



Office of the Washington State Auditor  
Pat McCarthy

# Accountability Audit Report

## Pierce County

For the period January 1, 2022 through December 31, 2022

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**Office of the Washington State Auditor  
Pat McCarthy**

March 4, 2024

County Executive and Council  
Pierce County  
Tacoma, Washington

**Report on Accountability**

The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

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

Attached is our independent audit report on the County's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We think your staff and the public will find value in this work.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

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# AUDIT RESULTS

## Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, County operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the County could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

## About the audit

This report contains the results of our independent accountability audit of Pierce County from January 1, 2022 through December 31, 2022.

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 Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the County's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2022, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Office of the Clerk of the Superior Court – trust fund account activity, cash receipting, bank reconciliations, timeliness and completeness of deposits, voids and adjustments, daily and monthly audit report reviews and unclaimed property reporting
- Use of restricted funds – park impact fees
- Planning and Public Works Department – conflict of interest and building permits
- Accounts payable – electronic funds transfers
- Accounts receivable – sewer utility billing

- Self-insurance for property and liability and workers' compensation
- Financial condition – reviewing for indications of financial distress
- Open public meetings – compliance with minutes, meetings and executive session requirements

# SCHEDULE OF AUDIT FINDINGS AND RESPONSES

## Pierce County January 1, 2022 through December 31, 2022

### **2022-001 The Clerk's Office does not have sufficient oversight or internal controls over its financial operations to safeguard public resources.**

#### *Background*

The Office of the Clerk of the Superior Court (Clerk's Office) collected \$14.8 million in revenue for fines, fees and restitution payments in 2022. The Clerk is responsible for developing policies and ensuring the office has adequate and effective controls in place over its operations. Our audit found the Clerk's Office lacks important controls over its accounting operations. Without these controls, the Clerk's Office cannot ensure it safeguards funds and increases its risk of misappropriation, loss of public assets, and noncompliance.

One of the Clerk's Office's duties is to collect and hold monies in trust for restitution, such as settlement payments, funds held until a minor's 18th birthday, and partially resolved divorce proceedings. The Clerk's Office is supposed to deposit these funds into separate bank accounts held on behalf of litigants or beneficiaries until the court-ordered maturity date.

#### *Description of Condition*

Our audit found the Clerk's Office had insufficient oversight and control deficiencies over its trust fund accounts and reconciliations, bank reconciliations and non-cash adjustments, Judicial Information System audit reports, and unclaimed property reports.

#### *Trust fund accounts and reconciliations*

We identified the following control deficiencies regarding the creation of trust fund accounts and the monthly bank account reconciliation process. The Clerk's Office:

- Has not created a trust fund account for one check totaling \$251,676. The check has a court order that was signed and filed on August 10, 2023, instructing the Clerk's Office to invest the funds into a trust account. However, as of January 2024, the paper check was still in the Clerk's Office's vault.

- Does not reconcile trust fund account balances to monthly bank statements. Instead, each account shows a balance as of the last period when the bank reported activity to the Clerk’s Office. As of January 8, 2024, the average trust account was last reconciled to bank statements more than two years ago.
- Has not disbursed funds to beneficiaries once a trust account has matured. We tested all 46 individual trust bank accounts held by the Clerk’s Office. We determined 11 accounts have matured, but the Clerk’s Office has not disbursed any of the funds. Those 11 trust fund accounts represent \$1.89 million, or 93 percent of the total trust account bank balances. Further, we determined eight of the 11 trust accounts have not had bank activity since 2021. The remaining three accounts have not had bank activity since July 2023. Our audit determined that staff and management are unaware of the Clerk’s Office’s responsibilities for safeguarding and disbursing these funds once the trust fund accounts have matured.

*Bank reconciliations and non-cash adjustments*

We identified insufficient oversight and the following control deficiencies over bank reconciliations, accounts receivables and adjustments. The Clerk’s Office:

- Does not perform monthly bank balance reconciliations. The Clerk’s Office has procedures that require staff to reconcile daily deposits and checks, but no one reviews the reconciliations to ensure they are performed timely and accurately. As a result, the bank balance reported in the Clerk’s Office’s financial system, Judicial Information System (JIS), was \$2,470,074 less than the bank statement balance as of January 2, 2024.
- Does not have an independent review and approval process for new receivables, receipts for voids or batch exceptions, and support for other receivables adjustments. An independent review and approval process is necessary for ensuring staff have correctly established and adjusted receivables.
- Has not recorded adjustments in a timely manner. We reviewed 24 negative receivables adjustments, and determined two cases were not recorded until 31 and 24 days after the court orders were filed.

