King County

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M E M O R A N D U M

DATE: December 30, 2008

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Compliance Audit of Historic Preservation Funding

The attached compliance audit responds to a council-approved budget request to determine whether King County's use of historic preservation funding complied with the purposes authorized by the Washington State Legislature in House Bill 1386. The legislation increased the mandatory document recording surcharge for the preservation of historic documents from two to five dollars per recorded instrument or document. The legislation also authorized the County Council's discretionary use of a portion of the recording surcharge revenues to promote historic preservation or historic preservation programs, or to preserve historic records.

We determined that King County complied with legislative mandates in implementing House Bill 1386. Specifically, King County properly accounted for the revenues generated from the increased recording surcharge and used the discretionary portion of the surcharge revenues for authorized purposes. In addition, King County's use of the surcharge revenues complemented rather than replaced existing Current Expense Fund revenues allocated to community historic preservation and heritage programs.

However, the county had not designated the Historic Preservation Surcharge Account in the Current Expense Fund as a restricted account, making it difficult to track the use of the surcharge revenues. Restricting the account would facilitate tracking the actual revenues and expenditures and promote greater transparency and accountability in the use of the surcharge proceeds. Developing an annual financial plan for the restricted revenues would also help promote transparency for the expended and unused account balance.

Additional clarification was also needed to define historic preservation and identify relevant uses of the surcharge revenues, because not all interested organizations agree on what constitutes a historic preservation organization or program. For audit purposes, we applied the broad county code definitions and interpretations of Washington State officials in considering whether the recording surcharge revenues complemented or replaced other Current Expense Fund resources allocated to historic preservation organizations and programs. We recommend that the County Council consider adopting legislation, or directing the County Executive to develop policies and procedures for defining and using the Current Expense Fund portion of the recording surcharge revenues to promote accountability and transparency for interested community groups and the general public.

The County Executive's response to the audit is attached and indicates full concurrence with the audit findings and recommendations. The County Executive is committed to developing policies and procedures to ensure that the allocation of surcharge revenues continues to comply with authorized uses and to develop an annual financial plan to facilitate tracking of the revenues by June 2009. Additionally, the unexpended surcharge revenues will be reported as a reservation of the Current Expense Fund balance to ensure that the revenues are used exclusively for historic preservation purposes.

The King County Auditor's Office sincerely appreciates the cooperation received from management and staff of the Records and Licensing Services Division and the Office of Management and Budget.

CB:SB:jl

COMPLIANCE AUDIT
HISTORIC PRESERVATION FUNDING

Presented to
the Metropolitan King County Council
General Government and Labor Relations Committee
by the
County Auditor's Office

Cheryle A. Broom, King County Auditor
Susan Baugh, Senior Principal Management Auditor
Allan Thompson, Senior Financial Auditor

Report No. 2008-04
December 30, 2008

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We are committed to producing substantive work of the highest quality and integrity that results in significant improvements in accountability, performance, and efficiency of county government. We share a commitment to our mission, to our profession, and to a collaborative work environment in which we challenge ourselves to accomplish significant improvements in the performance of the King County Auditor's Office.

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Introduction

The King County Auditor's Office initiated a compliance audit of the county's use of historic preservation funding authorized by the Washington State Legislature in House Bill 1386. House Bill 1386 increased the mandatory document recording surcharge for preserving historic documents from two to five dollars per recorded instrument or document. The legislation also authorized the County Council to use a portion of the recording surcharge revenues at its discretion for historic preservation purposes.

By authorizing the use of one dollar of the five-dollar recording surcharge to promote historic preservation or historic programs, House Bill 1386 established a new source of revenue for community heritage organizations and historic preservation programs in King County. Since House Bill 1386 was implemented, the county generated approximately $1.7 million in new historic preservation revenues. The amount of the surcharge revenues is significant to community historic preservation organizations and programs operating in King County.

Scope and Objectives

Consistent with the County Council's request in the adopted 2008 annual budget ordinance and the interests of various community historic preservation organizations, the audit scope focused on the county's implementation of House Bill 1386. The primary audit objectives were to determine whether the county:

1. Accounted properly for the full amount of funds received from increased surcharges on recorded instruments;
2. Utilized the revenues generated from the surcharges for the purposes authorized by House Bill 1386; and

3. Used the recording surcharge revenues to complement or replace the level of Current Expense Fund revenues previously appropriated to community-based historic preservation organizations or programs.

The audit review period spanned 2003 to 2007 to provide a basis for comparing historic preservation funding before and after the 2005 implementation of House Bill 1386.

