



King County

Metropolitan King County Council
King County Auditor's Office
Cheryle A. Broom, *King County Auditor*
King County Courthouse
516 Third Avenue, Room W1033
Seattle, WA 98104-3272
206.296.1655 Fax 206.296.0159
TTY 296-1024
www.kingcounty.gov/operations/auditor

MANAGEMENT LETTER

DATE: November 24, 2008

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, ^{CB} County Auditor

SUBJECT: 2006 and 2007 Audit Findings of the Washington State Auditor's Office

Summary

This memo discusses our review of the most recent Washington State Auditor's Office (SAO) audit reports issued for King County, the Water Quality Enterprise, and the Public Transportation Enterprise. An unqualified (clean) audit report was issued for the financial statements and for the county's compliance with requirements applicable to federal programs that were audited as part of the federal single audit. There were no audit findings issued related to the financial statement audits or the Federal Single Audit. However, the SAO issued five findings pertaining to the "Accountability Audit Report," which addresses the county's compliance with state laws and regulations and its own policies and procedures. This memo highlights the findings and is intended to inform the council that corrective actions were taken to address them.

Background

Each year the Washington State Auditor's Office (SAO) conducts a financial audit of King County's Comprehensive Annual Financial Report (CAFR) and a Federal Single Audit. The Federal Single Audit determines whether or not a non-federal entity (King County) has complied with federal laws and regulations. The SAO also conducts individual financial audits of the King County Public Transportation Enterprise and the King County Water Quality Enterprise. This is the second year that the SAO has audited the King County Public Transportation Enterprise and the King County Water Quality Enterprise. Prior to 2006, these audits were performed by a certified public accounting firm.

The SAO's financial audits are used to determine whether information in the financial statements is free of material misstatements and can be relied upon to present a true and accurate picture of the county's financial condition. If the auditors determine that the financial information presented is acceptable and reliable they issue an unqualified (clean) audit report. If auditors conclude that the financial information is not an accurate reflection of the entity under audit, they issue a qualified (unclean) opinion. Additionally, the SAO issues an "Accountability Audit Report," which addresses the county's compliance with state laws and regulations and its own policies and procedures.

Summary of Financial Statement Audits and Federal Single Audit

The SAO issued unqualified (or "clean") opinions regarding the county's financial statements (CAFR), the Federal Single Audit, the King County Public Transportation, and the King County Water Quality Enterprise for the period of January 1, 2007 through December 31, 2007. The SAO issued no findings related to these audits.

Summary of Accountability Audit Report

The SAO issued their Accountability Report on April 24, 2008. The audit was for the period of January 1, 2006 through June 30, 2007 (18 months). The SAO determined that, in general, the county complied with applicable state laws and regulations and with its own policies and procedures. However, the SAO identified five conditions significant enough to report as findings.

- **Finding 1.** The county did not comply with competitive bid laws for its Correctional Facilities Integrated Security Project. In July 2003, the County Council, based on a consultant's assessment of the electronic security system at the County Correctional Facility, passed an ordinance declaring an emergency and waiving competitive bid law requirements. In September 2004, over a year later, the county awarded a construction contract under this year-old emergency declaration; however, the SAO determined that the construction contract exceeded the scope of the council's emergency declaration.
- **Finding 2.** Petty cash in the amount of \$9,166.25 was missing from the King County Department of Public Health. In December 2007, the county notified SAO of a \$166.25 loss of petty cash. In February 2008, the county notified SAO of a loss of \$9,000 from two additional petty cash funds. SAO performed unannounced petty cash counts and determined that the department's internal controls were inadequate to ensure all petty cash was physically secure, accessible to authorized employees only, and that documentation on cash disbursements was insufficient. In addition, petty cash funds were not being reconciled in a timely manner.
- **Finding 3.** An employee at the King County Records, Election and Licensing Services Division (REALS) falsified vehicle title transactions. In May 2007, an employee in Licensing Services informed her supervisor that she had processed title transfers for herself, family members, and friends. REALS management notified the Human Resources Department, which reviewed the employee's transactions from March 2006 through May 2007. The review found that a number of transactions were processed incorrectly and may have resulted in \$2,300 in uncollected use tax. County policy allows employees to initiate personal transactions as long as a second employee completes them. The SAO determined that county policy was not being followed.
- **Finding 4.** Inadequate internal controls over credit card refunds resulted in a loss of \$30,000 at the King County District Court. The court did not have adequate procedures for refunds associated with credit card transactions. Rather than processing the refunds directly to the credit card accounts, the court refunded the credit card payments by check directly to the defendants.
- **Finding 5.** The King County District Court's internal controls over processing transactions and reconciling bails were inadequate. During SAO's review they noted weaknesses in the District Court's internal control over bail transactions that increased the risk of misappropriation, loss, or misuse of money collected by the court.

Discussion: We reviewed the county's responses to these findings. Actions taken by the county appear to have addressed the issues raised. In the case of Finding 1, the county was not in complete agreement with SAO's interpretation of the law, but determined that, based on information provided by SAO, King County should review all policies and procedures related to the issuance of special market condition waivers (emergency declaration) for public works contracts to ensure future compliance with state law. Currently, King County has discontinued the use of special market condition waivers as defined by RCW 39.04.010.

Concerning the remaining four issues, the county concurred with SAO's findings and recommendations and appears to have taken appropriate corrective action.

Notable 2007 Financial Changes

During the year ended December 31, 2007, King County elected to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." GASB Statement 45 is an accounting and financial reporting provision requiring government employers to measure and report the liabilities associated with postemployment benefits other than pension (OPEB). OPEBs, for example, may include post-retirement medical, pharmacy, dental, vision, life insurance, long-term disability, or long-term care benefits that are not associated with a pension plan. In 2007, under GASB 45, King County elected to record a \$6.65 million liability for unfunded OPEBs.

King County Auditor's Office Recommendations

We have no recommendations at this time.

Allan Thompson, CPA, Senior Financial Auditor conducted this follow-up review. Please contact Allan at 296-0378 or me at 296-1655 if you have any questions about the issues discussed in this management letter.

CB:AT:jl