*JIS audit reports*

JIS is a court software and information system managed by the Washington State Administrative Office of the Courts under the direction of the chief justice of the

state Supreme Court. The Clerk's Office must comply with the timelines for scheduling and retaining records that are established in the *JIS Online Manuals*. The manuals identify reports that are essential for internal controls and compliance, as well as the frequency with which the Clerk's Office should print them. We reviewed the Clerk's Office's monthly and daily JIS audit reports, and identified the following control deficiencies:

- Forty-three of 60 monthly audit reports were printed, but the Clerk's Office did not have evidence showing that staff reviewed them. The Clerk's Office did not retain the other 17 reports, so we were unable to determine whether staff printed and reviewed them.
- Fifty-nine of 75 daily audit reports were printed, but the Clerk's Office did not have evidence showing that staff reviewed them. The Clerk's Office did not retain the other 16 reports, so we were unable to determine whether staff printed and reviewed them.

#### *Unclaimed property report*

The Washington State Department of Revenue requires governmental entities to annually report unclaimed property by October 31. The Clerk's Office did not ensure it filed the 2023 unclaimed property report by the required deadline. Instead, the Clerk's Office filed the report on December 12, 2023, which was 42 days after the due date. Further, the Clerk's Office did not request a filing extension until November 9, 2023. The Department of Revenue notified the Clerk's Office that it must request an extension before the filing deadline. Our audit determined the Clerk's Office's 2023 unclaimed property report did not include any matured trust fund monies since staff and management do not know whether unclaimed property laws apply to these trust fund accounts.

#### *Cause of Condition*

A new Clerk was appointed in December 2021. In June 2023, the Clerk's Office experienced multiple vacancies in key financial positions. The combined effect of turnover and staffing shortages has resulted in the loss of institutional knowledge, including the responsibilities the Clerk's Office may have for the disposition of matured trust fund accounts. The turnover and staffing shortages have also caused a significant backlog of transactions that the Clerk's Office has yet to process, including electronic receipts that have been deposited in the bank but not yet recorded in JIS. The Clerk's Office lacked adequate staffing to process these transactions timely while it tried to hire new staff for its key financial positions.



## *Effect of Condition*

Insufficient oversight and inadequate internal controls increase the Clerk's Office's risk of experiencing and not detecting a loss or misappropriation of public funds. In addition, by continuing to hold \$1.89 million in trust fund accounts beyond the court-ordered maturity dates, the Clerk's Office deprives beneficiaries of receiving money to which they may be entitled.

Lastly, late report filings for unclaimed property with the Department of Revenue can result in the County paying significant late fees. It also increases the risk that people with matured trust fund accounts or other unclaimed property will be unable to claim their assets from the Clerk's Office.

## *Recommendation*

We recommend the Clerk implement appropriate oversight and strengthen internal controls over trust fund accounts and reconciliations, bank reconciliations and non-cash adjustments, JIS audit reports, and unclaimed property reports. Specifically, the Clerk should:

- Establish trust fund accounts on behalf of beneficiaries in a timely manner and according to court orders
- Reconcile, review, approve and document monthly reconciliations of trust fund account balances to ensure activity is accurately recorded and adequately supported
- Evaluate matured trust fund accounts to determine the appropriate disposition of these funds, including whether any of the funds should be reported and remitted as unclaimed property to the Department of Revenue
- Reconcile, review, approve and document monthly reconciliations of the Clerk's Office's bank account balances to ensure activity is accurately recorded and adequately supported
- Review, approve and document the review of new receivables created by accounting staff to ensure they are valid, set up correctly and adequately supported
- Review, approve and document the review of voids, batch exceptions, and other receivables adjustments recorded by accounting staff to ensure they are valid, timely and accurate
- Submit the annual unclaimed property report by the required due date established by the Department of Revenue. If the Clerk's Office cannot file a report by the deadline, it should request an extension from the Department of Revenue before the filing deadline.

