



Office of the Washington State Auditor  
Pat McCarthy

## Accountability Audit Report

# King County Regional Homelessness Authority

For the period January 1, 2023 through December 31, 2023

*Published February 20, 2025*

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

February 20, 2025

Governing Committee  
King County Regional Homelessness Authority  
Seattle, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. 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 Authority operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Authority'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 value your cooperation during the audit.

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, Authority 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 Authority 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 the King County Regional Homelessness Authority from January 1, 2023 through December 31, 2023.

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 Authority'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, 2023, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Financial condition – reviewing for indications of financial distress
- Payroll – retroactive payments
- Open public meetings – compliance with minutes, meetings and executive session requirements

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **King County Regional Homelessness Authority January 1, 2023 through December 31, 2023**

#### **2023-001 The Authority's funding model resulted in a negative cash balance at year-end placing its service levels and future obligations at risk.**

##### *Background*

The King County Regional Homelessness Authority provides consolidated services aligned for individuals and families who are experiencing homelessness or facing imminent risk of experiencing homelessness in the jurisdictional boundaries of King County. The Authority is a regional, independent governmental agency created pursuant to an Interlocal Agreement between King County and the City of Seattle in December 2019. In October 2024, the City and the County updated the Interlocal Agreement from an initial duration of five years to a term that continues in effect for an indefinite period until terminated by either party with at least 12 months notice.

The Authority has no dedicated funding sources such as property taxes, sales taxes or service fees. Its primary revenue sources are grants from the City and County through reimbursement of grant expenditures.

The Authority enters into Master Service Agreements (MSAs) with the City and the County each year that outline the funding the Authority will receive. The Authority cannot request reimbursement until the MSAs are signed and has relied on receiving cash advances from the City and County.

The Authority must pay its providers for services before it can request reimbursement from its granting agencies. The time it takes the Authority to receive this reimbursement varies based on how long it takes to submit the request and the granting agencies to process it. This service model is also seasonal, which results in increased disbursements toward the end of the year because colder weather causes an increased demand for homelessness services.

In 2023, the City of Seattle contributed local funds of \$74,097,595 and passed through federal grants of \$29,939,847 to the Authority while King County contributed state and local funds of \$1,185,153 and passed through federal grants of \$10,469,102.

Fiscal year 2023, the period of this audit, was the Authority’s third year in operation.

***Description of Condition***

As a result of the funding model, there is a significant timing gap between when the Authority pays providers and receives cash, resulting in a negative cash balance for parts of the year.

We analyzed the Authority’s cash balances and financial statements and noted the following concerns:

- Total expenses of \$173,158,265 in 2023 were more than total revenue of \$172,639,035.
- The following table shows the Authority’s cash balances per the bank statements during 2023 and 2024. While the Authority earned interest for positive cash balances, it paid more in interest expense for its negative cash balances, meaning the Authority’s inability to maintain a positive cash balance resulted in interest expenses outpacing interest earnings by \$431,155 as of September 2024.

|              | 2023                                  |                                   | 2024                                  |                                   |
|--------------|---------------------------------------|-----------------------------------|---------------------------------------|-----------------------------------|
|              | Total Ending Cash per Bank Statements | Gross Interest Earnings (Expense) | Total Ending Cash per Bank Statements | Gross Interest Earnings (Expense) |
| January      | (\$1,152,797)                         | \$2,115                           | (\$1,548,034)                         | (\$12,691)                        |
| February     | \$2,303,778                           | \$5,982                           | (\$8,880,127)                         | (\$12,092)                        |
| March        | (\$3,513,269)                         | (\$4,725)                         | (\$21,452,936)                        | (\$43,535)                        |
| April        | (\$8,886,426)                         | (\$7,308)                         | (\$23,282,315)                        | (\$63,576)                        |
| May          | \$7,256,997                           | (\$15,600)                        | (\$42,417,404)                        | (\$102,827)                       |
| June         | \$10,178,394                          | \$28,687                          | (\$43,174,610)                        | (\$153,546)                       |
| July         | \$7,902,412                           | \$27,848                          | (\$11,976,767)                        | (\$122,037)                       |
| August       | \$2,630,101                           | \$33,409                          | \$7,508,158                           | \$48,354                          |
| September    | \$12,852,159                          | \$17,417                          | \$2,127,360                           | \$30,795                          |
| October      | \$6,245,816                           | \$39,354                          |                                       |                                   |
| November     | \$4,181,072                           | \$34,664                          |                                       |                                   |
| December     | (\$6,900,429) <sup>1</sup>            | (\$6,823)                         |                                       |                                   |
| <b>Total</b> |                                       | <b>\$155,019</b>                  |                                       | <b>(\$431,155)</b>                |

<sup>1</sup> This amount per the bank statement is different than ending cash per the financial statements due to reconciling items.

- The Authority reported negative cash on the financial statements of \$6,788,182<sup>2</sup> as of December 31, 2023, because of increased demand for services due to the colder weather. As a result of this negative balance, the Authority was assessed overdraft interest fees in March, April, May, and December of 2023 totaling \$34,456 for the overdrawn account.
- The Authority is projected to end December 2024 with a greater negative cash balance of \$13,285,000. This risks more overdraft interest fees, and additional expense to the Authority due to its inability to maintain a positive cash balance.
- As of December 31, 2023, the Authority received a cash advance of \$19,098,404 from the City to meet cash needs. The Authority foresees needing additional cash advances to meet financial needs in the future.