Conclusions and Recommendations

We determined that King County was in compliance with House Bill 1386. Significant conclusions and recommendations are summarized below.

King County Properly Accounted for the Revenues Generated from the Recording Surcharge

The county complied with House Bill 1386 in establishing new accounts or maintaining the legislatively-mandated accounts for the receipt of the recording surcharge revenues. During the five-year audit review period, approximately $1.7 million was collected and deposited into the Current Expense Fund, and $8.3 million was collected and deposited into the Recorder's Operating and Maintenance Fund.

King County Used the Current Expense Fund Portion of the Surcharge Revenues for Authorized Purposes

House Bill 1386 provides discretion to King County in using the surcharge revenues deposited into the Current Expense Fund for various historic preservation purposes. Consistent with the purposes identified in House Bill 1386, the County Council appropriated approximately $2.8 million from the Current Expense Fund to community historic preservation organizations and programs between 2005 and 2007. This was $1.1 million more than the $1.7 million collected by the county in recording surcharge revenues for the three-year period. The organizations

and programs that received the surcharge revenues met county code definitions for heritage organizations and historic resources. In addition, the community organizations and programs met the interpretations of allowable uses of the funds provided by the Washington State Attorney General, Auditor, and Archivist.

However, we determined that the county had not designated the Historic Preservation Surcharge Account in the Current Expense Fund as a restricted account, making it difficult to track the use of the surcharge revenues. Restricting the account would facilitate tracking the actual revenues and expenditures, and promote greater transparency and accountability in the use of the surcharge proceeds.

We recommend that the King County Finance Division restrict the Historic Preservation Surcharge Account within the Current Expense Fund to ensure that the recording surcharge revenues are used solely for historic preservation purposes, consistent with House Bill 1386 and generally accepted accounting principles. An annual financial plan should also be developed to promote transparency for the expended and unused account balance.

King County's Use of the Recording Surcharge Revenues Complemented Existing Resources, Although Clarification Is Needed in Defining Historic Preservation Purposes

As noted above, we determined that the county increased its investment in community historic preservation organizations and programs rather than replaced existing revenues subsequent to the enactment of House Bill 1386. For example, the annual appropriations prior to 2005 were $450,000 or less. In 2005 and thereafter the annual appropriations increased ranging between a low of $854,000 to a high of $1.06 million.

However, additional clarification is needed in defining historic preservation and identifying relevant uses of the surcharge revenues, because not all interested organizations agree on what constitutes a historic preservation organization or program. For audit purposes, we applied the broad county code definitions and interpretations of Washington State officials in considering whether the recording surcharge revenues complemented or replaced other Current Expense Fund resources allocated to historic preservation organizations and programs. We concluded that House Bill 1386 was appropriately implemented and the county's contribution to community historic preservation organizations and programs increased based on the code and official interpretations.

However, we recommend that the King County Council consider adopting legislation, or directing the executive to develop policies and procedures for defining and using the Current Expense Fund portion of the recording surcharge revenues to promote accountability and transparency for interested community groups and the general public.

Summary of Executive Response

See the appendices section for the complete text of the Executive Response.

Acknowledgement

The King County Auditor's Office sincerely appreciates the cooperation received from management and staff of the Records and Licensing Services Division and the Office of Management and Budget.

1 INTRODUCTION AND BACKGROUND

Introduction

At the request of the King County Council, the King County Auditor's Office initiated a compliance audit of King County's use of historic preservation funding authorized by the Washington State Legislature in House Bill 1386. House Bill 1386 increased the mandatory document recording surcharge for the preservation of historic documents from two to five dollars per recorded instrument or document. The legislation also authorized the County Council's discretionary use of a portion of the recording surcharge revenues to promote historic preservation or historic preservation programs, or to preserve historic records.

Background

King County Recording Function

House Bill 1386 and other state legislation pertaining to the preservation of historic and archival records identify the county auditor as the local government agent responsible for copying, indexing, and preserving historic documents. In 38 of the 39 counties in Washington State, the county auditor is responsible for the recording function. In King County, the Records and Licensing Division directs the overall records function. The Superintendent of Records, along with the Archives and Records Management Section, oversees certain records preservation functions.

Since 1853, the King County Recorder's Office has recorded and maintained more than 350 types of documents. These documents include all real estate transactions, marriage records, military discharges, wills, and other miscellaneous documents. Recording surcharges are paid by individuals who submit documents to the Recorder's Office for the public record.

