

# Schedule of Audit Findings and Responses

**King County  
March 12, 2008**

**1. The County did not comply with competitive bid laws for its Correctional Facilities Integrated Security Project.**

**Background**

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 for the County Correctional Facilities Integrated Security Project. The consultant determined the electronic security system, which was more than 20 years old, was obsolete, had surpassed its predicted useful lifespan and would likely fail in the near future.

In April 2003, before the Council passed the ordinance declaring the emergency, County staff followed a competitive process and selected a firm to provide development manager services for the project. Following negotiations with the selected firm, a \$213,437 contract was signed in August 2003 for these services.

**Description of Condition**

Over a year later, in September 2004, the County awarded a \$14.2 million construction contract for this project to the same firm it hired to provide development manager services. The County did so under its year-old emergency declaration rather than through a competitive bid process. The construction contract was approximately 66 times the value of the original development management contract. Since the execution of the construction contract, the County has authorized 28 change orders that added \$18.5 million to the contract price. The changes increased the construction contract price to \$32.7 million, approximately 2.3 times the original construction contract, or approximately 153 times the original development management services contract.

The construction contract exceeded the scope of the Council's emergency declaration. The construction contract's overall scope included both the security project and remodeling of health-related and administrative areas in the jail. These areas were not part of the Council's emergency declaration.

This work was done under six change orders and components of four other change orders. The cost of the work outside the scope of the security project was approximately \$14.5 million. These change orders included work on the Intake, Transfer and Release area, shower replacement and renovations, the jail pharmacy and infirmary, fire alarm system upgrades and additions, and renovation and construction of administrative office space.

For four of these change orders, totaling approximately \$10 million, the County claimed exemption from competitive bid laws for "special market conditions." State law does not contain an exemption from public works bid requirements for "special market conditions".

## **Cause of Condition**

Even though more than a year expired between the declaration of an emergency and awarding the construction contract, the County claimed an emergency exemption from publicly bidding the construction contract. Typically, one year is sufficient time to solicit bids or proposals under an alternative public works procedure.

The County believed including work components beyond the security system in this unbid contract was allowable due to "special market conditions." The County believed having the additional jail work done by the same construction contractor performing the integrated security project would potentially minimize delays caused by having multiple contractors on site and would limit the effect on jail operations.

## **Effect of Condition**

When public works projects are not competitively awarded, in addition to noncompliance with state law, potential responsible contractors are deprived of the opportunity to compete for the work and the County cannot ensure it obtained the best possible price or proposal.

## **Recommendation**

We recommend the County comply with laws requiring competitive awards of public works projects, including revising its own policies to be consistent with state law.

## **County's Response**

*The County offers the following response to the State Auditor's Jail ISP Audit Report. Based on the Auditor's findings, the County will review all policies and procedures related to the issuance of special market conditions waivers for public works contracts to ensure compliance with state law. The County will further explore options for the future, including seeking legislative changes where appropriate.*

### **A. TIME PERIOD BETWEEN EMERGENCY WAIVER AND NOTICE TO PROCEED WITH CONSTRUCTION.**

*During the period between the execution of the emergency waiver and issuance of the notice to proceed with construction, a significant amount of design and programming, preconstruction work, security system reconnaissance, and planning and permitting effort occurred. The discussion below summarizes these activities. It is also important to note that each was performed without the benefit of "as-built" documents for the jail facility because such documents did not exist.*

*A valid emergency existed at the time the declaration was approved in July 2003, and that emergency continued throughout the development of design and negotiation of the modified GCCM contract. A nationally recognized expert in jail security opined that failure of the major systems was a certainty in the near future and loss of critical movement control (i.e. movement of inmates inside, and to/from the facility) would render the facility inoperable.*

*The County did not have a completed design at the time the emergency was declared. Significant development and ongoing refinement of design documents had to occur to identify both correct and practical solutions for performing a complete overhaul of the jail security system. Replacing the security system in a large, fully operating jail facility was a very complicated project, with significant risks associated with the security of inmates, employees and contractors. The jail holds pre-trial felony detainees, including very dangerous individuals. Convicted misdemeanor inmates as well as a population of mentally and physically ill patients are also housed in the facility.*

*Maintaining a secure environment for inmates and correctional and medical staff was critical. Not only were the technical aspects of this project difficult, legitimate safety and logistical concerns had to be addressed to achieve an effective result.*

