



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

King County Directors Association

For the period January 1, 2016 through December 31, 2016

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Office of the Washington State Auditor
Pat McCarthy

March 26, 2018

Board of Directors
King County Directors Association
Kent, Washington

Report on Accountability

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

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

The attached comprises our independent audit report on the Association's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Association operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

About the audit

This report contains the results of our independent accountability audit of the King County Directors Association from January 1, 2016 through December 31, 2016.

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

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the Association's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the year ended December 31, 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Safeguarding inventory
- Payments/expenses – travel
- Financial condition

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS****King County Directors Association
January 1, 2016 through December 31, 2016**

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2014 through December 31, 2014	Report Ref. No.: 1016427	Finding Ref. No.: 2014-001
Finding Caption: The Association does not have adequate internal control over inventory, placing inventory at risk or loss of misappropriation.		
Background: The King County Directors Association was formed in 1938 by the state's public school districts. The Association acts as a single purchasing source for member school districts and other governmental entities. Total inventory in fiscal year 2014 was \$7.6 million, which was a decrease of six percent. Association management is responsible for designing and following internal controls that provide reasonable assurance for safeguarding inventory. Our audit identified deficiencies in internal controls over inventory that increase the risk that inventory could be misappropriated and not detected in a timely manner.		
Status of Corrective Action: (check one) <div><input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid</div>		
Corrective Action Taken: <i>Establish written procedures to ensure inventory is properly safeguarded and accounted for. All of the processes in the warehouse have been reviewed and discussed between the CFO and the Warehouse Manager. Flowcharts have been created documenting all of the activities.</i> <i>Ensure an investigation of inventory variances is completed before adjustments are made. The Warehouse Manager has incorporated a two-step process, enabled by the software, where initial adjustments can be made, then investigated before finalization. The Warehouse Manager has removed himself from the counting process so as to create the first level of independent review of adjustments.</i>		

Ensure an independent review of inventory adjustments is completed to ensure all adjustments are valid and supported.

As an intermediary step, the Warehouse Manager is not participating in the counting process, but will be conducting the first level of review. Documentation is being maintained regarding investigations. In addition, on a monthly basis, a meeting will be convened including the Warehouse Manager, the CFO, and Executive Director, to review all adjustments and explanations from the previous month.

Access to the inventory is restricted to authorized personnel.

No restrictions have been put into place. Given the nature of our activities and, again, the limited number of KCDA employees, any access restrictions would cause problems with no discernable benefits.

Ensure adequate segregation of duties between receiving, shipping, and maintaining inventory records.

Strong segregation of duties exist currently. Enhancements include random counting assignments, with no prior knowledge of items to be counted, along with no overlap of picking area and counting area.

Inventory counts and reconciliations are performed by someone independent of the inventory processes.

As an intermediary step the warehouse manager is not participating in any specific inventory process, but will be conducting the first level of review.

Maintain documentation of who approved disposal of damaged items, who disposed of it and when.

An approval process, with documentation, has been put into place.

Implement a review of damaged item transactions to ensure they are reasonable.

An approval process, with documentation, has been put into place.

Maintain evidence that the overflow area was considered when identifying the cause for inventory count variances. This is currently being done.

Ensure there is an audit trail of inventory counts that occur throughout the year, at any given point in time.

The current inventory management software has been modified to retain all inventory counts for a period of two years.

Ensure the inventory system does not display the expected number of inventory and that the system tracks all entries made into the system to ensure that entries are reasonable.

The software cannot be modified to accommodate this function. In addition, we consider it a useful tool in expediting and enhancing the counting process.

RELATED REPORTS

Financial

Our opinion on the Association's financial statements is provided in a separate report, which includes the Association's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE ASSOCIATION

The King County Directors Association was formed in 1938 by the state's public school districts. The Association acts as a single purchasing source for member school districts and other governmental entities. The Association has approximately 1,800 members, including 294 of the 295 public schools in the state, as well as private schools and other organizations. There are also associate members in Alaska, Oregon, Idaho, Montana and various other states. The Association catalogs over 13,000 products and has over 1.5 million pieces of inventory. Over the years, the Association has expanded its product line from basic school equipment and supplies into areas including carpeting/flooring, portable classrooms, track and field installations and other product lines as requested by its members.

A five-member Board of Directors, elected by the original King County owner members, governs the Association. It has 47 permanent employees and can employ up to 65 seasonal-temporary part-time warehouse workers during busy operational periods. The Association only has one main office and warehouse, which is located in Kent.

Contact information related to this report	
Address:	King County Directors Association P.O. Box 5550 Kent, WA 98064-5550
Contact:	Robert Payne, Chief Financial Officer
Telephone:	(425) 251-8115 x110
Website:	www.kcda.org

Information current as of report publish date.

Audit history

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov