Washington State Auditor's Office

Accountability Audit Report

Washington State County Report

Audits of 2004 Activities Issued Between
July 8, 2005 and May 26, 2006

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Washington
State Auditor
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The State Auditor's Office is pleased to present this report on our audit of Washington State counties. In it, we are presenting the results of our audits of county activities for 2004.

This report reflects our continuing efforts to look at issues and systems on a statewide basis in an effort to give a comprehensive view of audit results.

I encourage you to contact our office with any questions or comments you may have on this report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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About Counties in the State of Washington

Washington State Counties
2004 Activities

Washington State has 39 counties. The Washington State Auditor's Office audits 38 of these counties on an annual basis. The remaining county is audited at least once every two years. County boundaries are established by state law (Chapter 36.04 RCW). In many cases, counties were formed by the Oregon Territorial Legislature. The first county formed was Lewis County in 1845 and the last was Pend Oreille County in 1911. Okanogan County has the largest land area at 5,268 square miles and San Juan County has the smallest at 175 square miles. County populations vary from approximately 1.8 million citizens in King County to 2,400 in Garfield County.

Counties' activities are overseen by boards of commissioners, chosen by voters, who also elect an assessor, auditor, clerk, coroner, prosecuting attorney, sheriff, treasurer and judges. These officials serve four-year terms.

The largest revenue source for counties is property taxes. Property tax assessment is the responsibility of the county assessor.

The largest user of county revenues is law and justice services: law enforcement, detention and correction facilities and court operations.

A summary of 2004 financial information for Washington's counties follows on pages 4 through 6.

Times have been tough

Given the economic conditions in Washington State and the reduced taxing ability of counties due to statewide initiatives, counties experienced tough financial times in 2004.

What caused these conditions? The growth in certain expenditures has outpaced the growth of revenues, particularly in the general fund. Over the last six years, health and human services, employee health care and pension contributions have been areas of concern when it comes to increases in expenditures. On the flip side, general fund revenues consist largely of taxes that are capped; most counties reached those caps years ago or saw them lowered by voter-passed initiatives process. Annexation has also contributed to financial pressures as counties lose property tax revenues to cities. Also, many health- and housing-related grants require matching funds. A local dollar withdrawn from these social services often results in a disproportionate loss of state and federal funding. In contrast, counties have unlimited authority to raise utility rates. Hence, the risk that counties might misuse legally restricted revenues, particularly utility fund revenues, is the highest it has ever been.

During the five years ending December 31, 2004, increases in property tax revenues for the general fund averaged approximately 5.6 percent per year and increases in sales and use tax revenues averaged nearly 3.5 percent per year. However, over the last two years, increases in property tax revenues for the general fund have averaged closer to 3.7 percent (versus 4.5 percent across all county funds). In contrast, increases to employee benefits averaged nearly 6.9 percent per year. Employee benefit costs increased most significantly during 2001 and 2002 (12 percent and 14 percent respectively), but remained flat during 2003 and 2004. Cost containment has been achieved in part through passing some health-care costs onto county employees. Interestingly, King County recently considered a program in which employees who lived healthy life styles would pay for health care at a lower rate than those who did not.

Washington State Department of Revenue
Property Tax Valuations, Average Tax Rates
Historical Data, 1964-2004

http://dor.wa.gov/docs/reports/2004/Property_Tax_Statistics_2004/Table_7.xls

Year	Assessed Valuation ($000)[1]			Percent	Total Taxes Levied[3]	Percent	Average Tax Rate
Due	County	State	Total	Change	($000)	Change	($1000)[2]
2004	$522,923,324	$13,555,078	$536,478,402	5.8 %	$6,531,334	4.4 %	$12.21
2003	492,559,048	14,279,592	506,838,640	5.9	6,254,256	4.6	12.33
2002	464,656,713	14,031,080	478,687,793	8.5	5,977,623	4.7	12.52
2001	428,335,672	12,855,972	441,191,644	9.0	5,710,123	5.5	12.96
2000	392,771,048	11,885,780	404,656,828	6.8	5,411,618	6.5	13.39
1999	367,820,645	10,970,068	378,790,713	7.6	5,082,506	7.6	13.56
1998	341,035,599	10,872,297	351,907,896	6.5	4,722,586	3.3	13.52
1997	319,421,447	11,021,949	330,443,395	5.4	4,570,988	6.5	13.93
1996	303,936,044	9,645,999	313,582,042	5.3	4,293,010	7.1	13.82
1995	288,029,507	9,732,584	297,762,091	7.0	4,010,103	7.8	13.53
1994	269,290,261	9,007,998	278,298,259	5.9	3,718,653	7.0	13.44

1. County assessed valuations as equalized by the county boards of equalization, and state assessed valuations of inter-county utilities and private car companies as equalized by the State Board of Equalization.
2. Weighted average of regular, special and state rates. All years adjusted to dollars per thousand levied on 100 percent assessment level.
3. Across all county funds in the state of Washington