*In March of 2004, when design documents were sufficiently complete, the County contracted with Turner Construction, as authorized by the waiver, to perform preconstruction services. These services included such activities as evaluating the design for constructability, and performing value engineering, scheduling, price estimating and life-cycle analysis. Each activity was appropriate and necessary to develop final and meaningful construction documents so that negotiations could commence on the development of the construction contract, including price, scheduling and other terms and conditions.*

*Additionally, the County worked closely with Turner during this time to perform other important preconstruction tasks. This included such activities as:*

- developing a contingency plan to mitigate a partial or full failure of the jail security system;*
- producing with County staff a detailed wire by wire documentation of the existing security system to avoid inadvertent system failures or opening and closing of jail cells during construction;*
- designing/re-designing the proposed security system to allow for future flexibility to accommodate future operational master plan changes;*
- developing the software for the electronic security system; and*
- developing the construction plan, including, but not limited to, inmate employee and construction worker movements, tool inventory, logging and tracking, escort procedures and background checks for all workers on the project.*

*The County also had to obtain permits for the project. Building, electrical and mechanical permits could not be issued for the project until the regulatory agencies reviewed, commented on and approved the permit application and related submittals. The County submitted drawings on March 22, 2004. The County did not receive a building permit for the facility until June 8, 2004, did not receive an electrical permit until June 29, 2004, and did not receive a mechanical permit until July 14, 2004. Even under a design-bid-build approach, the County would not have awarded a contract without having received approval for all required permits.*

*Lastly, the County had to develop and negotiate a construction contract. Complicated and lengthy commercial discussions occurred on such items as insurance, risk allocation and indemnity, scheduling, escort service, background checks on all project employees, purchasing of materials, subcontracting packages and price. These took time to develop, negotiate and reach agreement from both parties.*

*None of the foregoing activities diminished the seriousness of the ongoing and emergent technical problems that existed within the facility and formed the basis for the July 2003 waiver. Eight months from the declaration of emergency to completion of design and negotiation of a preconstruction services agreement is well within reason for a sophisticated project of this nature. Six months from the commencement of the preconstruction services agreement to the negotiation and execution of a construction contract is also timely and reasonable.*

*The modified GCCM procurement process allowed the County to have extensive dialogue with the contractor selected under the waiver regarding the development, design and construction of this complicated project. Such dialogue and resulting refinements could not have occurred in a design-bid-build scenario. Without question, the process utilized was consistent with the*

emergency waiver, reflected sound business practice, and was in the best interests of the County.

The County notes that Turner sought to foster competitive pricing by soliciting bids from firms capable of performing elements of the project. Turner invited 93 firms to bid and awarded to the low bidders, but did so outside the umbrella of chapter 39.10.061 RCW (2006).

#### **B. SPECIAL MARKET CONDITIONS WAIVER**

During the course of the security system project, additional work was performed in the jail facility. Some of this work, such as a \$962,000 roof project and \$862,000 chiller replacement project were separately bid out. However, where work needed to be performed in areas that impacted the activities of the security system contractor and the operational efficiency of the jail itself, it was added to the security system project via special market conditions waivers.

There is authority for the proposition that "[e]ven where a public bidding requirement would otherwise apply, there is another well-recognized exception: that where the nature or subject of contract is such that competitive proposals would be 'undesirable, impracticable or impossible,' they may be dispensed with." See AGO 1996 No. 18 at 6 (citations omitted.). As stated above, the Jail ISP project involved unique and difficult scheduling, security and logistical considerations. These considerations are even more evident when more than one general contractor and separate subcontractors are performing work in the same area. The increased costs and disruptions to contractor personnel, inmates and county staff are obvious. Moreover, it was not efficient, productive or sensible to have a sequential procurement process (e.g., have one contractor already on site perform and complete its work before the second contract mobilizes, performs and completes its work in the same area) for the additional work.

Further, this approach and the above exception to competitive bidding actually appeared consistent with, not contrary to state statute and King County Code (KCC). RCW 39.04.280 is a supplemental provision and does not specifically limit the County to only those specific exemptions identified. See RCW 39.04.280 ("The purpose of this section is to supplement and not to limit the current powers of any municipality to provide exemptions from competitive bidding requirements."). KCC 4.16.040 identifies a number of exemptions to competitive procurement requirements including the purchase of services of any kind which are clearly and legitimately limited to a "single source of supply or which involve special facilities or market conditions..." KCC 4.16.010.H defines services as "the furnishing of labor, time, or effort by a contractor, not involving the delivery of tangible personal property, other than reports which are merely incidental to the required performance."

