor for progress in developing performance measures in the department of assessments, and

WHEREAS, it is recognized that it will take a long-term commitment to spread the development and use of performance measures throughout county government;

NOW, THEREFORE, BE IT MOVED by the Council of King County:

A. The executive is requested to submit to the county council during the annual budget process the business plans for each department that shall include **mission, goals, objectives, outcome measures and core business outcome and efficiency measures, performance targets and historical data on achieving each performance target.**

B. If a county department has not fully defined its mission, goals, objectives or performance measures, the department shall submit to the county council during

the annual budget process an action plan and timeline detailing how this information will be developed.

C. The executive is encouraged to **broaden and deepen the use of performance measures throughout county government as a way of enhancing management of scarce resources and demonstrating accountability.**

D. It is the intent of the council to review submitted performance measures to determine how well county departments are meeting their goals and objectives and whether services are being provided that strike an appropriate balance of quality, level of service and cost. **[emphasis added]**

The Federal Government Performance and Results Acts of 1993, Sec. 1115, Performance plans, states:

(a) In carrying out the provisions of section 1105(a)(29), the Director of the Office of Management and Budget shall require each agency to prepare an annual performance plan covering each program activity set forth in the budget of such agency. Such plan shall –

- (1) establish performance goals to define the level of performance to be achieved by a program activity;
- (2) express such goals in an objective, quantifiable, and measurable form unless authorized to be in an alternative form under subsection (b);
- (3) briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals;
- (4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity;
- (5) provide a basis for comparing actual program results with the established performance goals; and
- (6) describe the means to be used to verify and validate measured values.

Best Practice, as stated in the *Government Accountability Office's Managing for Results: Using GPRA to Assist Congressional and Executive Branch Decision Making*, is as follows:

As successful organizations define their missions, they also establish results-oriented performance goals that can be used to assess whether they are fulfilling their missions. We are finding that many agencies have a difficult time moving from measuring program activities to establishing results-oriented goals and managing to achieve those results.

Figure 1: Key Steps and Critical Practices for Implementing GPRA



The American Association of State Highway and Transportation Officials (AASHTO) concluded that:⁵

Building projects on-budget and on-schedule is a basic prerequisite of good performance for all state DOTs. On any given day, a DOT has hundreds of projects—large and small—underway with the common purpose of assuring that millions of individual travelers experience a transportation network that works smoothly. Each project may take months or years from start to finish; without skillful planning and execution, delays, or cost overruns can easily occur.

A large share of projects finished within expected costs and schedules is an indication that a DOT does a good job during construction of avoiding or managing surprises. Fewer surprises means a DOT can guarantee it will get more projects done faster and for less money. Each year every DOT publishes its list, or “program” of exactly what projects

⁵ Comparing State DOTs’ Construction Project Cost and Schedule Performance: 28 Best Practices from Nine States, May 2007, American Association of State Highway and Transportation Officials.

will be undertaken with available funds. Delivering the program is a little like keeping a household budget balanced—if a project goes over its allotted cost, other projects must be cut or delayed. Meanwhile, when projects take longer than expected, the public may be tied up in traffic delays longer. The bottom line is that cost overruns and delays have real consequences—more traffic tie ups, a rougher stretch of pavement somewhere, a weight restricted bridge, more peak-hour congestion on a commuter route, or a hazardous intersection unaddressed.

Not surprisingly, many DOTs' CEOs and chief engineers watch project cost and schedule performance closely. Cost overruns or delays are often a sign of failure to take into account site specific factors on a contract—the problems may be due to construction practices or they may have their roots earlier in the project's design phase. Much as a pilot relies on vital gauges—airspeed, altitude, or compass—in the aircraft to get to his destination, agency leaders use project cost, and schedule tracking measures to help set the course of day-to-day processes and long-term strategies for achieving better adherence to project schedules and budgets, efficient program delivery, and a more satisfied public.