In addition, the Authority's financial indicators for fiscal year 2023 showed:

- Fund Balance Sufficiency shows the number of days a government could operate based solely on its ending fund balance; 60 days is generally considered healthy. As of December 31, 2023, the Authority's Fund Balance Sufficiency was negative 73 days. This means the Authority had more expenditures than funds available to pay them in its general fund.
- The current ratio shows how many times a government's current assets can cover current liabilities. The Authority's current ratio decreased from 1.02 in 2022 to 0.99 in 2023. A current ratio less than 1.0 implies the Authority has more immediate obligations than assets available to make payments and will need to either borrow funds or receive excess revenue soon.
- The Authority's net position decreased from \$1,538,358 in 2022 to \$1,019,128 in 2023. A negative change in net position implies the Authority used more resources than it received by spending down assets, increasing liabilities or a combination of both.

### *Cause of Condition*

The Authority tracks and monitors its financial health and the timing of its contracting with service providers, completing annual MSAs with the City and

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<sup>2</sup> This amount per the bank statement is different than ending cash per the financial statements due to reconciling items.

County, and the reimbursement model, contribute to the financial indicators described above.

The Authority cannot request reimbursement for payments until the MSAs are signed. In 2023, these agreements were not signed by the granting agencies until May 2023, resulting in five months when the Authority relied on cash advances before it could seek reimbursement.

In 2024, the City's MSA was signed four months after the intended effective date and the County's was signed nine months after the intended effective date. Further, the County allocated \$9.4 million in 2025 funding, but the rest of the 2025 funding distribution has not been determined as of December 2024.

Once the MSA is signed, delays continue as the Authority's funding agencies review, approve and process the payment reimbursements.

### ***Effect of Condition***

As a result of the funding model, the Authority frequently relies on informal cash advances to pay its expenses. When it does receive cash from the City and the County, the Authority must use some of those funds to pay interest fees. Negative and insufficient cash balances puts the Authority at risk of being unable to maintain current service levels or meet future obligations.

### ***Recommendation***

We recommend the Authority's Governing Board work with its stakeholders to ensure long-term sustainability of its operations by:

- Amending the current Interlocal Agreement to implement a new funding model that would produce positive cash flows to sustain current and future obligations
- Developing a funding plan that results in sufficient and positive cash flows and positive cash balances
- Working with the granting agencies to develop an efficient and effective review and approval process to ensure the Authority receives prompt reimbursement of grant funds



## ***Agency's Response***

*The Authority appreciates the auditor's professional efforts and the detailed report highlighting the significance of our cash balance and its associated risks. The report accurately details how our current funding model has contributed to the finding conditions, with the primary challenge being the absence of a dedicated revenue source. Without such a source, the Authority has no debt-free mechanism to build cash reserves and prevent a negative fund balance. Additionally, our disbursement-first cash operations—where we must pay service providers before receiving funder reimbursements—further compound our cash flow challenges.*

*To address the auditor's recommendations, the Authority proposes the following actions:*

- ***Engagement with Governing Bodies and Stakeholders:*** *We will work closely with our governing bodies to develop and secure consistent cash advances and explore additional solutions, including reserves, interfund loans, or other funding mechanisms within our funders' authority. Given the number of stakeholders involved, it is essential that their voices are carefully considered. The Authority's leadership will actively engage with our Board and funding partners to ensure a comprehensive understanding of our funding model, its impact, and potential solutions. While an Interlocal Agreement (ILA) amendment may offer a long-term resolution, the Authority will leverage a combination of immediate solutions to address the audit finding now to prevent the need for the amendment in the future.*
- ***Ongoing Collaboration with City and County Leaders:*** *Productive discussions with King County, the City of Seattle, Council Members, and Board Members are ongoing to establish regular monthly advances, interfund loans, and other financial strategies to prevent future negative cash positions. These conversations will continue to be a priority.*
- ***Enhancements to the Reimbursement Process:*** *We are actively working with the City and County to improve the reimbursement process and increase efficiency. Shortening the reimbursement timeline will be critical to ensuring timely fund availability and reducing the likelihood of future negative cash balances.*

*The Authority remains committed to implementing these solutions while maintaining financial stability and ensuring continued support for the essential services we provide.*

### *Auditor's Remarks*

We appreciate the steps the Authority is taking to resolve this issue. We will review the condition during our next audit.

### *Applicable Laws and Regulations*

RCW 43.09.200, Local government accounting—Uniform system of accounting.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, Chapter 3, Accounting Principles and Internal Control.

## RELATED REPORTS

### **Financial**

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

## INFORMATION ABOUT THE AUTHORITY

The King County Homelessness Authority (the Authority) is a regional, independent governmental agency created pursuant to an Interlocal Agreement between King County and the City of Seattle per RCW 39.34.030, in December 2019. The Authority provides consolidated services aligned for individuals and families who are experiencing homelessness or who are facing imminent risk of experiencing homelessness in the jurisdictional boundaries of King County.

The Authority is governed by a Governing Committee, comprised of 12 elected officials serving ex-officio, and individuals representing those with Lived Experience, and by an Implementation Board comprised of 13 members that is responsible for operations and management of all Authority affairs. 2021 was the first year the Authority was in operation. For operations in 2023, budgeted revenues and expenditures were approximately \$228.5 million.

### Contact information related to this report

|            |  |
|------------|--|
| Address:   | King County Regional Homelessness Authority<br>400 Yesler Way<br>Suite 600<br>Seattle, WA 98104-2863 |
| Contact:   | Tiffany Brooks, Assistant Chief Administrative Officer for Finance                                   |
| Telephone: | (206) 635-0092   |
| Website:   | <a href="https://kcrha.org/">https://kcrha.org/</a>  |

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the King County Regional Homelessness Authority 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.

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