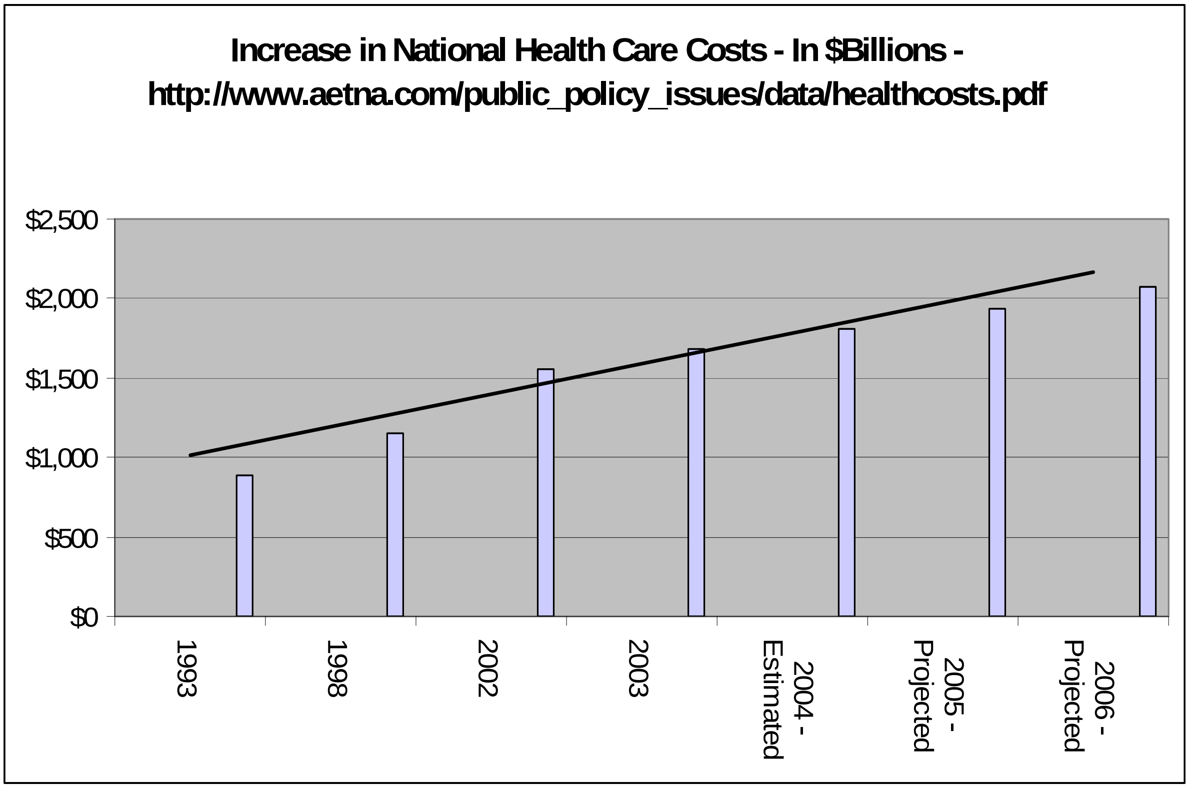
How have these tough times affected what we audit?

Financial pressures occasionally have resulted in a breakdown in internal controls or a misuse of restricted revenues. State law often restricts a county from using funds collected for a specific purpose for another purpose. Often the county's own municipal code is even more restrictive. State law also restricts the use of fuel taxes, real estate excise taxes, impact fees charged to developers, airport charges and others. As discussed later in this document, our audits focused heavily on how counties spent restricted revenues. However, financial difficulties also affect staff levels and staff training. For these reasons, while performing our audits, we also kept our eyes open for areas in which counties were not adequately safeguarding public assets. What we found is discussed later in this report.

On a positive note, we examined all counties' financial ability to continue operations during our 2004 audits and identified no concerns.

Times may be getting better?

The state and a number of counties recently reported higher than expected increases in tax revenues, indicating the tough economic times may be letting up. However, an increasing number of retirees and health care costs that continue to escalate may offset some of these additional tax revenues.



Financial Statistics for Washington State Counties

Washington State Counties
2004 Activities

How counties are funded, where they spend those funds, and trends in funding and spending:

Total Resources and Uses for All Washington State Counties
All Available Fund Types

Resources	**2004**	Percentage of Total Revenues
General Property Taxes	1,204,537,921	22.12%
Sales and Use Taxes	720,994,643	13.24%
Other Local Taxes	211,025,336	3.88%
Licenses and Permits	83,152,580	1.53%
Charges and Fees for Services	931,738,610	17.11%
Interest and Investment Earnings	76,906,779	1.41%
Fines and Forfeits	118,393,087	2.17%
Rents, InsPrem, Internal, Contrib, Misc	195,521,456	3.59%
Intergovernmental Revenues	1,130,244,832	20.76%
Capital Contributions-Federal/State/Local	12,452,460	0.23%
Debt Proceeds	740,551,164	13.60%
Total Revenues	**5,425,518,868**	**99.63%**
Operating Transfers-In	19,991,371	0.37%
Total Resources	**5,445,510,239**	**100.00%**