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

*While there was no loss of or misuse of funds identified in this audit, it did raise concerns that the internal processes and reporting timeliness of the Superior Court Clerk's Office do not meet accounting standards. We were aware of those performance gaps and have been implementing an improvement plan for several months.*

*The Clerk's Office and the County's Finance department have been working collaboratively to improve internal processes and speed reporting. Hiring for key staff roles has helped accelerate the pace of improvement in these areas.*

*Enhanced training is also helping with reducing backlogs and meeting the reporting requirements of the state's Administrative Office of the Courts*

*Pierce County thanks the State Auditor's Office for its attention to the proper and timely handling of public funds.*

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

The County has the fiduciary responsibility to ensure proper oversight and internal controls are in place to safeguard public funds to prevent their loss or misuse. Our audit identified a significant lack of oversight and internal controls in the financial operations of the Clerk's Office to prevent or detect the loss of public funds.

The County's improvement plan or steps taken to address the identified concerns were not shared or provided for consideration at any time during the audit process.

We re-affirm the finding and will review the County's corrective action during our next audit.

## ***Applicable Laws and Regulations***

RCW 43.09.240, Local government accounting—Public officers and employees—Duty to account and report—Removal from office—Deposit of collections, states in part that “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. Exceptions granted by the treasurer shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.”

RCW 36.48.090, Clerk's trust fund created—Deposits—Interest—Investments, requires that the clerk of the superior court to deposit funds held in trust for any

litigant or any purpose in a separate fund designated “clerk’s trust fund,” and these funds shall not be commingled with any public funds.

The *Budgeting, Accounting and Reporting System* (BARS Manual), 3.2.4, Money Held in Trust, requires “the clerk of the superior court to deposit moneys held in trust for any litigant or for any purpose in a separate bank account designated *Court Trust Fund* pursuant to RCW 36.48.090.” It also requires that “clerks making trust fund investments must maintain an investment ledger and reconcile the ledger to bank and investment account statements and the county general ledger on a monthly basis.”

BARS Manual, 3.1.9, Bank Reconciliations, requires governments to “document a global bank reconciliation that includes reconciliation of both the ending balance of cash as well as cash activity at least monthly . . . Governments should consider more frequent reconciliations, such as daily reconciliations for accounts with a large amount of activity or that are at higher risk for fraud or invalid payments, such as the main checking account for a larger government . . . [The State Auditor’s Office] does not prescribe how governments might organize their bank accounts or the corresponding accounting records. However, the number and type of accounts, banking practices, organization of accounting records, and the methods, division and stages of reconciliation established by the government should not represent a barrier to effective control.”

BARS Manual, 3.1.3, Internal Control, states that “a government’s management and governing body are responsible for its performance, compliance and financial reporting. Therefore, the adequacy of internal controls to provide reasonable assurance in achieving these objectives is also the responsibility of management, with oversight from the governing body. Since internal control is as fundamental as the objectives the controls relate to, the need for effective control is applicable to all organizations.”

The *JIS Online Manuals*, Scheduling and Retention of Records, identifies JIS and JRS reports applicable for superior courts, the frequency with which they should be printed, and whether they are designated as part of the “audit trail,” which indicates they are essential for operational control, accounting control, audit, and compliance with government regulations. The authority for records retention and disposition is RCW 40.14.070 & WAC 434-635-050.

## RELATED REPORTS

### **Financial**

Our opinion on the County's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the County's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

### **Federal grant programs**

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report includes federal findings regarding internal controls and noncompliance with reporting, matching, and subrecipient monitoring requirements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION ABOUT THE COUNTY

Pierce County was incorporated in 1852 and operates under a Home Rule Charter adopted by voters in 1980. The County is organized under the executive-council form of government. Elected administrative officials include the County Executive (Chief Executive Officer), Prosecuting Attorney, Assessor-Treasurer, Auditor, Sheriff, Superior Court Judges and District Court Judges. The seven-member County Council is elected by district and is the policy-setting body of the County.

For 2022-2023, the County operated on a biennial budget of \$3 billion. The County's 3,367 employees provide services including public safety, fire inspection, road construction and maintenance (including ferry service from Steilacoom to Ketron and Anderson Islands), flood control, parks and recreation, judicial administration, land-use planning and development, health and social services, sewer utility services and certain solid waste programs.

The County is the second most populated county in the state with 937,400 residents. The County is responsible for appointing board members to various boards including: Pierce County Housing Authority, Community Development Corporation, and the Economic Development Corporation. Additionally, the County has a joint venture with the Tacoma-Pierce County Health Department.

### Contact information related to this report

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*Information current as of report publish date.*

### Audit history

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

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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