In sum, the County believed that authority existed to allow for the waiver of normal competition requirements when it added the new work to the project. Despite the above reasoning, we understand that the State Auditor's Office has recently consulted with the Attorney General's Office and determined that special market conditions waivers are not applicable to county public works. Based on that information, King County has discontinued the use of special market condition waivers for public works as defined in RCW 39.04.010. King County will review all policies and procedures related to such waivers to ensure compliance with state law. The County will further explore options for the future, including seeking legislative changes where appropriate.

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

We appreciate the difficulties involved in this project and the County's commitment to ensure its policies and procedures in this area are consistent with state law. We have considered the County's response and reaffirm our finding.

## Applicable Laws and Regulations

RCW 36.32.235 – Competitive bids, states in part:

(3) Except as otherwise specified in this chapter or in chapter 36.77 RCW, all counties subject to these provisions shall contract on a competitive basis for all public works after bids have been submitted to the county upon specifications therefore. Such specifications shall be in writing and shall be filed with the clerk of the county legislative authority for public inspection.

(4) An advertisement shall be published in the county official newspaper stating the time and place where bids will be opened, the time after which bids will not be received, the character of the work to be done, the materials and equipment to be furnished, and that specifications therefore may be seen at the office of the clerk of the county legislative authority. An advertisement shall also be published in a legal newspaper of general circulation in or as near as possible to that part of the county in which such work is to be done. If the county official newspaper is a newspaper of general circulation covering at least forty percent of the residences in that part of the county in which such public works are to be done, then the publication of an advertisement of the applicable specifications in the county official newspaper is sufficient. Such advertisements shall be published at least once at least thirteen days prior to the last date upon which bids will be received.

(5) The bids shall be in writing, shall be filed with the clerk, shall be opened and read in public at the time and place named therefore in the advertisements, and after being opened, shall be filed for public inspection. No bid may be considered for public work unless it is accompanied by a bid deposit in the form of a surety bond, postal money order, cash, cashier's check, or certified check in an amount equal to five percent of the amount of the bid proposed.

(6) The contract for the public work shall be awarded to the lowest responsible bidder. Any or all bids may be rejected for good cause. The county legislative authority shall require from the successful bidder for such public work a contractor's bond in the amount and with the conditions imposed by law.

RCW 39.10.051 Design-build procedure--Which public bodies may use (Effective until July 1, 2007), states in part:

(4) Contracts for design-build services shall be awarded through a competitive process utilizing public solicitation of proposals for design-build services. The public body shall publish at least once in a legal newspaper of general circulation published in or as near as possible to that part of the county in which the public work will be done, a notice of its request for proposals for design-build services and the availability and location of the request for proposal documents. The request for proposal documents shall include:

(a) A detailed description of the project including programmatic, performance, and technical requirements and specifications, functional and operational elements, minimum and maximum net and gross areas of any building, and, at the discretion of the public body, preliminary engineering and architectural drawings;

(b) The reasons for using the design-build procedure;

(c) A description of the qualifications to be required of the proposer including, but not limited to, submission of the proposer's accident prevention program;

(d) A description of the process the public body will use to evaluate qualifications and proposals, including evaluation factors and the relative weight of factors. Evaluation factors shall include, but not be limited to: Proposal price; ability of professional personnel; past performance on similar projects; ability to meet time and budget requirements; ability to provide a performance and payment bond for the project; recent, current, and projected work loads of the firm; location; and the concept of the proposal;

(e) The form of the contract to be awarded;

(f) The amount to be paid to finalists submitting best and final proposals who are not awarded a design-build contract; and

(g) Other information relevant to the project.

RCW 39.10.061, General contractor/construction manager procedure--Limitations (Effective until July 1, 2007), states in part:

(4) Contracts for the services of a general contractor/construction manager under this section shall be awarded through a competitive process requiring the public solicitation of proposals for general contractor/construction manager services. The public solicitation of proposals shall include: A description of the project, including programmatic, performance, and technical requirements and specifications when available; the reasons for using the general contractor/construction manager procedure; a description of the qualifications to be required of the proposer, including submission of the proposer's accident prevention program; a description of the process the public body will use to evaluate qualifications and proposals, including evaluation factors and the relative weight of factors; the form of the contract to be awarded; the estimated maximum allowable construction cost; and the bid instructions to be used by the general contractor/construction manager finalists. Evaluation factors shall include, but not be limited to: Ability of professional personnel, past performance in negotiated and complex projects, and ability to meet time and budget requirements; the scope of work the general contractor/construction manager proposes to self-perform and its ability to perform it; location; recent, current, and projected work loads of the firm; and the concept of their proposal. A public body shall establish a committee to evaluate the proposals. After the committee has selected the most qualified finalists, these finalists shall submit final proposals, including sealed bids for the percent fee, which is the percentage amount to be earned by the general contractor/construction manager as overhead and profit, on the estimated maximum allowable construction cost and the fixed amount for the detailed specified general conditions work. The public body shall select the firm submitting the highest scored final proposal using the evaluation factors and the relative weight of factors published in the public solicitation of proposals.

RCW 39.04.280 Competitive bidding requirements – Exemptions, states:

This section provides uniform exemptions to competitive bidding requirements utilized by municipalities when awarding contracts for public works and contracts for purchases. The statutes governing a specific type of municipality may also include other exemptions from competitive bidding requirements. The purpose of this section is to supplement and not to limit the current powers of any municipality to provide exemptions from competitive bidding requirements.

1. Competitive bidding requirements may be waived by the governing body of the municipality for:

- a. Purchases that are clearly and legitimately limited to a single source of supply;
- b. Purchases involving special facilities or market conditions;
- c. Purchases in the event of an emergency
- d. Purchases of insurance or bonds; and
- e. Public works in the event of an emergency.

2. (a) The waiver of competitive bidding requirements under subsection (1) of this section may be by resolution or by the terms of written policies adopted by the municipality at the option of the governing body of the municipality. If the governing body elects to waive competitive bidding requirements by the terms of written policies adopted by the municipality, immediately after the award of any contract, the contract and the factual basis for the exception must be recorded and open to public inspection.

# Schedule of Audit Findings and Responses

## King County March 12, 2008

### 2. Petty cash in the amount of \$9,166.25 was missing from the King County Department of Public Health.

#### Background

The County Public Health Department has \$18,865 in 32 authorized petty cash accounts at multiple locations. The Department uses this money to pay cash incentives to participants who complete surveys about various public health issues, who take part in research studies and to make small purchases.

#### Description of Condition

On December 18, 2007, the County notified our Office of a \$166.25 loss from a petty cash account. Keys to the cabinet where the money was located were left unattended, allowing unauthorized access to the cash. The County was not able to determine who was responsible for the loss.

On February 4, 2008, the County notified our Office of a loss of \$9,000 from two additional petty cash funds. The employee responsible for these funds left the County in July 2007. The County contacted this individual, who stated the two accounts had been closed. However, the County cannot locate records showing the accounts had been closed and the remaining cash returned to the Treasurer.

We performed unannounced petty cash counts to determine if the Department's remaining petty cash was accounted for. We found additional minor discrepancies: one fund was \$16 short and another had an extra \$100. The fund custodians were unable to explain these discrepancies.

Police reports were filed for the lost petty cash. Although programs in the Department receive federal funds, no federal funds were lost.

#### Cause of Condition

The Department's internal controls were inadequate to ensure all petty cash was physically secure, accessible to authorized employees only and accounted for.

During our unannounced cash counts, we noted internal control weaknesses that increase the risk of misuse and further losses:

- Petty cash funds were stored in envelopes.
- Petty cash boxes were left unlocked.
- Cabinets or drawers used to store the petty cash boxes were left unlocked or the keys to access the cabinets or drawers were not locked up.
- Petty cash fund balances were not reconciled in a timely manner or in accordance with County policy.



- Documentation supporting petty cash disbursements was insufficient.
- Unauthorized personnel made petty cash withdrawals.

### **Effect of Condition**

More than \$9,166 was lost, depriving the County of the use of these funds for legitimate public purposes.

### **Recommendation**

We recommend the Department of Public Health improve internal controls over petty cash. Policies should emphasize the importance of physical security of petty cash. There should be fixed responsibility for each petty cash account.

We further recommend the Department submit current information about petty cash accounts to the Financial Management Section so the County's official records of authorized petty cash accounts is accurate.

### **County's Response**

*Public Health concurs in the auditor recommendations and is taking appropriate corrective actions.*

*Public Health requested assistance in performing an audit of petty cash fund management and we appreciate the work completed by the State Auditor's office and the recommendations related to strengthening internal controls over petty cash. Although Public Health has policies and procedures in place designed to provide proper controls and safeguards over petty cash funds, the audit found that the internal controls were not adequate to safeguard the funds. Therefore, Public Health will implement the following corrective action plan.*

*In addition to mandatory training provided by Public Health Accounting staff on cash handling for petty cash fund managers, the department has designated two staff positions to provide oversight for fiscal monitoring.*

*Petty Cash reconciliations currently must be made on a monthly basis and submitted to Accounting Services no later than 20 days past the end of the month, and Public Health has imposed an additional requirement that two individuals count the petty cash funds each month - the petty cash custodian and a verifier who does not have access to petty cash funds. For petty cash funds of \$500 or more, the second verifier must be the section manager or designated supervisor. This requirement will be implemented April 2008.*

*Effective immediately, Public Health Accounting Services will begin unannounced petty cash counts to assure funds are safeguarded and polices and procedures are followed. Accounting Services will notify the section manager, the Chief Financial Officer and the division management when incidents of non-compliance are found. Incidents of non-compliance will be raised to department management attention with the possibility of closing non-compliant petty cash funds.*

*Regular reporting to the Financial Management section regarding petty cash funds will be provided by Public Health to ensure that the County's official records are accurate.*

*Further, the department is working with the program to officially close the petty cash funds that were the subject of the audit finding and losses have been reported to the Seattle Police Department for investigation.*

## **Auditor's Remarks**

We appreciate the County's efforts to improve controls in this area.

## **Applicable Laws and Regulations**

RCW 43.09.200, Local government accounting-Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there-from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

The Budgeting, Accounting, and Report Standards Manual (BARS) Volume 1, Part 3, Chapter 1, Section C, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

# Schedule of Audit Findings and Responses

**King County  
March 12, 2008**

**3. An employee at the King County Records, Elections and Licensing Services Division falsified vehicle title transactions.**

**Description of Condition**

The Licensing Section of the Records, Elections and Licensing Services Division (REALS) remitted use tax on vehicle and vessel transactions totaling \$3 million in 2007.

On May 3, 2007, an employee in Licensing Services told her supervisor that she had processed title transfer transactions for herself, family members and friends for at least one year.

On June 11, 2007, REALS management notified the Human Resources Department, which reviewed the employee's transactions from March 2006 through May 2007. That review found 16 of 42 transactions were processed incorrectly, 13 had been done for people the employee knew. Most of the 13 title transfers were processed as gifts from one person to another, and as a result, use tax was not collected. The total amount of use tax not collected and remitted to the state is estimated at \$2,300.

On August 22, 2007, the County contacted our Office regarding this potential loss of public funds pursuant to the requirements of state law (RCW 43.09.185). However, this report was not made promptly as required by state law.

On November 27, 2007, the employee was terminated from County employment.

**Cause of Condition**

Although the state of Washington Department of Licensing discourages the practice of licensing agents processing personal transactions, County policy allows employees to initiate personal transactions as long as a second employee completes them. We found little monitoring over these transactions to ensure the policy was being followed and the transactions were proper. The policy was not followed in these instances.

**Effect of Condition**

The failure to collect use tax on these transactions is a loss of public funds to the state.

**Recommendation**

We recommend the County seek restitution from the parties who did not pay use tax, and inform the state Departments of Licensing and Revenue of these title transactions and lost revenue.

We further recommend County management strengthen controls and monitoring of personal transactions and over transactions recorded as gifts as opposed to sales. REALS management either should not allow employees to process title transfer transactions for friends and family or require employees to report these transactions to management. The County should adequately monitor compliance with these policies, including review of transactions processed as gifts.

We also recommend the County remind staff in REALS and Human Resources that state law (RCW 43.09.185) requires immediate notification to the State Auditor's Office of known or suspected losses of public resources.

We also recommend the County pursue recovery of audit costs.

## **County's Response**

*The county concurs with the auditor's recommendations.*

*On May 1, the Department of Licensing (DOL) contacted Licensing Superintendent regarding a King County Licensing employee who had contacted the DOL regarding a car purchased that might have been title washed at Georgetown. On May 3, the employee told her supervisor that she had processed title transfer transactions for herself and her son, stating that she gave the seller a check for \$3,500 for the vehicle and that the seller signed over the title and provided her son a gift statement. On May 4, The Licensing Superintendent documented the details in a memo to the Interim Assistant Director and submitted a public disclosure request to the DOL.*

*The county investigated the matter and when the investigation was concluded, the REALS division terminated the employee on November 27, 2007. The division notified the State Auditor of the losses during August 2007*

*In order to strengthen its internal controls and resolve the issues identified in the audit report, REAL will take the following actions:*

*The division will notify the parties involved of their obligation to pay the taxes that were payable at the time of the transactions. Should one or more of the parties fail or refuse to pay, the appropriate documentation will be turned over to the King County Sheriff and Prosecuting Attorney, as well as to the Departments of Licensing and Revenue.*

*The division will strengthen its policy regarding personal transactions to:*

- 1. Restrict employees from processing any part of a transaction in which they, or a member of their family are involved. With regard to transactions recorded as gifts, once this issue came to management's attention, steps were implemented immediately to perform quality review audits by the superintendent or a lead staff member. Designated staff will continue to sample all title transaction types, including those recorded as gifts.*
- 2. Require approval of any transaction involving family or friends before such transactions can be completed.*
- 3. Communicate the policy changes to Licensing employees.*

*Division management and staff have been reminded of their obligation to promptly report all actual or suspected losses of public resources as required under RCW 43.09.185.*

*King County will consider reasonable efforts to collect any material audit costs associated with this matter, if cost-effective to do so.*

## **Auditor's Remarks**

We appreciate the efforts the County has made related to this matter. We remind the County that all restitution agreements must be approved by the State Auditor's Office and the Attorney General's Office.

## **Applicable Laws and Regulations**

RCW 43.09.185 – Loss of public funds-Illegal activity – Report to state auditor’s office, states:

State agencies and local governments shall immediately report to the State Auditor’s Office known or suspected loss of public funds or assets or other illegal activity.

The Budgeting, Accounting, and Report Standards Manual (BARS) Volume 1, Part 3, Chapter 1, Section C, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

# Schedule of Audit Findings and Responses

## King County March 12, 2008

### 4. **Inadequate internal controls over credit card refunds resulted in a loss of \$30,000 at the King County District Court.**

#### **Background**

The District Court collects approximately \$12 million each year. The Court accepts credit card payments through a third-party vendor for fines, fees and bail payments. While reviewing Court revenues, we discovered the Court's Cashier Over/Short account had a negative balance of \$28,190. Court employees explained two losses of \$15,000 each had occurred in early 2005 through fraudulent credit card transactions. The Court accounted for the losses improperly, did not pursue repayment for one of the losses and did not notify the State Auditor's Office as required by state law (RCW 43.09.185).

#### **Description of Condition**

On February 3, 2005, a defendant posted \$15,000 bail using a credit card. Since no charges were filed against the defendant within 72 hours, the defendant was released and the Court refunded the bail payment directly to the defendant by check. The check was cashed on February 25, 2005. In April 2005, the vendor notified the Court that the original credit card transaction was fraudulent. The Court filed a police report on July 14, 2005. The Court pursued repayment when it sent a letter to the defendant on June 8, 2005 via certified mail. No response has been received.

On March 1, 2005, another defendant posted \$15,000 bail using a credit card. Although the case number related to the payment was not a valid District Court case number, the Court accepted and receipted the payment. The Court later discovered the payment was related to a case in Seattle Municipal Court. On March 9, 2005, the District Court issued a check to the Seattle Municipal Court to transfer the money. When the defendant was exonerated, the Seattle Municipal Court issued the refund directly to the defendant after verifying with the County District Court that it did not want the funds returned.

On May 31, 2005, the vendor notified the County District Court that the original credit card transaction was fraudulent. The District Court did not file a police report on this incident. During the audit, District Court staff explained the Court did not pursue repayment of the \$15,000 because they were unsure which Court suffered the loss.

The Court postponed accounting for the losses in the financial accounting system until January 6, 2006, when it recorded the \$30,000 in refunds as cash shortages, rather than recording a journal entry in the general ledger to increase expense and decrease assets.

#### **Cause of Condition**

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.

Court staff also stated they were not aware of the statutory requirement to report all known and suspected losses and illegal activity to the State Auditor's Office.

### **Effect of Condition**

Thirty-thousand dollars (\$30,000) was lost, depriving the County the use of these funds for legitimate public purposes.

### **Recommendation**

We recommend the County District Court:

- Discontinue issuing refunds by check for payments made by credit card.
- Refund the credit card holder or actual payor instead of the defendant, if not the same.
- Properly account for refunds in the financial accounting system.
- Immediately notify the State Auditor's Office of known and suspected losses of public funds or assets or other illegal activity.

### **County's Response**

*District Court made changes in its processes that incorporate each of the auditor's recommendations. The Court acted immediately in April 2005, following the fraudulent credit card incidents to implement changes in procedures and discontinued the practice of issuing refunds by check for any payments made by credit card.*

*The Court pursued recovery of both losses and accounted for the funds receipted and disbursed after recovery efforts were unsuccessful.*

*In the case involving bail posted February 3, 2005, the Court pursued repayment of the bail posted from a fraudulent credit card by requesting the funds from the Official Payments Corporation vendor (OPC) and through a letter to the defendant. OPC processed the chargeback from the card holder and denied the Court's request to cancel the chargeback.*

*In the case involving bail posted March 1, 2005, the \$15,000.00 payment on a Seattle Municipal Court matter was routed to District Court's account from the daily OPC statement. Seattle Municipal Court was contacted on the matter in an unsuccessful attempt to recover the funds.*

*After determining the funds would not be recovered, the Court wrote off the losses from both cases. However, District Court will continue its efforts to recover the \$15,000 erroneously paid to Seattle Municipal Court.*

### **Auditor's Remarks**

We thank the County for the changes it has made related to how it processes refunds on credit card transactions.

### **Applicable Laws and Regulations**

RCW 43.09.185 states:

State agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

*Budget Accounting and Reporting System Manual (BARS) - Volume 1, Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section C, Internal Control, Page 12, states in part:*

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies . . .

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.



# Schedule of Audit Findings and Responses

## King County March 12, 2008

### 5. The King County District Court's internal controls over processing transactions and reconciling bails were inadequate.

#### Background

The District Court provides services to more than 1.8 million County residents at seven locations. Our current audit work focused on the Court's internal controls over the processing of citations and other activities in the main Courthouse location in downtown Seattle. This location collects fines and fees of approximately \$2 million per month, excluding bail transactions.

The Court uses standard, statewide software maintained by the state Administrative Office of the Courts to record court-related transactions. This software is known as the Judicial Information System (JIS).

#### Description of Condition

During our review, we noted weaknesses in internal controls that increase the risk of misappropriation, loss or misuse of money collected by the Court:

- Bail money collected pending disposition by the Court was held in a trust account. The Court could not reconcile this trust account between the amount recorded in JIS, the amount reflected in the check register and the amount in the bank. We examined reconciliations for January, March and May 2006 and for June, July, August and September 2007. We noted differences between the adjusted bank balance and what was recorded in JIS ranging from \$2,229 under to \$147 over. The ending account balances varied from \$1.4 million to \$2.9 million. Deposits to and withdrawals from this account were \$2 million to \$3 million per month during the audit period. No supervisory review of the reconciliations was done.
- Within JIS, the trust account summary and general ledger summary balances were not reconciled monthly. We examined reports for January and March 2006 and found:
  - Neither the January 2006 nor March 2006 balances for bail money in trust reconciled between the trust account summary and the general ledger summary. The differences noted were \$3,754 and \$7,586. The associated account balances, based on the trust account summary, were \$579,580 and \$669,615, respectively.
  - Bonds in trust represent bail bonds, as opposed to cash bail, in the JIS system. Neither the January 2006 nor March 2006 balances for bonds in trust reconciled between the trust account summary and the general ledger summary. The differences noted were \$36,450 and \$7,450. The associated account balances, based on the trust account summary, were \$2.07 million and \$2.45 million.
- The Court did not ensure only current employees had access to JIS. We identified four active user accounts for people no longer employed by the Court. We did not find any transactions processed by these accounts.

- The Court uses the JIS database to maintain accounting and case docket records. To help the Court monitor the propriety of transactions and accuracy of case dockets, the JIS produces audit reports that Court staff should review at least monthly to ensure all information entered into JIS is proper. These reports include accounts receivable adjustments, deleted cases, adjusted receipts, non-cash credits, accounts payable adjustments, restitution information and overpayments. However, the Court did not monitor these monthly reports, as indicated by the risks noted below.
- We examined 58 accounts receivable or receipt adjustments from March, May and August 2006 and found Court staff had created dummy cases in order to expedite the processing of transactions when the case number was not known at the time. We did not identify any misappropriations in the transactions reviewed and payments eventually were posted to the correct cases.
  - A dummy case was created to act as a suspense account to record credit card payments when the case number associated with the payment was unknown at the time of receipt. From January to November 2006, \$24,705 in credit card payments was receipted through this dummy case.
  - Another dummy case was created to temporarily receipt a \$5,075 bail payment on an unknown case. The transaction later was reversed and the amount posted to the actual case; however, the Court did not close the dummy case. It was still open as at the time of audit.
- The Court did not retain supporting manual records for cases deleted from the JIS system. JIS does not retain a record of cases once they are deleted. Therefore, Court policy was that the case docket, including an entry indicating why the case was to be deleted, be printed out and maintained before the case was deleted. We reviewed the audit reports on deleted cases for January and March 2006 and noted such documentation for only 32 out of 114 cases deleted was retained with the case files. Therefore, no documentation was available to show cases were properly deleted.

## **Cause of Condition**

Current Court management believes the Court is insufficiently staffed to effect adequate internal controls. Court staff was also not knowledgeable about standard methods within JIS to process transactions where the case number was unknown at that time. Therefore, they created work-a-rounds that introduced internal control weaknesses.

## **Effect of Condition**

Internal control weaknesses increase the chance that public funds will be misappropriated. We did not find misappropriations in the cases reviewed; however, given the control weaknesses, we will continue to review Court transactions to look for losses of public funds.

## **Recommendation**

We recommend the Court:

- Conduct a supervisory review of bank account reconciliations to help ensure large differences are investigated and resolved.
- Delete computer access for individuals it no longer employs.
- Monitor audit reports monthly to detect irregular transactions and practices, to ensure integrity of case dockets and to detect misappropriation.

- Discontinue creating dummy cases to receipt payments. The Court should require specific case information with credit card payments. The Court should use the suspense account procedure established in the JIS and return payments not identified by case number to the payers or to the Department of Revenue as unclaimed property.
- Print sufficient information on cases before they are deleted from the system.
- Reconcile the trust account and ledger summaries monthly and investigate any large differences.

## **County's Response**

*The Court concurs with the Auditor's recommendations and welcomed the opportunities created through this audit to identify and correct deficiencies within our internal controls. District Court made appropriate changes in its processes that incorporate all of the recommendations within the audit findings. The Court acted immediately following its initial meetings with the auditor and the Court's internal controls were strengthened.*

*The Court added a new manager position to the Payment Center at the end of December 2007. This manager is trained to process portions of the monthly bank account reconciliations. Additionally, the Court implemented a supervisor level review of all bank accounts on a monthly basis to ensure that any differences are investigated and resolved.*

*The Court took immediate action to review the entire list of users having JIS account access and immediately removed all inactive users from the old account databases. When District Court moved from 9 separate DISCIS databases to one "KCD" database in 2005, the JIS user accounts for the new KCD database were created and have been kept current.*

*The Court has assigned two managers to perform a weekly review of the audit reports to detect any irregular transactions, ensure the integrity of case dockets, and to detect any potential misappropriation of funds. A monthly supervisory review has also been implemented to improve controls.*

*The Court discontinued the practice of creating "skeleton" (or "dummy") cases to receipt unidentified credit card payments pending case filing. In accordance with the Auditor's recommendations, the Court has now implemented a process in which cases without sufficient information are returned immediately to the credit card vendor. Payments received prior to case filing are now receipted into JIS using Miscellaneous Payment Screen (MSP) and the fee code of Miscellaneous (MIS).*

*The Court has implemented a new procedure for the control of case docket deletions and is utilizing an electronic folder in which copies of all deleted cases are saved before the case is deleted from the system to preserve a record of the transaction.*

*In an effort to improve the reconciliation process of the trust account and ledger summaries at month end, the Court created a monthly balance report and added a standard supervisory review. This balance report highlights any inconsistencies within the Trust Account balance, the Ledger Summary, JIS check register and the Court's manual checkbook. The primary cause of differences that occur within the accounts was found to be the cashiering activity occurring at one or more of the Court's outlying locations prior to completion of the month-end cutoff. This balance report enables the reviewing manager to detect any discrepancies and get them resolved before the next business day.*

## **Auditor's Remarks**

We appreciate the County's willingness to improve internal controls over Court transactions.

## Applicable Laws and Regulations

RCW 43.09.200, Local government accounting-Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there-from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

The *Budgeting, Accounting, and Report Standards Manual (BARS) Volume 1, Part 3, Chapter 1, Section C*, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.