RCW 42.56.100, Protection of public records — Public access, states:

Agencies shall adopt and enforce reasonable rules and regulations, and the office of the secretary of the senate and the office of the chief clerk of the house of representatives shall adopt reasonable procedures allowing for the time, resource, and personnel constraints associated with legislative sessions, consonant with the intent of this chapter to provide full public access to public records, to protect public records from damage or disorganization, and to prevent excessive interference with other essential functions of the agency, the office of the secretary of the senate, or the office of the chief clerk of the house of representatives. **Such rules and regulations shall provide for the fullest assistance to inquirers and the most timely possible action on requests for information. [Emphasis added]**

RCW 42.56.070, Documents and indexes to be made public, states in part:

(1) Each agency, in accordance with published rules, **shall make available for public inspection and copying all public records**, unless the record falls within the specific exemptions of *subsection (6) of this section, this chapter, or other statute which exempts or prohibits disclosure of specific information or records. **[Emphasis added]**

RCW 42.56.080, Facilities for copying — Availability of public records, states:

Public records shall be available for inspection and copying, and agencies shall, upon request for identifiable public records, **make them promptly available to any person** including, if applicable, on a partial or installment basis as records that are part of a larger set of requested records are assembled or made ready for inspection or disclosure. **[Emphasis added]**

RCW 40.14.070, Destruction, disposition, donation of local government records -- Preservation for historical interest -- Local records committee, duties -- Record retention schedules -- Sealed records, states in part:

(2)(a) Except as otherwise provided by law, no public **records** shall be destroyed until approved for destruction by the local **records** committee. Official public **records** shall not be destroyed unless:

(i) The **records** are six or more years old

Finding 1A

State and Local Government Purchasing Principles and Practices, National Association of State Procurement Officials, Fifth Edition, 1997, pages 30-31, states in part:

Best Practices for developing and maintaining a construction management information system include the following elements.

Essential elements of a well-managed procurement process include:

Recommended Statutory Coverage—The procurement statute/ordinance should . . . Direct the central procurement office to establish and maintain a procurement information system and a management process based on the information system . . .

Recommended Practices—The procurement information system should be compatible with existing financial management information systems . . .

The central procurement office needs good management information to be able to properly perform the wide range of responsibilities it has

Financial Management and Accounting for the Construction Industry, Construction Financial Management Association, 1994, pages 3-6 to 3-7, states in part:

. . . reliable financial information for internal decision making is crucial. The information can be used for the following purposes as:

- (1) a score card to evaluate management performance;
- (2) a status report to determine where a company stands in relation to its commitments, its obligations, and its performance at particular points in time;
- (3) an alarm to warn management of impending problems;
- (4) a predictor to assist management in evaluating prospects for the future;
- (5) a guide to direct management in evaluating profitable versus unprofitable operations, productive versus unproductive employees, and so on; and
- (6) a confirmation of events and circumstances that management might intuitively expect.

Financial information should be used internally to accomplish all of these objectives and, if combined properly with management input, can produce realistic and important decision-making tools.

King County's divisions were unable to provide basic information pertaining to the "Project Phase." Several of the departments within King County recognize the Project Management Institute (PMI) as an industry organization that provides standards and recommended processes for successful project management. The PMI Standards Committee developed the "Project Management Body of Knowledge" commonly referred to as the PMBOK.

The PMBOK notes that each project is usually divided into several phases. "Collectively, the project phases are known as the project life cycle." The project life cycle serves to define the beginning and end of a project.

Project Management – A Systems Approach to Planning, Scheduling and Controlling⁶ by Harold Kerzner, Phd. defines the phases of the “construction project life cycle” as:

- Planning, data gathering, and procedures
- Studies and basic engineering
- Major review
- Detail engineering
- Detail engineering/construction overlap
- Construction
- Testing and Commissioning (Turnover and Startup)

The Project Management Institute defines “Process Groups.” The below graphic depicts the “Overlap of Process Groups in a Phase.”

