



**King County**

1987 KING COUNTY CHARTER REVIEW COMMISSION

Issues Papers\*

June 22, 1988

\*NOTE: These Issue Papers do not include the often lengthy reference documents which accompanied many of them. These reference materials are available for review in the Charter Review Commission Office. Please call 296-4040 for more information.

1987 CHARTER REVIEW ISSUE SUMMARY

ISSUE SUBJECT: Role of the County Auditor

ISSUE RAISED BY: Roland M. Malan, former County Auditor (Letter of June 30, 1987 to Commission Chair), Councilman Gary Grant (Letter of July 17, 1987 in response to Mr. Malan), Councilmember Lois North (Address to Commission, June 30, 1987), Councilman Bill Reams (Address to Commission, June 2, 1987), and Virginia Gunby, original freeholder (Address to Commission, May 19, 1987).

DESCRIPTION OF ISSUE:

This issue has three parts that were raised by the persons noted above:

1. Freedom from external and organizational impairments to the independence of the auditor.
2. Types of audits to be performed - ambiguity of Charter language.
3. Establishment of an audit committee for auditor selection and audit report review.

The Auditor was established by the Charter as an office within the legislative branch acting as an instrument through which the Council may exercise its oversight responsibility for the effectiveness and efficiency of the programs and operations of County government. To this extent, the Council is the authority which determines the overall auditing program, including specific objectives, auditing priorities and resources to be expended to implement its policies and to meet the stated objectives. In exercising this authority, does the Council impair the independence of the Auditor?

The Charter calls for a "current post audit" of the financial operations of the County, and "a review" of the effectiveness and efficiency of County programs and operations. When viewed against the commonly accepted types of audits (see GAO Standards), this prescription is somewhat ambiguous and has led to disagreement as to the proper role of the auditor and the types of audits to be performed. This is further complicated by the fact that the state auditor performs certain annual financial and compliance audits with a more limited scope. (Note last sentence in Article 250).

The Charter and implementing ordinances are silent on the issue of the need for, or the composition and use of an audit committee. Both are consistent on the responsibilities of the auditor to the Council, and it therefore may be implied, to any subdivision (i.e., committee) of the Council as it so directs. The use of an audit committee therefore, would appear to be a management option available to the Council at its discretion. The Council has in fact assigned the responsibility for audit review to a standing committee, until recently, the Finance Committee, and presently, the Administration and Justice Committee. There is presently before the Council proposed legislation to establish a special committee of non-County employees to assist in the selection of a

candidate for the position of County Auditor (Proposed Ordinance 87-529). Is there a requirement or a need for a single purpose standing audit committee?

ALTERNATIVES:

1. Issue of Independence: (A) No change--the auditing function is ultimately the responsibility of the legislative authority, and therefore it is its concurrent responsibility to assure that the auditor is afforded appropriate independence; and (B) Adopt Charter language that would prescribe a separate budget and personnel allowance for the auditor's office similar to Executive branch agencies, thus affording a degree of management independence in order to avoid the appearance of external impairments.
2. Ambiguous Charter Language - Types of Audits: (A) No change to Charter--correct the ambiguity through amendments to the implementing ordinance; and (B) Amend the Charter language concerning types of audits to be consistent with commonly accepted terminology.

PROPOSED CHARTER REVISION:

Section 250. County Auditor.

The county auditor shall be appointed by a majority of the county council, and shall be responsible to the council for conducting, or caus((e))ing to be conducted, ((a current)) independent post audits of county agencies for the purpose of reporting to the council regarding the integrity of the function of the financial ((operations of the county government, shall review and)) management system, the quality and efficiency of agency management, and the effectiveness of programs. In carrying out this purpose, the auditor shall perform the following audits within guidelines established by the county council by ordinance: financial and compliance audits to supplement those performed by the state pursuant to general law, economy and efficiency audits, and program result audits. The auditor shall report the results of each agency audit to the county council ((concerning the effectiveness and efficiency of the programs and operations of the county and shall consult with the county executive concerning the accounting procedures to be used by the executive branch)). Annual audits shall continue to be performed by the state in accordance with general law.

The organization and administration of the auditor's office shall be sufficiently independent to assure no interference or influence external to the organization shall adversely affect an independent and objective judgment to the auditor and shall be provided a discrete budget and staffing allocation.