Expenditures	**2004**	Percentage of Total Expenditures
Law and Justice Services	1,069,505,612	21.19%
Fire and Emergency Services	152,663,424	3.02%
Health and Human Services	707,783,829	14.02%
Transportation	857,166,301	16.98%
Natural Resources	320,864,288	6.36%
General Government	317,554,453	6.29%
Utilities	439,826,674	8.71%
All Other	154,077	0.00%
Capital	783,301,792	15.52%
Debt Service-Interest	181,029,545	3.59%
Debt Service-Principal	217,518,457	4.31%
Total Expenditures	**5,047,368,452**	**99.99%**
Operating Transfers-Out	0	0.00%
Unrestricted Revenue Adjustments	410,018	0.01%
Total Uses	**5,047,778,470**	**100.00%**

Total Expenditure for All Counties
General Fund Only

Expenditure Classification	1999	2000	2001	2002	2003	2004	Increase - 2004 versus 1999	Average Annual Increase
Law & Justice Services	769,173,140	824,525,310	889,108,477	948,218,442	988,227,074	995,608,279	**29.44%**	**5.89%**
Fire & Emergency Services	28,208,569	25,149,886	30,072,839	31,526,266	32,463,696	35,354,746	**25.33%**	**5.07%**
Health & Human Services	43,407,829	44,712,874	45,985,105	42,166,309	40,968,202	64,490,703	**48.57%**	**9.71%**
Transportation	-539,777	-1,643,310	-1,541,363	-2,077,762	-1,941,491	-1,790,645	231.74%	46.35%
Natural Resources	104,094,674	113,367,523	116,392,070	114,839,925	102,966,841	84,787,878	-18.55%	-3.71%
General Government	241,149,358	251,759,964	266,424,699	274,812,945	296,394,534	275,535,371	14.26%	2.85%
Utilities	934,616	1,065,290	935,105	993,226	442,681	417,861	-55.29%	-11.06%
All Other	106,074	129,820	114,212	118,378	114,899	97,275	-8.30%	-1.66%
Capital	19,281,217	22,476,006	15,871,366	15,463,221	14,302,623	9,049,681	-53.06%	-10.61%
Debt Service-Interest	3,518,673	3,660,869	4,166,656	3,266,379	1,690,975	1,006,057	-71.41%	-14.28%
Debt Service-Principal	4,726,329	5,608,132	4,475,364	5,589,189	2,516,590	2,602,873	-44.93%	-8.99%
Grand Total	**1,214,060,702**	**1,290,812,364**	**1,372,004,530**	**1,434,916,518**	**1,478,146,624**	**1,467,160,079**	20.85%	4.17%
Washington State Population Growth							6.50%	1.30%
Difference - Expenditure Growth Rate over Population Growth Rate							14.35%	2.87%

Total Expenditures for All Counties
All Fund Types

Expenditure Classification	1999	2000	2001	2002	2003	2004	Increase - 2004 versus 1999	Average Annual Increase
Law & Justice Services	853,173,923	899,997,710	970,981,896	1,036,669,470	1,065,979,061	1,069,505,612	**25.36%**	**5.07%**
Fire & Emergency Services	107,960,545	110,871,406	115,768,841	127,319,494	134,630,422	152,663,424	**41.41%**	**8.28%**
Health & Human Services	397,542,129	440,416,119	483,002,945	493,269,508	520,659,334	707,783,829	**78.04%**	**15.61%**
Transportation	757,280,333	766,769,398	765,319,432	816,019,235	826,814,804	857,166,301	13.19%	2.64%
Natural Resources	293,969,934	282,114,314	301,655,502	304,429,358	323,095,482	320,864,288	9.15%	1.83%
General Government	267,084,154	275,232,507	303,849,403	300,621,171	329,633,276	317,554,453	18.90%	3.78%
Utilities	353,066,604	404,615,898	430,990,521	453,844,117	455,680,654	439,826,674	24.57%	4.91%
All Other	173,396	201,403	114,212	119,753	118,899	154,077	-11.14%	-2.23%
Capital	589,924,731	522,574,049	573,170,570	680,624,175	702,404,140	783,301,792	32.78%	6.56%
Debt Service-Interest	177,013,268	174,881,685	182,937,849	183,254,434	175,760,051	181,029,545	2.27%	0.45%
Debt Service-Principal	150,878,846	307,549,772	231,615,030	237,939,926	303,445,016	217,518,457	44.17%	8.83%
Grand Total	**3,948,067,863**	**4,185,224,261**	**4,359,406,201**	**4,634,110,641**	**4,838,221,139**	**5,047,368,452**	27.84%	5.57%
Washington State Population Growth							6.50%	1.30%
Difference - Expenditure Growth Rate over Population Growth Rate							21.34%	4.27%