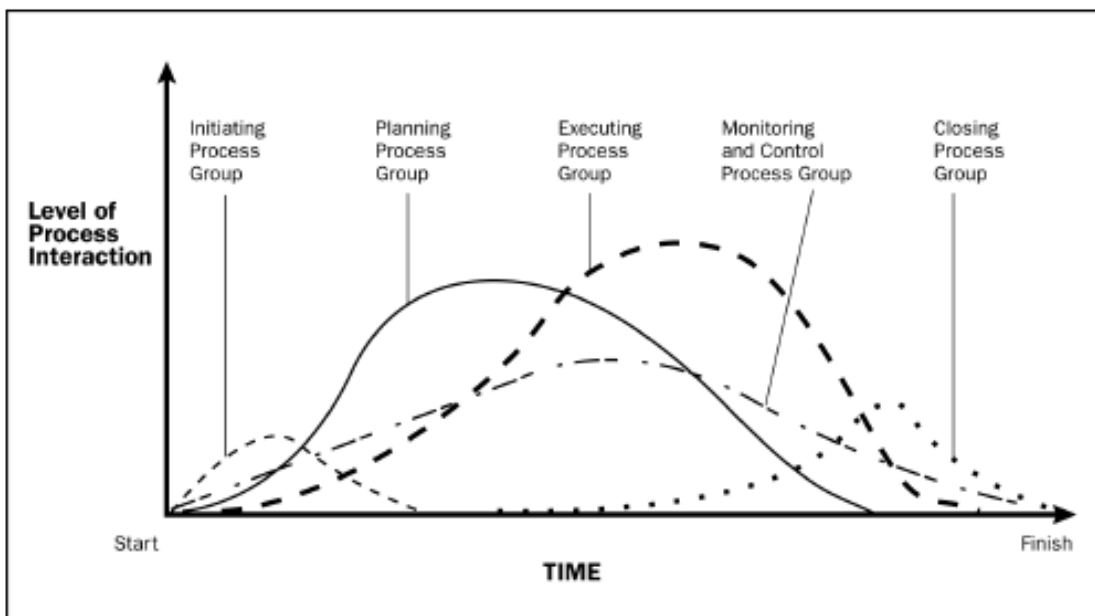


Figure 3-11. Process Groups Interact in a Project

Project Management Processes are organized into five groups, as defined below:

- Initiating Process – recognizing that a project or phase should begin and committing to do so.
- Planning processes – devising and maintaining a workable scheme to accomplish the business need that the project was undertaken to address.
- Executing processes – coordinating people and other resources to carry out the plan.

⁶ PMI highly recommends this text as a “study guide” in preparing for the Project Management Professional (PMP) certification exam.

- Controlling processes – ensuring that the project objectives are met by monitoring and measuring progress and taking corrective action when necessary.
- Closing processes – formalizing acceptance of the project or phase and bring it to an orderly end.

3.2.1 – Initiating Process Group

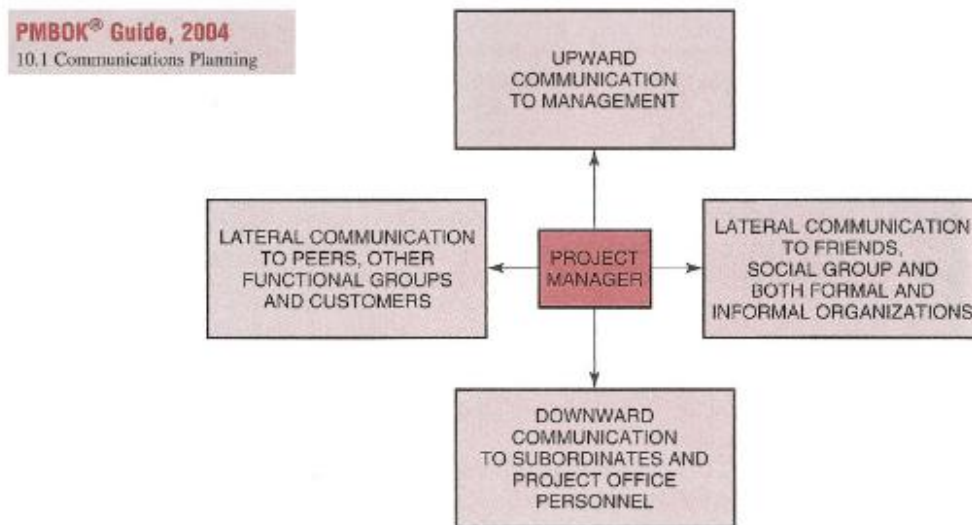
Clear descriptions of the project objectives are developed, including the specific reasons why a specific project is the best solution to satisfy the requirements. The documentation for this decision also contains a basic description of the project scope, the deliverables, project duration, and a forecast of the resources for the organization’s investment analysis.”

Regarding King County’s need to report core project information such as planned vs. actual cost and schedule data at a contract level to King County senior management and other project stakeholders:

Chapter 10.3 - Communication Planning of the PMI PMBOK states:

The performance reporting process involves the collection of all baseline data and distribution of performance information to stakeholders . . . Performance reporting should generally provide information on scope, schedule, cost and quality. Many projects also require information on risk and procurement.

The ability for King County departments to communicate basic project information for the hundreds of projects that are ongoing at any given time is essential to sound management of public funds. At the project level, some King County divisions have project level reporting (i.e., monthly project reports), but none of the divisions within the King County departments were able to provide summary level reporting of key project status indicators that would alert senior management to the need to implement corrective actions to prevent cost or schedule overruns. Project Managers typically provide information regarding projects both vertically and laterally with an organization.⁷



⁷ *Project Management – A Systems Approach to Planning, Scheduling and Controlling* by Harold Kerzner, Phd., Chapter 5 – Management Functions

Regarding King County's lack of a Project Management Information System (PMIS):

Project Management – *A Systems Approach to Planning, Scheduling and Controlling*, by Harold Kerzner, PhD., Chapter 23.5 – Project Management Information Systems, states:

The Project Office [defined as the department responsible for strategic planning activities and project delivery] is now the guardian of the project management intellectual property. There must exist processes and tools for capturing this information. This information can be collected through four information systems.



FIGURE 23-1. Project management information systems.

The earned value measurement information system is common to almost all project managers. It provides sufficient information to answer two questions:

- Where is the project today?
- Where will the project end up?

This system either captures or calculates the planned and actual value of the work, the actual costs, cost and schedule variances ... the estimated cost at completion, the estimated time at completion, percent complete, and trends.

The earned value measurement information system is critical for a company [King County] that requires readily available information for rapid decision-making. It is easier to make small rather than large changes to a project plan. Therefore, variances from the performance management baseline must be identified quickly such that corrective actions can be taken in small increments.

The Association for the Advancement of Cost Engineering (AACE) International's publication entitled "Total Cost Management Framework - An Integrated Approach to Portfolio, Program, and Project Management" describes Total Cost Management (TCM) as:

The effective application of professional and technical expertise to plan and control resources, costs, profitability and risk. Simply stated, TCM is a systematic approach to managing cost throughout the life cycle of any enterprise, program, facility, project, product or service.

The TCM Framework is a representation of that 'systematic approach.'

Chapter 2.1.2 - The Basic TCM Process Model—Plan, Do, Check, and Assess (PDCA)

The TCM process model is based upon the "PDCA" management or control cycle, which is also known as the Deming or Shewhart cycle. The PDCA cycle is a generally accepted, quality driven, continuous improvement management model. PDCA stands for plan, do, check, and assess, with the word check being generally synonymous with measure. The word assess is sometimes substituted with act as in to take corrective action. The PDCA cycle is the framework for TCM because (1) it is time-proven and widely accepted as a valid management model, (2) it is quality driven, and (3) it is highly applicable to cost management processes, which are cyclical by nature.

The PDCA cycle in TCM includes the following steps:

- Plan - plan asset solutions or project activities
- Do (i.e., execute) - initiate and perform the project or project activities in accordance with the plan
- Check (i.e., measure) - making measurements of asset, project, or activity performance, and
- Assess (i.e., act) - assessing performance variances from the plan and taking action to correct or improve performance to bring it in line with the plan or to improve the plan.

Two underlying tenets of the PDCA process cycle and process management in general are that:

- you can't manage what you can't measure
- whatever you measure tends to improve

Measurement is a key element that is often lacking in management systems that focus on planning.

However, use caution in what and how you measure—"playing for score" is not the way to achieve the desired improved outcomes.

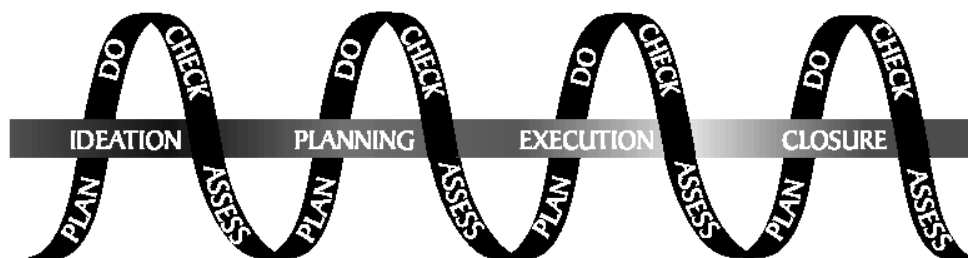
A cyclical process model is useful because strategic assets and the projects that create them each have an inherent life cycle. With each stage or phase of the asset or project life cycle, successive iterations of the cost management process are required. Each iteration of the cycle achieves a new or improved level of performance or progress for the asset or project.

The PDCA control process takes place within the context of the asset and project life cycles. The life cycle describes the stages or phases that occur during the lifetime of an object or endeavor.

Chapter 2.1.4 - The Project Life Cycle defines four phases of the project life cycle. The PDCA process is a continuous cycle throughout the project life cycle.