SUMMARY OF ARGUMENTS FOR AND AGAINST PROPOSED CHARTER REVISION:

For:

1. Independence

- o Assures compliance with GAO's independence standards so that audit result will be impartial and objective.
- o Prevents indiscriminate use of audit resources for other purposes without the Auditor's concurrence.

2. Language

- o Clarifies types of audits to be performed.
- o Compliance with GAO's recommended scope of auditing.

Against:

1. Independence

- o The Auditor is currently free of impairments external to the legislative branch where the audits are performed.
- o Auditor organizations are presumed to be independent if the auditor is appointed by and reports audit results to and is accountable to the legislative authority (GAO Standards).
- o Ultimately, the oversight responsibility is with the Council which should have the corresponding authority to determine which and what amount of resources should be used in the auditing effort.

2. Language

(None, except possible alternatives to the proposed wording).

RECOMMENDATIONS:

The Structural Committee found that:

- o Establishment of a specific audit committee for auditor reporting and selection was not necessary since the County Council should have flexibility to determine the appropriate Council review committee. Currently, the Council Financial Management Committee is the reviewing committee.
- o Private sector representation on the audit committee is not appropriate since the County Auditor both reports to and takes direction from the Council. If the Auditor reports directly to the public, the position of Auditor should be directly elected by and accountable to the public.
- o It is appropriate for the Charter to specify the types of audits which must be conducted by the Auditor.

The Structural Committee recommended that the Charter (Section 250) be amended to specify the types of audits that the Council Auditor should conduct and to incorporate the provisions of the recently adopted ordinance on the Council Auditor.

The Commission considered this issue on March 1, 15 and 22, 1988. The Commission gave final approval to the Committee's recommendation on May 24, 1988.

KEY ACTORS:

Don Eklund, Interim Acting Auditor; Cal Hoggard, Council Program Staff Director; Councilmembers North, Grant and Sims; and Roi Malan, former Auditor.

REFERENCE MATERIALS:

- o 1987 Draft GAO Government Auditing Standards - Revisions.
- o "Auditing & Program Evaluation" in Hayes, F.O., et.al., Linkages: Improving Financial Management in Local Government, Washington, D.C.: Urban Institute Press, 1982.
- o "Accountability" in Rabin, Jack, et.al., Budget Management, A Reader in Local Government Financial Management, Athens: University of Georgia Press, 1983.
- o Aronson and Schwartz, Management Policies in Local Government Finance, Washington, D.C.: ICMA, 1981, pages 423-430.

DG:ew1.1

1987 CHARTER REVIEW ISSUE SUMMARY

ISSUE SUBJECT: Change the time of year of the budget process.

ISSUE RAISED BY: Councilmember Bill Reams.

DESCRIPTION OF ISSUE:

King County's total combined operating and capital budget for 1988 is about \$560 million. State law requires that the County's annual budget be adopted at least 30 days prior to the end of the fiscal year. The County operates under a January-December fiscal year. Work on the following year's budget begins in February with a very preliminary assessment of budget issues. In April, the Office of Financial Management (OFM) issues budget preparation instructions to departments. Departments' budget requests are due to OFM about July 1. During July, August, and early September, the budget requests are reviewed and revised and outstanding issues between the departments and OFM are decided by the Executive. The budget documents are sent to the printer in September. The Executive's Budget Proposal is formally presented to the Council in mid-October (the Charter requires that it be presented to the Council no later than 75 days prior to the end of the fiscal year). The Council reviews and discusses the budget proposal, holds public hearings, and adopts by ordinance an annual budget for the following year by December 1 (usually by Thanksgiving weekend). The County's budget is, of course, amended by ordinance throughout the year as needs requires (such as adding grant funds, modifying budgets of programs, shifting funds reserved in a contingency fund to an approved program).

There are two major problems with the timing of the County's budget cycle. First, it conflicts with other local government activities which require the attention of the Executive and Council. For example, Metro's proposed budget is under its most intense review (May and June) at the same time that County staff who would ordinarily review Metro's budget are involved in County budget preparations. Second, the County's January-December fiscal year does not coincide with the State or federal government fiscal year. Given that many of the County's programs are funded through the State, it makes it very difficult to accurately make projections of State revenues for the County's budget.

ALTERNATIVES:

(1) No change; (2) Begin the process in the last quarter of the previous fiscal year (for example, for the 1989 budget, issue formulation would start in the last quarter of 1987); and (3) Change the County's fiscal year from January-December to the federal year (October-September) or the State fiscal year (July-June).