Total Revenues for All Counties
General Fund Only

All Revenues (excluding debt proceeds)	1999	2000	2001	2002	2003	2004	2004 versus 1999	Average Annual Increase
General Property Taxes	540,519,232	580,533,995	609,598,882	644,331,836	664,318,250	693,055,776	**28.22%**	5.64%
Sales & Use Taxes	268,021,470	282,987,828	290,527,197	299,144,299	298,791,334	314,895,262	17.49%	3.50%
Other Local Taxes	25,985,580	26,466,109	26,132,858	25,585,906	24,869,280	27,136,438	**4.43%**	**0.89%**
Licenses & Permits	27,491,190	28,117,666	29,885,086	31,256,604	35,343,929	38,318,026	39.38%	7.88%
Charges & Fees for Services	126,134,722	132,838,678	141,542,466	150,476,496	170,562,059	157,694,968	25.02%	5.00%
Interest & Investment Earnings	64,881,257	86,749,688	79,946,823	54,626,774	43,570,820	37,690,632	-41.91%	-8.38%
Fines & Forfeits	84,842,553	91,449,353	90,628,733	104,484,947	121,168,799	115,669,686	36.33%	7.27%
Rents,InsPrem,Internal,Contrib ,Misc	38,523,246	35,850,602	35,103,954	31,678,650	37,532,307	42,384,989	10.02%	2.00%
Intergovernmental Revenues	143,122,150	142,966,854	154,425,575	155,092,379	149,261,968	152,671,530	6.67%	1.33%
Capital Contributions-Fed/State/Local		--	--	--	500	--		
Grand Total	**1,319,523,399**	**1,407,962,773**	**1,457,793,575**	**1,496,679,893**	**1,545,421,249**	**1,579,519,311**	19.70%	3.94%
Washington State Population Growth							6.50%	1.30%
Difference - Revenue Growth Rate over Population Growth Rate							13.20%	2.64%

All Counties
Personnel Benefits

	1999	2000	2001	2002	2003	2004	2004 versus 1999	Average Annual Increase
Personnel Benefits	**380,627,294**	**378,116,313**	**425,185,501**	**488,138,025**	**506,391,698**	**511,468,201**	34.38%	6.88%

Our Audit Approach

Washington State Counties
2004 Activities

Types of Audits

Accountability

The scope of our accountability audits is twofold. First, financial records are audited to ensure public funds have not been misspent or misappropriated. While doing this work, we often see areas where controls have not been established to protect public resources from misappropriation, loss or misuse. Second, we audit to determine whether counties are adhering to laws and regulations relating to financial matters. We consider the risk of noncompliance and lack of accountability in the following areas when we conduct our audits:

- Ability to continue operations.
- Ability to meet debt obligations.
- Misappropriation, misuse or loss of public resources.
- Lack of effective oversight of financial activities by elected or appointed officials and entity management.
- Open public records and open public meetings laws.
- Creation of new entities.
- Exceeding taxation authority.
- Exceeding budget authority.
- Inappropriate use of restricted funds.
- Inappropriate use of bond proceeds.
- Inappropriate use of grant funds.
- Lack of insurance and bonding.
- Illegal investments.
- Compliance with contract and bid requirements.
- Compliance with prevailing wages.
- Conflict of interest.

We use a consistent approach on all counties when looking at areas we believe present a risk of misuse or of noncompliance with state laws and regulations. We also emphasize specific areas for all county audits on a statewide basis each year. Our 2004 audits of counties specifically focused in the following areas:

- Appropriate use of restricted revenues.
- Contract monitoring and compliance.
- Compliance with bond covenants.

Our audits of contract compliance included tests to verify services were delivered. For example, if the county paid for consulting services, does it have a study with the consultant's recommendations?

We also audit other areas we believe to be high risk and unique to each county. The results of our audits are included later in this report.

The Office has many competing responsibilities when conducting audits. Our high-risk approach helps to ensure our efforts are properly balanced in order to fulfill these responsibilities. We look at areas that are the most important to citizens, our audit clients, the Legislature and other policymakers.

A big benefit of our audits are the recommendations we make on how counties can better safeguard public assets. This can include everything from improved cash-handling procedures to tagging equipment to prevent loss.

We use many techniques to detect misappropriation or misuse of public assets and violations of state laws. Some of those are described below. However, none would be effective without the strong communication skills of our auditors and a solid understanding of the counties we audit.

Computer-assisted auditing techniques, which also are described more fully below, help us assess risk and accountability. Once we download a county's financial transactions, computer software helps us find transactions that are most likely to be fraudulent or out of compliance with laws and regulations. These techniques can be used for any type of financial transaction.

We use analytical procedures to identify account balances that differ from an informed expectation. We often use these procedures to audit revenue streams, looking for activity that could point to a loss or misuse of public assets. These techniques tend to be very efficient and provide strong indicators that additional work may be needed to determine whether loss or misappropriation has occurred.

We perform surprise cash counts, which are a powerful tool for assessing the effectiveness of controls over money collected at a given location and for finding indications that loss or misappropriation may have occurred.

Our audits of the financial statements are conducted in accordance with governmental auditing standards, which require us to plan and perform audits to obtain reasonable assurance about whether financial statements are free of significant errors or omissions. This includes examining evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation.