Relevant Washington State Historic Funding Legislation

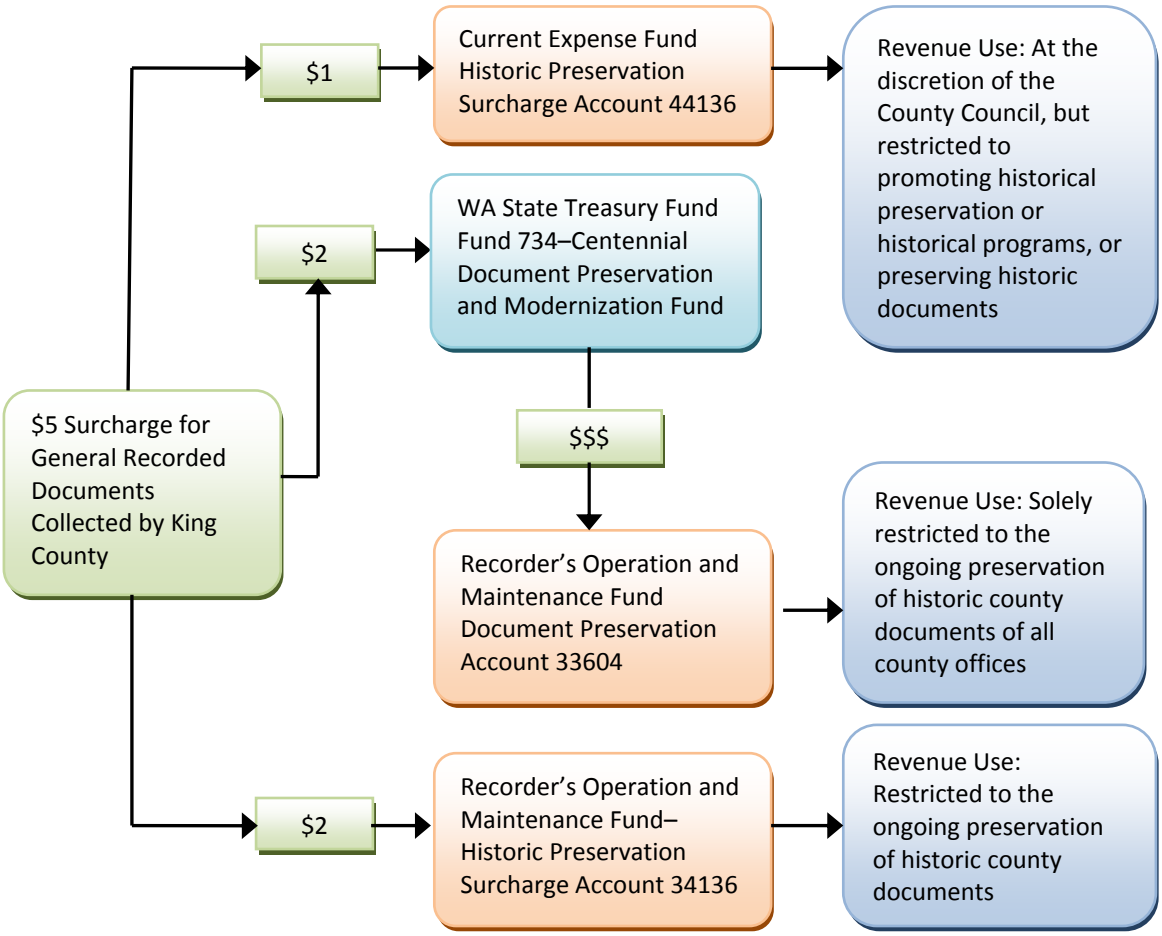
In 1989, the Washington State Legislature adopted the Centennial Document Preservation Act, which introduced the initial two-dollar surcharge per recorded document or instrument for historic preservation purposes. The legislature found that many old documents recorded or filed with county auditors were deteriorating due to age and environmental degradation, and needed to be preserved to avoid irreparable damage. Revenues generated from the recording surcharge were to be used for the ongoing preservation of the counties' historic documents.

House Bill 1386 Increases the Amount of Recording Surcharge and Provides Discretion in Use of Revenues

House Bill 1386 amended the Centennial Document Preservation Act in 2005. The legislation not only increased the mandatory recording surcharge per document from two to five dollars, but also authorized county legislative officials to use a portion of surcharge revenues for discretionary purposes. Specifically, the legislation authorized county commissioners to use one dollar per recorded document at their discretion to promote historical preservation or historical programs, or to preserve historic documents. The remaining four dollars of the five-dollar recording surcharge were to be used for the ongoing preservation of county historic documents and costs involved with the purchase, installation and maintenance of an improved system for copying, preserving, and indexing documents recorded in the county.

Exhibit A below depicts the flow of general recording surcharge revenues collected and deposited in King County funds and accounts as mandated by House Bill 1386.