PROPOSED CHARTER REVISION FOR ALTERNATIVES 2 and 3:

See Article 4. No specific language is offered at this time.

SUMMARY OF ARGUMENTS FOR AND AGAINST PROPOSED CHARTER REVISION:

For:

- o Changing the County's fiscal year to coincide with the State's July-June fiscal year would provide commonality for budget matters involving the State. Certain revenues, such as the sales and gas taxes, are collected by the State and distributed to local governments. Projections of these revenues for the County would be aided through a common fiscal year with the State. In addition, several County departments, such as Human Services and Public Health are heavily dependent upon State revenues. A common fiscal year would aid in making expenditure decisions for these programs.
- o Changing the County's fiscal year to the federal October-September fiscal year would put County budgeting on the same cycle as the Federal government.
- o The County's current budget process requires extensive overtime work and no vacation for budget staff during July and August. Preparing the budget during Winter and Spring could improve employee morale by allowing summer vacations for budget staff.

Against:

- o Changing the County's fiscal year would require change in State law and State Auditors' requirements.
- o Lengthening the budgeting process without changing the fiscal year (Alternative 2) would cause overlapping of the annual processes. The ensuing year's budget would still be under review for adoption while the next year's budget would be in preparation.
- o Revenue and expenditure estimating would be more unreliable if the process were lengthened (Alternative 2).

RECOMMENDATION:

The Structural Committee found that:

- (a) There does not appear to be a compelling need to change the time of year during which the County's budget is developed and adopted.
- (b) The Charter as presently drafted does not specify when the fiscal year will occur. State law mandates that the budget must be adopted thirty (30) days prior to the year for which the budget is applicable. Therefore, a Charter change is not required.
- (c) Should there be sufficient need to do so, this change can be effectively accomplished by ordinance.

The Structural Committee recommended that there be no proposal to amend the Charter to change the time of year during which the County's budget is developed and adopted.

The Commission considered this issue on March 29, 1988 and gave preliminary approval to the Structural Committee's recommendation. However the Commission failed to bring the issue on the floor for a second vote and the issue received a "no further action" status.

REFERENCE MATERIALS:

Current adopted County budget; RCW 36.40 and RCW 43.09; Charter Article 4; State Auditors BARS Manual.

DG:ew2.1

practices. The more extreme measure of a Charter revision is not required.

RECOMMENDATION:

The Structural Committee found that:

- o The Charter already requires six-year capital budgets. The County has ordinances and policies directing the development of such budgets.
- o Multi-year functional program planning is already being conducted in the Law and Justice area without a Charter policy.
- o Multi-year functional program planning can be accomplished by ordinance and administrative policy and procedures without the more extreme measure of a Charter amendment.

The Structural Committee recommended that the Executive and Council develop and implement an ongoing process of multi-year functional program and capital planning for all County programs, and that this be incorporated into the annual budget process to ensure that the long-range consequences of incremental program and budget decisions are fully considered.

The Commission considered this issue on March 29 and May 24, 1988. The Commission gave its approval to the Structural Committee's recommendation.

REFERENCE MATERIALS:

1. Charter, Section 430
2. Current County Capital Improvement Program Budget

DG:ew3.1

1987 CHARTER REVIEW ISSUE SUMMARY

ISSUE SUBJECT: Biennial budget process; (Article 4)

ISSUE RAISED BY: County Councilwoman Lois North and Virginia Gunby

DESCRIPTION OF ISSUE:

The development of the County's annual budget is very lengthy (begins in February and concludes with its adoption by the County no later than December 1) and very complicated. No sooner than the budget is adopted, than the process must begin again. King County's program planning and budgeting processes must address some increasingly difficult and financially significant issues such as transportation, solid waste, and law and justice, many of which have regional impacts. Presently, these important issues have to be addressed at the same time all the other County programs are being considered in the budget. If further deliberations are required for these issues, an interim budget decision is often made and the program reviewed in greater detail when time allows. It is increasingly felt by some county staff and elected officials that a biennial budget process would be both more efficient and more effective than the present annual budget process. Every other year, the budget would be developed in detail. The following year, the budget would be given general review and revisions made to adjust for changing revenues or other unanticipated events, and greater study given to select major issues.