Within the life cycle of an asset, projects are temporary endeavors for the ideation, creation, modification, or termination of assets. Projects have a defined beginning and end. The elements of the project life cycle are often referred to as phases. Each phase yields one or more deliverables or outputs that become resources or inputs for the following phase. The deliverable may be a requirements document, a plan, a design document, a model, and so on. The life cycle of most projects can be summarized in four sequential phases as follows:

- 1) Ideation - given overall requirements of the project, the project team assesses alternative concepts for performing the project and selects an optimal performance strategy. Strategic performance requirements for the project are established.
- 2) Planning - project plans are developed that address the strategic requirements and selected performance strategy.
- 3) Execution - the plans are implemented through the execution of planned project activities.
- 4) Closure - the asset or deliverable is reviewed, tested, verified, validated, and turned over to the customer. Learnings for future use in ideation are documented.



One King County division (FMD) recently initiated a project to develop a Construction Project Management System.⁸ An FMD representative stated that the reason the project was started was to:

- To increase efficiency of PMs.
- Enhance transparency and accountability for decisions.
- Reduce risk related to construction change and cost overruns.
- To standardize processes.

⁸ FMD should be commended for recognizing the need for this system. It reports a contract for this system should be in place by April 2009. FMD has budgeted \$263,646 to cover acquisition, licensing, customization, and implementation of the software as well as staff training and support.

To assure that expenditures do not exceed appropriated amounts, the King County Charter states in part:

Section 220.20

The county council shall exercise its legislative power by the adoption and enactment of ordinances; shall levy taxes, appropriate revenue and adopt budgets for the county . . .

Section 470.30

The county council shall not adopt an additional or amended capital budget appropriation ordinance during the fiscal year unless requested to do so by the county executive.

Section 475

Within thirty days after the adoption of the appropriation ordinances, each agency of county government except the county council shall present to the county executive work programs and requested allotments by program, project, object of expense or period of time to properly control expenditures and prevent deficits; and the county executive may allot and withhold appropriations.

Section 495

. . . any contract in excess of an appropriation shall be null and void; and any officer, agent or employee of the county knowingly responsible shall be personally liable to anyone damaged by his action.

Finding 1B

Best practices dictate that all construction management policies and procedures within a governmental organization should be consistent and up-to-date.

According to the National Association of State Procurement Officials:⁹

An effective central procurement program reduces the cost of government by, for instance, eliminating inconsistent practices and procedures that confuse vendors and discourage them from competing. It inspires public confidence in government because it places someone in charge of the management of the system through which the public entity spends a significant amount of its budget. It is the government's meaningful link to the business community. It promotes honesty and integrity throughout governmental operations by providing, among other things, support for the procurement officials in agencies with delegated procurement authority. It is, indeed, a function that a government jurisdiction can ill-afford to undervalue or compromise.

The central procurement office should publish and maintain appropriate manuals for procurement personnel setting forth jurisdiction-wide procurement goals and objectives and establishing day-to-day procurement procedures in simple, concise language.

⁹ *State & Local Government Purchasing Principles & Practices*, National Association of State Procurement Officials, 1997, pages 5, 8, 104-107.

The central procurement office should publish and maintain an internal procedures manual, a policy manual for agency personnel, and a vendor manual. These may be in hard copy or electronic form, whichever most effectively meets . . . the needs. **Configuration control should reside with the Chief Procurement Officer.**

Of the three, the policy manual is the most fundamental and critical. **Its primary purpose is to set forth in one place** the provisions of the procurement statute or ordinance and the rules and policies that are established to carry out those provisions. ... The central procurement office should be responsible for creating the manual, with input during the drafting of it from a representative sampling of those who will use it.

An operations or procedures manual establishes and describes internal procedures. These should be set out in considerable detail, with the use of diagrams and flowcharts where appropriate. The manual should be written for use by all personnel in the central procurement office, in procurement offices of agencies with delegated procurement responsibilities, and in using agencies who are involved in the procurement process.

Essentially, an operations manual documents or prescribes all of the steps in the procurement process, from the identification of the need for and planning of an acquisition to the final conclusion of a project or disposition of an item.

Procurement manuals inform all participants in the procurement process of the structure, authorities, overall philosophy and procedures necessary to obtain the various goods and services required by the jurisdiction. It is only through total disclosure of the procurement process that public confidence is developed and maintained. Well written procurement manuals serve this purpose.

[Emphasis added.]

Budgeting, Accounting and Reporting Systems (BARS) manual, Volume1, Part 3, Chapter 1, issued by the State Auditor, prescribes concepts of internal control for local governments:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resources use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss and misuse, and that reliable data be obtained, maintained, and fairly disclosed in reports.

Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. This standard requires supervisors to continuously review and approved assigned work of their staff. It also requires that they provide their staff with the necessary guidance and training to help ensure that errors, waste and wrongful acts are minimized and that specific management directives are achieved.

Budgeting, Accounting and Reporting Systems (BARS) manual, Volume1, Part 3, Chapter 1, states in part:

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Finding 1C

Sound business practices dictate that essential construction management records be well and consistently organized and readily accessible to not only the project manager but to other personnel who may need to access or review these records.

According to the National Association of State Procurement Officials the following are essential responsibilities of project managers:¹⁰

- Coordinating project information with the procurement official
- Maintaining accurate and thorough documentation about contractor performance
- Coordinating the flow of information between the parties
- Responding to requests of the contractor
- Monitoring disbursements against the contract budget
- Monitoring actual progress against work schedules
- Initially authorizing no-cost modifications
- Making recommendations on cost modifications
- Reviewing and approving contract deliverables

These records should be consistently organized so that senior management officials and others can easily and quickly find critical contract management information when needed. Similarly, access to all of these documents and records should be easily and quickly attainable by senior management officials and others.

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¹⁰ *State & Local Government Purchasing Principles & Practices*, National Association of State Procurement Officials, 1997, page 88.

Finding 1D

FIN 15-2-1 (AEP), Audits of Construction Management Practices, contains the following requirements:

6.0 POLICIES:

6.1 It is the policy of the King County Executive that all Executive Departments, Offices and Agencies will comply with the requirements of the P&Ps to ensure that adequate internal controls are in place and being followed for the efficient and effective management of public works projects, and to enhance the overall fiscal accountability for the capital program. Accordingly, all CAPITAL PROJECTS and the construction management practices of all Executive Departments, Offices and Agencies are subject to audit.

6.3 It is the Executive's intent that all large CAPITAL PROJECTS (\$10 million or greater in estimated cost exclusive of land acquisition costs) will be audited by EAS.

6.4 IAs shall provide sufficient funding for audits of CAPITAL PROJECTS. Agency management shall work collaboratively with EAS to establish budgets.

6.5 EAS shall coordinate all Executive Branch audits of construction management practices and CAPITAL PROJECTS. EAS shall coordinate with the County Auditor to ensure against duplication of audit effort. EAS shall include audits of construction management practices and CAPITAL PROJECTS in its annual work plan consistent with the requirements of the P&Ps and available resources.

7.0 PROCEDURES

Action By	Action
Executive Departments Offices & Agencies	7.1 Maintain a current inventory and status of CAPITAL PROJECTS.
Executive Departments Offices & Agencies	7.2 Maintain current DOCUMENTATION of the P&Ps.
EAS	7.3 Provide or arrange for audit coverage of all large CAPITAL PROJECTS, as appropriate. Coordinate audit coverage of large projects with the County Auditor.
EAS	7.4 Establish a plan to audit small CAPITAL PROJECTS, those less than \$10 million. The plan shall consider relative risk, and shall establish an audit cycle that captures the construction management practices of Departments, Offices, and Agencies engaged in CAPITAL PROJECT management.
EAS	7.5 Monitor and coordinate the work of outside auditors engaged in Executive-initiated audits of construction management practices or CAPITAL PROJECTS.

8.0 RESPONSIBILITIES

8.1 Department Directors and Heads of Offices and Agencies are responsible to:

8.1.1 Allocate sufficient resources within CAPITAL PROJECT budgets to ensure adequate audit coverage.

8.1.2 Ensure communication of, and compliance with, the adopted construction management policies, procedures and practices among IA staff.

8.1.3 Cooperate fully with EAS in audits of construction management practices and CAPITAL PROJECTS.

8.1.4 Inform EAS and EAC regarding actions taken or planned in response to audit findings and recommendations.

8.2 EAS is responsible to:

8.2.1 Provide adequate audit coverage of construction management practices and CAPITAL PROJECTS in accordance with EAS's adopted annual work plan.

8.2.2 Provide support to the EAC in accordance with FIN 15-1 (AEP).

Finding 2

RCW 82.46.035 - Additional tax - Certain counties and cities - Ballot proposition - Use limited to capital projects - Temporary rescindment for noncompliance, states in part:

(5) As used in this section . . . "capital project" means those public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvement of parks.

The Final Bill Report for ESB 6408 states in part:

(2) the definition of "capital project" does not include recreational facilities, law enforcement facilities, fire protection facilities, trails, libraries, administrative and/or judicial facilities, or river and/or waterway flood control projects.