EXHIBIT A
General Historical Document Preservation Surcharge (July 2005)



SOURCE: Washington State Legislature, House Bill 1386, 2005.

One Dollar of General Document Recording Fee Deposited in Current Expense Fund for County Council's Discretionary Use

As shown in Exhibit A, King County is responsible for collecting 100 percent of the surcharge revenues for recording general public documents. Effective July 2005, one dollar of the surcharge revenues per general document recorded is to be deposited directly into the county's Historic Preservation Surcharge Account within the Current Expense Fund to be used at the discretion of the County Council to promote historic preservation or historic programs, or to further support the preservation of historical documents. The remaining four dollars

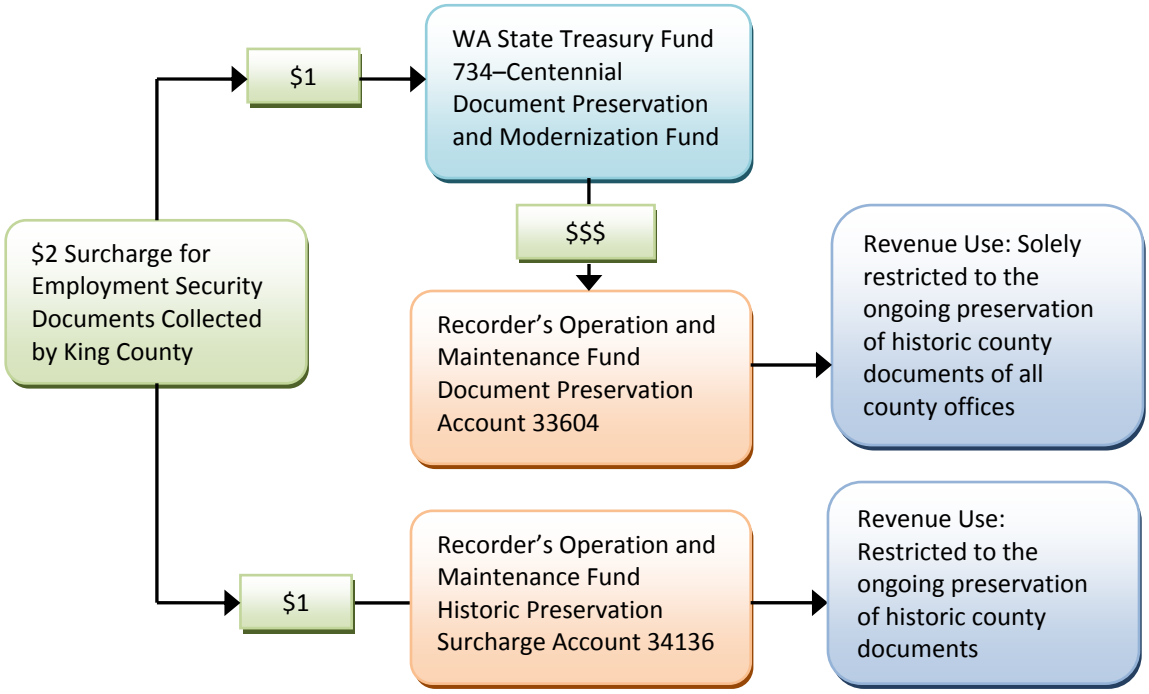
of the surcharge revenues for general documents, which includes the portion of the two dollars transmitted back from the Washington State Treasurer, are to be collected and deposited into the King County Recorder's Operation and Maintenance Fund and accounts to be used for the preservation of historic county records. The Records and Licensing Division records approximately 800,000 general documents annually.

Employment Security Department Recording Surcharge Used Only to Preserve Documents

House Bill 1386 also directed King County to collect only the original two-dollar surcharge (rather than the five-dollar "general" records surcharge) for recording Washington State Employment Security Department documents. One hundred percent (100%) of the revenues generated from the Employment Security Department's two-dollar surcharge was also to be used for the ongoing preservation of the county's historical documents and costs involved with the purchase, installation, and maintenance of an improved system for copying, preserving, and indexing documents recorded in the county.

Exhibit B below depicts the flow of recording surcharge revenues collected for Employment Security Department documents and deposited in King County funds and accounts.

EXHIBIT B
Employment Security Department Historical Document Preservation Surcharge



SOURCE: Washington State Legislature, House Bill 1386, 2005.

As indicated above, two dollars (100 percent) of the Employment Security surcharge revenues are to be collected and deposited into the King County Recorder's Operation and Maintenance Fund and accounts. An annual average of approximately 1,700 Employment Security Department documents is recorded by the Records and Licensing Division.