This risk-based approach has allowed us to significantly contain audit costs in recent years. Evidence obtained from high-risk audits of counties, which are designed to detect misappropriation, misuse or loss, also is used to support our opinion on financial statements.

Single Audit

The State Auditor's Office audits federal grant expenditures at all counties. Those audits are performed in accordance with U.S. Office of Management and Budget Circular A-133 and are referred to as each county's Single Audit. The Auditor's Office has been performing these single audits since 1987.

Fraud Program

The State Auditor's Office maintains an exceptional program of fraud prevention education and detection. We deal with an average annual workload of 37 frauds totaling approximately $674,000 in losses each year. In the past 19 years, we investigated more than 700 frauds totaling more than $12.8 million in losses. For 2004 we investigated two cases related to counties with an identified loss of at least $7,235.

Our Special Investigations Manager monitors all fraud cases. In addition, each of our 17 audit teams has a designated fraud specialist.

Our fraud training for our own staff and for financial managers in state agencies and local governments provides real value. Annually, we train more than 2,600 government employees on fraud prevention and detection.

Computer Assisted Audit Techniques

Computer assisted auditing techniques help audit teams perform tests on counties' financial data. Some of the specific tests include:

- Duplicate payments.
- Selection of vendors.
- Credit card activity.
- Travel activity.
- Duplicate bank accounts.
- Duplicate vendor and employee addresses.
- Employees who are also paid as vendors.
- Vendor tax information number matches employee identification number.

Reporting Levels

Findings

A finding is a significant issue formally addressed in an audit report. Counties are given the opportunity to respond to a finding; responses are published in the audit report.

Management Letter

This letter addresses issues that are not formalized as findings. It is designed to help counties improve internal controls or compliance with federal or state requirements. These issues are discussed with county officials.

Summary of Audit Results

Washington State Counties
2004 Activities

We issued 42 findings and 60 management letter items in our audits of 2004 activities. When findings were noted, activities through the end of audit fieldwork were considered and the results of 2005 activities were included if appropriate.

Of the 39 counties audited, 12 counties had no findings or management letter comments.

Area of Audit	Findings	Management Letter Items
Safeguarding of assets	12	23
Federal grant compliance	12	11
Use of restricted funds	5	7
Financial reporting	4	5
Purchasing and bid law compliance	4	3
Budget compliance	1	3
Other legal compliance issues	4	8
Total	**42**	**60**

All the findings and management letters reported have been summarized by area. To provide additional information, we have also included information about the underlying causes of these audit concerns and how they will impact future audits.

Safeguarding Assets

Background

Our mission and vision is to be “A Partner in Accountability.” As such, we work with governments to promote accountability and fiscal integrity. In meeting our role as the auditor of public accounts, it is our goal to protect the interests of citizens.

Counties are responsible for millions of dollars in cash, investments and property. More than $1.2 billion in property taxes are assessed and collected annually in Washington counties. Another $1 billion in licenses, permits, fees for services, fines and forfeitures are collected and deposited. Daily operations require elected officials, managers and department heads to ensure adequate controls, policies and procedures are in place to safeguard these public resources.

Summary of Audit Concerns

In 2004, improperly safeguarded public assets resulted in loss of public funds of at least $7,500 and two cases in which prescription drugs were determined to be missing:

Safeguarding related to:	No. of Instances
Collection of user fees. Ensuring activities related to the billing, collection adjustment and write-off of fees for permits, licenses, inspections, utility services and solid waste collection are adequate.	13
Property supplies and equipment. Ensuring activities related to the ordering, delivery, tracking and disposal of computers, electronics, pharmacy assets, prepaid phone cards, etc. are adequate.	7
Fiduciary activities. Ensuring items held on behalf of inmates and those participating in social and health service programs are secure.	5
Treasurer's Office. Ensuring activities related to the receipting and posting of revenues, especially property taxes, to all county funds and on behalf of taxing districts are adequately controlled, including the reconciliation of the funds to the related bank accounts and investments.	4
Court. Ensuring proper recording and accounting of all citations and judgments issued through the adjudication process to final payment and disposition.	4
Sheriff and Correctional Department. Ensuring activities related to the processing of fines, forfeitures, civil fees, bail money, work crew revenues, etc. are adequate, including controls over citations.	4

Underlying Causes

- Lack of adequate resources.
- Failure to adopt formal policies or procedures to safeguard assets and resources.
- Lack of independent monitoring to ensure controls and procedures were in place.
- Established monitoring processes had fallen behind.
- Duties were not adequately segregated.
- Unauthorized changes to established processes and procedures.
- Inadequate employee training on established controls and procedures.
- Turnover of staff in key positions.
- Inadequate software programming and reporting capabilities.

Affect on Future Audits

We strongly believe in protecting citizens' interests and in ensuring public assets and resources are properly used and safeguarded. We will continue to design our audits to use a risk-based approach that focuses on accountability over public resources.