The Charter (Sections 410-430) requires an annual operating budget. RCW 36.40 requires annual revenue and expenditure estimates for use in preparing a budget for the ensuing fiscal year. RCW 36.40.070 requires an annual public hearing, and RCW 36.40.080 requires annual adoption of the ensuing year's budget, and that it be forwarded to the State Auditor's Division of Municipal Corporations.

RCW 43.09.200 authorizes the State Auditor, Division of Municipal Corporations to formulate, prescribe, and install systems of accounting and reporting which shall be uniform for every public institution, public office, and public account of the same class.

The State Auditors' Budgeting, Accounting, Reporting System (BARS) Manual for Counties, Cities, and other Local Governments prescribes revenue expenditure accounts as standard classification for budget preparation purposes. The manual describes budgeting as an annual process and the Auditor's prescribed budgeting forms are by year. The BARS manual seems to prescribe an annual budget.

Biennial budgets for local government are already practiced in some states such as California. The City of Mountlake Terrace practices multi-year budgeting although, in compliance with State law adopts an annual budget. The Puget Sound Council of Governments, led by a King County initiative, just recently switched from an annual to a biennial budget process (although its members are local governments, as a municipal corporation it is not subject to State laws requiring annual budgets).

ALTERNATIVES:

(1) No change; (2) Revise the Charter to permit biennial budgeting if State law and Auditor's requirements permit.

PROPOSED CHARTER REVISION FOR ALTERNATIVE 2:

Section 410. Presentation and Adoption of Budgets. At least seventy five days prior to the end of each fiscal year, or if the County Council adopts a biennial budget process, at least seventy five days prior to the end of each biennium, the County Executive shall present to the County Council a complete budget and budget message, proposed current expense and capital budget appropriation ordinances, and proposed tax and revenue ordinance necessary to raise sufficient revenues to balance the budget; and at least thirty days prior to the end of the fiscal year, or the biennium, the county council shall adopt appropriation, tax and revenue ordinances for the next fiscal year.

410.10 Biennial Budget Process. In the event that the County Council adopts a biennial budget process, the County Executive shall propose, and the County Council shall adopt amendments to the appropriation, tax and revenue ordinances within seventy five days and thirty days respectively of the end of the first fiscal year of each biennium. Such amendments shall be submitted and adopted in the same manner as is the biennial budget.

ALTERNATIVES:

- o Revise the King County Charter to permit biennial budgeting if State law and Auditors' requirements permit multi-year operating budgets.
- o Leave the Charter as presently written, or revise the Charter to specifically prohibit multi-year operating budgets.

CHARTER REVISION: Charter Article 4. Financial Procedures.

PROPOSED OF ARGUMENTS FOR AND AGAINST PROPOSED CHARTER REVISION:

For:

- o Longer period provides more time to conduct studies of issues having budget impact.
- o Longer period provides more time to evaluate the results of new initiatives before making longer term financing commitments.
- o Resources committed to annual budget preparation can be used for other projects when relieved of the burden of one year budget cycles.

Against:

- o Requires longer revenue projections, making them less reliable.

- o Will result in more intensified budget (expenditure) monitoring, and a greater volume of supplemental budget legislation.

RECOMMENDATION:

The Structural Committee found that:

- o The Charter, as presently written, would allow the County to go to a biennial budget process, but it would be a makeshift arrangement to accommodate certain requirements of the Charter and State law.
- o The State already has a biennial budget process and there is increasing interest at local government in moving to a biennial budget process. Biennial budgeting is an accepted practice in other states.

The Structural Committee recommended that the Charter be amended to clearly provide the County the ability to move to a biennial budget process should the Executive and Council decide to do so.

The Commission considered this issue on March 29 and May 24, 1988. The prevailing findings were that since biennial budgeting could be accomplished through administrative action and that State law would also have to be changed, a change in the Charter was not warranted at this time. The Commission failed to approve the Structural Committee's recommendation to amend the Charter. The Commission also found that biennial budgeting has advantages over the annual budget process and approved action in the form of a strong recommendation to the Executive and Council to administratively implement a biennial budget process.

KEY ACTORS:

King County Council; County Executive Tim Hill; Leticia Macapinlac,  
Chief Financial Officer

REFERENCE MATERIALS:

King County Charter, Article 4; RCW 36.40; RCW 43.09; and State Auditor,  
Division of Municipal Corporations BARS Manual, Section 1

DG:cw4.1