Finding 3

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RCW 43.09.240 Local government accounting -- Public officers and employees -- Duty to account and report -- Removal from office -- Deposit of collections state in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours.

Finding 4

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Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours.

King County Cash Handling and Receipting Procedures - FIN 15-3 states:

Receipting –

- Cash/checks/coin should be recorded in a sequential number format. Each transaction should be logged in duplicate using a receipt journal, or recorded in point of sale system. Official King County receipts will be used (no "Redi-Forms").
- Receipts will indicate mode of payment (cash, check, etc.).
- Receipts will include dollar amounts paid.
- Void documents should be marked VOID and all parts saved in numerical sequence.
- Missing documents must be accounted for.

Deposits –

- Bank deposits should be made by someone other than the cashier or bookkeeper.

Timeliness –

- Incoming cash (including currency, coins, checks) and equivalents must be deposited within 24 hours . . .

- Remittances by mail are to be listed (using the deposit log) at the time the mail is opened.

Safekeeping and Security Access –

- Unless absolutely necessary, cash receipts should not be held overnight. Deposits held overnight should be in a secure locked safe.
- Secure area should be protected by the use of registers, safes, or locks (not a desk drawer).

Internal Controls –

Segregation of duties

- No individual is to have complete control in the handling of cash . . .
- Employees handling cash are to have work checked by another employee.

Small office issues

If a department cannot segregate duties, compensating control procedures (e.g., monitoring and reviewing) will be put in place by the department manager and administrator.

Finding 5

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Finding 8

King County Policy FES 11-1 section 6.1, states in part:

The Fund Balance Reserved for the Equipment Replacement account shall reflect all amounts accumulated for depreciation and replacement surcharge components in the rental rate. This amount shall be no less than 10% and may not be more than 20% of the estimated replacement costs of all equipment in the fund at any given year during the fleet replacement cycle. Any amounts, which cause this designated fund balance to exceed the 20% threshold at any given year during the replacement cycle, may be returned proportionately to the contributing funds.

King County Policy FES 11-1 section 6.4, states in part:

Monies collected for future equipment replacement shall remain in the Equipment Rental and Revolving Fund until expended for such replacement, or may be reimbursed to contributing funds consistent with section 6.1.

RCW 43.09.210 - Local government accounting--Separate accounts for each fund or activity--Exemption for agency surplus personal property, states in part:

All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

Finding 9

RCW 43.09.200, states in part:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; 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.

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RCW 84.69.020, Grounds for refunds -- Determination -- Payment – Report, states:

On the order of the county treasurer, ad valorem taxes paid before or after delinquency shall be refunded if they were:

- (1) Paid more than once;
- (2) Paid as a result of manifest error in description;
- (3) Paid as a result of a clerical error in extending the tax rolls;
- (4) Paid as a result of other clerical errors in listing property;
- (5) Paid with respect to improvements which did not exist on assessment date;
- (6) Paid under levies or statutes adjudicated to be illegal or unconstitutional;
- (7) Paid as a result of mistake, inadvertence, or lack of knowledge by any person exempted from paying real property taxes or a portion thereof pursuant to RCW 84.36.381 through 84.36.389, as now or hereafter amended;
- (8) Paid as a result of mistake, inadvertence, or lack of knowledge by either a public official or employee or by any person with respect to real property in which the person paying the same has no legal interest;
- (9) Paid on the basis of an assessed valuation which was appealed to the county board of equalization and ordered reduced by the board;
- (10) Paid on the basis of an assessed valuation which was appealed to the state board of tax appeals and ordered reduced by the board: PROVIDED, That the amount refunded under subsections (9) and (10) of this section shall only be for the difference between the tax paid on the basis of the appealed valuation and the tax payable on the valuation adjusted in accordance with the board's order;
- (11) Paid as a state property tax levied upon property, the assessed value of which has been established by the state board of tax appeals for the year of such levy: PROVIDED, HOWEVER, That the amount refunded shall only be for the difference between the state property tax paid and the amount of state property tax which would, when added to all other property taxes within the one percent limitation of Article VII, section 2 of the state Constitution equal one percent of the assessed value established by the board;
- (12) Paid on the basis of an assessed valuation which was adjudicated to be unlawful or excessive: PROVIDED, That the amount refunded shall be for the difference between the amount of tax which was paid on the basis of the valuation adjudged unlawful or excessive and the amount of tax payable on the basis of the assessed valuation determined as a result of the proceeding;

(13) Paid on property acquired under RCW 84.60.050, and canceled under RCW 84.60.050(2);

(14) Paid on the basis of an assessed valuation that was reduced under RCW 84.48.065;

(15) Paid on the basis of an assessed valuation that was reduced under RCW 84.40.039; or

(16) Abated under RCW 84.70.010.