Federal Grant Compliance

Background

Counties received approximately $546 million in federal funding for transportation, health, public safety and other operations. If a county spends $500,000 or more in federal funds in any one year, it is required to receive an audit of those grant funds. For the year ending December 31, 2004, all but one county was required to have an audit of federal grant expenditures.

The Office of Management and Budget (OMB) provides guidance that identifies important compliance requirements the federal government expects to be considered as part of audits of federal funding. This guidance is provided in the OMB Circular A-133 compliance supplement, which identifies 13 compliance requirements that may pertain to all programs and additional requirements specific to individual grant programs. In addition, grant documents signed by counties may have additional conditions that must be followed.

Summary of Audit Concerns

We identified audit concerns related to federal funding in 11 counties. They related to $46 million for programs supporting emergency 9-1-1 services, community development, wetlands maintenance, affordable housing, immunizations, homeland security, substance abuse and mental health services, workforce education and training, child support enforcement, community-oriented policing, rental assistance and improvements to the criminal justice system.

While performing those audits, we found issues in the following areas and identified more than $78,000 in costs charged to grant programs that were unallowable.

Grant Requirements:	**No. of Instances**
Allowable Costs. Ensuring expenditures charged to grants are actual, allowable costs that support grant objectives and are adequately documented.	11
Subrecipient Monitoring. Ensuring funds given to other entities are used according to grant objectives and federal requirements.	5
Suspension and Debarment. Ensuring contractors and subrecipients are eligible to do business with the federal government.	4
Procurement. Ensuring professional services were obtained by soliciting proposals and services provided were according to contract terms	2
Reporting. Preparing and submitting the reports required by each program in a timely manner	2
Earmarking and Level of Effort. Ensuring money is spent as budgeted and local funding commitments to projects are met.	2
Other Requirements. Cash is advanced only as needed, expenditures occur within the grant period, equipment is managed, program income is used to reduce program costs, housing inspections are performed annually.	5

Underlying Causes

- Grant administrators did not adequately monitor payroll records to ensure reimbursement requests were supported by actual costs benefiting the grant project.
- Reimbursement requests were based on estimated or budgeted costs and not reconciled to actual costs.
- Supporting documentation for grant expenditures was not adequate or could not be located.
- Absence of policies and procedures related to grant management.
- Failure to communicate grant monitoring policies and procedures to employees.
- Employees were unfamiliar with grant requirements.

- Responsibility for meeting grant requirements was not assigned to specific staff members.
- Inadequate monitoring by grant administrators.
- Workload that did not allow employees adequate time to monitor grant requirements.
- Relying on the federal granting agency to notify the county when reports were due.

Affect on Future Audits

The State Auditor's Office is the auditor of record for the federal government for local government entities in the state. We will continue to assist counties in meeting the requirement to obtain an audit of the federal grant funding when required. We will audit to determine whether significant compliance requirements were met and report any questioned costs in excess of $10,000 to the federal government as required.

Use of Restricted Revenues

Background

County revenues and expenditures are accounted for in multiple funds, each of which receives money from various sources. Most funds are financed entirely or in part by revenues earmarked for a specific use by the county commission or state Legislature. In contrast, counties' general funds are financed by revenue sources that may be used to fund any authorized county service, including those paid for with other county funds.

General government costs originate in the general fund and may be allocated to other funds if two requirements are met: legal restrictions do not prohibit the county from spending revenues on general government costs and the cost allocations reflect the true and fair value of services rendered to the other funds.

Summary of Audit Concerns

We identified approximately $10 million in legally restricted revenues that were spent by counties for purposes not authorized by local policy or state law. These uses occurred in utility funds, road funds, airport funds and capital projects funds and involved the inappropriate use of user fees, rural sales taxes and real estate excise taxes.

One county overspent its available resources by more than $300,000 in three separate funds, resulting in unauthorized borrowing from other funds. In other instances, loans were made between funds without Commission approval. In other instances, although loans were approved, counties were not charging interest as required, or were not following repayment terms.

We also determined some counties are not adequately monitoring entities that are paid hotel/motel taxes to ensure goods and services were received and no overpayments occurred. In addition, Lodging Tax Advisory Committees were not always organized according to state law or local policy.

Underlying Causes

- County funds are experiencing financial hardship. Counties are moving expenditures from the general fund or other cash-poor funds to cash-rich restricted funds, or are moving revenues from cash-rich funds to those that are cash-poor.
- County officials are unfamiliar with the restricted nature of certain revenues.

- Revenue estimates for cash-poor funds are overly optimistic, resulting in unfunded expenditures and deficit balances that are covered from cash-rich funds.

- The basis for transfers of costs from cash-poor funds to cash-rich funds is poorly documented.

- Cash-rich funds make loans to cash-poor funds but counties do not ensure funds will be available to repay the loan or enforce established repayment terms.

Affect on Future Audits

The appropriate use of restricted revenues will continue to be a focus of our audits. For the audits of 2005 activities, we plan to examine the use of sales and use tax for public facilities in rural counties and real estate excise tax in all counties that receive this money.

Financial Reporting

Background

State law requires every local government to prepare and file a certified report covering the financial activities of its fiscal year within 150 days of the close of each year, which is May 30 for counties. The State Auditor's Office then uses this information to compile statistical and financial information for use by the state Legislature. In addition, the Legislature requires other reports such as annual reports on the use of impact fees or the use of sales and use tax for public facilities in rural counties.

The federal government requires each entity that spends $500,000 or more in federal money to prepare a Schedule of Expenditures of Federal Awards and to obtain an audit of those federal funds within nine months of the close of each year, which is September 30 for counties.

In addition, many local governments choose to submit a Comprehensive Annual Financial Report (CAFR) to the Government Finance Officer's Association to obtain a certificate of Achievement in Excellence in Financial Reporting. In order to obtain this certificate, the local government must submit audited financial statements and other audited information within six months of the close of each year, which is June 30 for counties.

Generally accepted accounting principles and Washington State prescribe reporting requirements for counties with populations exceeding 50,000. These prescriptions have recently changed and have affected the complexity of compiling financial information for these reports.

Summary of Audit Concerns

We noted four instances in which the state filing deadline was exceeded by more than three months. This resulted in delays in the completion of required federal audits. In addition, two counties were unable to prepare financial statements sufficient for us to be able to apply auditing procedures to satisfy ourselves as to their accuracy and completeness. Therefore, the scope of our work was not sufficient to enable us to express an opinion on the financial statements and the statements were not included in our report.

We also noted instances in which counties did not prepare accurate Schedules of Expenditures of Federal Awards. In one instance, errors led to additional audit costs and noncompliance with federal regulations.

In addition, one county did not provide the State Auditor's Office with complete draft financial statements until one week before the CAFR deadline, which seriously impeded the completion of the additional audit services the County had requested from our Office.

We also noted one instance in which the required annual report on the use of impact fees was not prepared.

Underlying Causes

- Three counties changed the basis for the presentation of their financial statements to the new more complicated requirements. This resulted in numerous errors and delays in completing the financial statements.
- Turnover in key positions, creating a lack of monitoring over certain accounting processes.
- An absence of documented reporting procedures.
- Inadequate processes and controls to ensure all federal awards are captured for reporting purposes.
- Inadequate processes to ensure the annual report is accurate and completed prior to submission to our Office.

Affect on Future Audits

Delays in the availability of financial reports prevent local government officials, grant providers, bond holders, the public and other interested parties from obtaining timely information needed to make decisions. We will continue to encourage counties to submit financial reports in a timely manner and to report conditions when reports are significantly late.

Purchasing and Bid Law Compliance

Background

Competitive bid laws are designed to ensure public contracts are performed satisfactorily and efficiently at the least cost to the public while avoiding favoritism in their awarding. Depending on whether the purchase is a public work, purchase of material, equipment and supplies unconnected to a public work, or service, different bidding limits apply. As an alternative to the general competitive bidding requirements, a county may adopt and follow a small works roster process for public works with an estimated cost of $200,000 or less. The law also provides that the advertisement and formal sealed bidding for the purchase of materials, equipment and supplies valued under $25,000 may be waived if a county adopts by resolution a process to secure telephone or written quotations. Counties must follow specific legal requirements when contracting for architectural and engineering services.

Summary of Audit Concerns

We found more than $3 million in purchases that were not properly bid. Bid law violations included change orders that significantly altered the scope of the original project, splitting a project into smaller pieces to avoid bidding requirements, not formally bidding for equipment purchases that exceeded the bid limits and inappropriate use of the small works roster.

We also found that counties paid vendors in excess of contract maximums and for contract deliverables that were never received by more than $800,000.

Underlying Causes

- Counties do not always allow the appropriate amount of lead time before beginning a project or making a purchase to comply with bid statutes.

- Determining it is in the county's best interest to do business with a particular vendor or only one vendor to simplify the administration of a project or purchase.

- Using the results of prior competitive solicitations to procure additional material and equipment without allowing other qualified bidders the opportunity to participate in the vendor selection.

- Processing change orders that fall outside the scope of the original contract.

- County officials are unfamiliar with the laws surrounding bid law process and allowable exceptions to that process.

- No formal process exists to monitor and track contracts to ensure deliverables are received and actual payments do not exceed contract terms.

Affect on Future Audits

Compliance with purchasing and bid law requirements will continue to be a focus of our audits. Audit history shows that this area is one where we continue to identify significant audit concerns. As part of our goal to protect the interests of the citizens of the state of Washington, our audit policy required that we consider the risks associated with compliance with contract, bid requirements and the payment of prevailing wages in every accountability audit engagement.

Budget Compliance

Background

State law requires counties adopt budgets limiting expenditures in the upcoming year. State law further requires counties to adopt those budgets and amend them in an open public meeting. State law prohibits counties from spending more than they budget at the fund level.

Summary of Audit Concerns

We found that four counties exceeded their authorized expenditures by approximately $270,000. In three of the counties, budget overages had occurred in the prior year.

Underlying Causes

- Budget appropriations are not closely monitored by management of ensure approved appropriations are not exceeded.

- Budget amendments are not approved in a timely manner.

Affect on Future Audits

Compliance with budget requirements will continue to be a focus of our audits. Audit history shows that this area is one where we continue to identify audit concerns. As part of our goal to protect the interests of the citizens of the state of Washington, our audit policy requires that we consider the risks associated with exceeding budget authority in every accountability audit engagement.

Other Audit Issues

Background

The state law that generally governs how counties operate is Title 36 RCW. The law codifies the regulations related to the assessment and taxation of property. In addition, counties must comply with other state laws that apply to all local governments such as the Open Public Meetings Act, the Code of Ethics for Municipal Officers and the Public Disclosure Act. Counties also develop their own policies to further define actions that should take place during day to day county operations.

Summary of Audit Concerns

We noted one county approved and processed expenditures of its Public Works Department based on the audit and certification of related vouchers by the Public Works Director. State law requires that auditing and certification of all vouchers be performed by the County Auditor prior to approval by the county legislative body.

Another county's property tax data base did not reflect the current valuation of all property pending more than 1,200 property tax adjustments. The decisions of the Board of Equalization, results of property tax appeal hearing, changes in senior citizen exemptions and effects of land parcel segregations and combinations was not being applied in a timely manner. We also noted that delinquent personal property taxes were not dealt with according to state law in another county.

Risk management is also an important function for each county. We identified one county where risk management activities, including the settlement and defense of lawsuits and payment of medical and dental claims, premiums and third-party administrative fees, lacked monitoring resulting in a significant net loss and decline in fund balance that raised concerns about the fund's ability to sustain itself in the future.

Other audit concerns included instances where county officials and employees received a beneficial interest in contracts under their authority or supervision, public records were not retained or provided for public records requests as required and terms of agreements and cost allocation schedules were not adhered to.

Underlying Causes

- Lack of knowledge of county policy and statement law.
- Lack of effective communication.
- Conscience decisions by officials to forgo compliance.
- Absence of effective control and monitoring procedures.

Affect on Future Audits

These issues continue to be of concern to the citizens of the state of Washington and, as such, we will continue to consider them during our audits. The Public Disclosure Act was recodified as the Public Records Act during the last legislative session and the revised laws become effective July 1, 2006. Our auditors will continue to be trained on this and other changes to state laws and regulations in our pursuit of public service that meets the needs of citizens and promotes openness and accountability in government.

Conclusions and Recommendations

Washington State Counties
2004 Activities

In most areas examined, counties complied with state laws and regulations, and their own policies and procedures, and have sound internal controls. During the audit of one of our statewide themes – compliance with bond covenants – we found no audit concerns. In counties in which we identified no significant issues, we found strong policies, well-trained, experienced and knowledgeable staff and an effective monitoring system in place to identify and correct issues in a timely manner.

However, as this report summarizes, we did find more than 100 conditions significant enough to report as findings or management letter comments. Counties should strongly consider changes and improvements in these areas. Current economic conditions mean counties have to make tough decisions on how to spend limited resources. Some of these decisions have led to the erosion of monitoring and oversight functions that help to safeguard public resources and property and that help ensure compliance with state laws and regulations. Many of the findings issued on federal programs dealt with the difficulties counties have in understanding and complying with very complex requirements. In many instances, county personnel delivering high-quality service to citizens are not fully aware of federal requirements. Auditors are required by federal agencies to follow reporting guidelines when weaknesses in design or operation of internal controls are found and to report as findings all instances of noncompliance with federal regulations and known or likely questioned costs of more than $10,000.

Recommendations

Our audit identified common conditions that show a significant need for training and monitoring.

We encourage counties to take advantage of workshops in federal grants management, compliance with state laws and accountability over public resources, developing sound internal controls and courses in budgeting and sound financial management practices.

County policies and procedures are important resources for employees and for those who do business with counties. We recommend counties examine policies and procedures to determine if they are adequate and review internal controls to ensure misappropriation or abuse of public resources would be detected in a timely manner and requirements of federal programs would be followed. We also recommend counties continue to evaluate and assess their use of restricted funds, purchasing methods and budget monitoring practices to ensure compliance with state law. We further recommend counties continue to assess training, policies and oversight that are necessary to report financial activities and condition in a timely and accurate manner.

Appendix I

Washington State Counties
2004 Activities

Adams County*
Asotin County
Benton County
Chelan County
Clallam County
Clark County
Columbia County
Cowlitz County
Douglas County
Ferry County*
Franklin County
Garfield County*
Grant County
Grays Harbor County
Island County
Jefferson County*
King County
Kitsap County
Kittitas County
Klickitat County
Lewis County
Lincoln County
Mason County
Okanogan County
Pacific County
Pend Oreille County*
Pierce County
San Juan County
Skagit County
Skamania County*
Snohomish County
Spokane County
Stevens County
Thurston County
Wahkiakum County
Walla Walla County
Whatcom County
Whitman County
Yakima County

*Audit results for this County did not include accountability for public resources or state legal compliance audit procedures.