No refunds under the provisions of this section shall be made because of any error in determining the valuation of property, except as authorized in subsections (9), (10), (11), and (12) of this section nor may any refunds be made if a bona fide purchaser has acquired rights that would preclude the assessment and collection of the refunded tax from the property that should properly have been charged with the tax. Any refunds made on delinquent taxes shall include the proportionate amount of interest and penalties paid. However, no refunds as a result of an incorrect payment authorized under subsection (8) of this section made by a third party payee shall be granted. The county treasurer may deduct from moneys collected for the benefit of the state's levy, refunds of the state levy including interest on the levy as provided by this section and chapter 84.68 RCW.

The county treasurer of each county shall make all refunds determined to be authorized by this section, and by the first Monday in February of each year, report to the county legislative authority a list of all refunds made under this section during the previous year. The list is to include the name of the person receiving the refund, the amount of the refund, and the reason for the refund.

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Finding 11

RCW 46.64.010 states in part:

(6) Every record of traffic citations required in this section shall be audited monthly by the appropriate fiscal officer of the government agency to which the traffic enforcement agency is responsible.

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RCW 69.50.505 states in part:

(9)(a) By January 31st of each year, each seizing agency shall remit to the state treasurer an amount equal to ten percent of the net proceeds of any property forfeited during the preceding calendar year. Money remitted shall be deposited in the violence reduction and drug enforcement account under RCW 69.50.520.

(b) The net proceeds of forfeited property is the value of the forfeitable interest in the property after deducting the cost of satisfying any bona fide security interest to which the property is subject at the time of seizure; and in the case of sold property, after deducting the cost of sale, including reasonable fees or commissions paid to independent selling agents, and the cost of any valid landlord's claim for damages under subsection (15) of this section.

Finding 12

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 there-from; 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.

Budgeting, Accounting, and Report Standards (BARS) Manual, Volume 1, Part 3, Chapter 1, Section C, states in part:

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.

Appendix B

Roles and Responsibilities

King County
June 1, 2009

The County Charter provides all legislative authority and policy determination to the **County Council** which include the following purposes:

- Adopt and enact ordinances.
- Levy taxes.
- Appropriate revenue and adopt budgets for the County.
- Establish compensation to be paid to all County officers and employees and shall provide for the reimbursement of expenses.
- Except as otherwise provided herein, shall have the power to establish, abolish, combine and divide administrative offices and executive departments and to establish their powers and responsibilities.
- Adopt by ordinance comprehensive plans including improvement plans for the present and future development of the County.
- Legislative powers are not limited to those listed under the Charter Section 220.¹¹

Charter Section 220.50 prohibits the County Council and individual council members from “interfere[ing] in the administration, and shall not issue orders to any officer, agent or employee, of any other branch (executive or judicial) of the county government.¹²” Executive Departments and their related Divisions are the exclusive responsibility of the County Executive.

The Charter designates the **County Executive** as the chief executive officer with the following authority:

- All executive powers not expressly vested in other specific officers by this charter.
- Shall supervise all administrative offices and executive departments established by this charter or created by the County Council.
- Shall execute and enforce all ordinances and state statutes within the County.
- Shall present to the county council an annual statement of the financial and governmental affairs of the county and any other report which he may deem necessary.
- Shall prepare and present to the county council budgets and a budget message setting forth the programs which he proposes for the county during the next fiscal year.

¹¹ 220.20 Powers

¹² 220.50 Relationship with Other Branches

- Shall prepare and present to the county council comprehensive plans including capital improvement plans for the present and future development of the county.
- Shall have the power to assign duties to administrative offices and executive departments which are not specifically assigned by this charter or by ordinance.
- And shall sign, or cause to be signed, on behalf of the county all deeds, contracts and other instruments.¹³

Charter Section 330 Directs the Executive to appoint a County Administrative Officer “who, under the general supervision of the County Executive, shall assist him, shall supervise the administrative offices and shall perform other duties as are delegated to him by the County Executive.¹⁴”

¹³ 320.20 Powers and Duties

¹⁴ Section 330 County Administrative Officer



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 in cooperation 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 our 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 continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
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