Portion of County's Surcharge Revenues Transmitted to the Washington State Treasurer

After collecting the recording surcharge revenues for the general public and Employment Security Department documents, King County transmits 50 percent of the historic document surcharge revenues (minus the portion deposited into the current expense fund) and 50 percent of the total Employment Security historic document surcharge revenues to the Washington State Treasurer. The State Treasurer deposits the surcharge revenues from all 39 counties into the Centennial Document Preservation

and Modernization Account, a state treasury trust account established with the adoption of the Centennial Document Preservation Act. In July of each year, the State Treasurer redistributes the surcharge revenues back to each county treasurer based upon a legislatively-mandated formula.

Surcharge Revenues Redistributed by State Treasurer Solely for Historic Records Preservation and Related Costs

The King County Treasurer is responsible for depositing the redistributed recording surcharge funds into a Recorder's Centennial Document Preservation and Modernization Account (Document Preservation Account). The other 50 percent of the recording surcharge revenues remain in the county Recorder's Operation and Maintenance Fund. All funds from both accounts are to be used for the ongoing preservation of county historic documents and costs involved with the purchase, installation, and maintenance of an improved system for copying, preserving, and indexing documents recorded in the county.

Both the Centennial Document Preservation Act of 1989 and House 1386 expressly prohibit King County and other counties from using recording surcharge revenues redistributed by the State Treasury to support general government expenses. This provision, in effect, emphasizes the State Legislature's intent in instituting and maintaining the recording surcharge primarily to support the ongoing preservation of historic documents and related costs.

Community Interest in the Historic Preservation Recording Surcharge

King County was one of the first counties in the nation to provide public funding for culture programs, including art, heritage, preservation, and public art programs. In 2008, King County funded 247 community arts and heritage organizations as well as suburban arts commissions. Due to the proliferation of arts programs over time, the heritage organizations and historic

preservation programs now represent only 15 percent of the cultural agencies that have been historically funded by the county and now receive proportionally less funds than the art programs.

House Bill 1386 Established New Revenue Source for Historic Preservation Programs

House Bill 1386 established a new source of revenue for community-based heritage organizations and historic preservation programs in King County by authorizing the use of one dollar of the five-dollar, per-document recording surcharge to promote historic preservation or historic programs. During the first two-full years since after House Bill 1386 was implemented, King County generated an average of $690,339 annually in new Current Expense Fund revenues. The amount of the surcharge revenues is significant to heritage organizations and historic preservation programs operating in King County.

Consequently, the heritage organizations and historic preservation programs were interested in determining how King County implemented House Bill 1386. Specific interest was expressed in whether the county used the recording surcharge revenues to complement rather than replace other Current Expense Fund revenues previously allocated to these community-based organizations and programs.

Audit Scope and Methodology

Consistent with the County Council's request in the adopted 2008 annual budget ordinance and the interests of various community historic organizations, the audit scope focused on the county's implementation of House Bill 1386. The primary audit objectives were to determine whether the county:

1. Accounted properly for the full amount of funds received from increased surcharges on recorded instruments;
2. Utilized the recording surcharge revenues for the purposes authorized by the state legislature; and

3. Used the recording surcharge revenues to complement or replace the level of Current Expense Fund revenues previously appropriated to community-based heritage organizations or historic preservation programs.

Audit Review Spanned 2003 to 2007 to Provide Comparison of Funding

The audit review period spanned 2003 to 2007 to provide a basis for comparing historic preservation funding before and after the 2005 implementation of House Bill 1386.

To accomplish the audit objectives, the Auditor's Office:

- Reviewed relevant provisions in the Revised Code of Washington, the Washington State Auditor's Office Budgeting, Accounting, and Reporting System (BARS) Manual, the Washington State Legislature's draft legislation, bill analyses, and fiscal notes pertaining to the Centennial Document Preservation Act of 1989 and House Bill 1386, and relevant provisions of the King County Code. Documentation provided by the King County Office of Management and Budget and the Records and Licensing Services Division were also reviewed.
- Conducted interviews and corresponded with officials from the Office of the Washington State Treasurer; the Washington State Secretary of State Office's Archives Division; State Auditor's Office; the King County Records and Licensing Services Division in the Department of Executive Services; the Office of Management and Budget; the Historic Preservation Program in the Office of Business Relations and Economic Development; and 4Culture—the Cultural Development Authority of King County.

- Analyzed King County financial reports, annual and supplemental budgets, and other documents relevant to the collection and allocation of recording surcharge revenues for fiscal years 2003 to 2007.

We conducted this audit in accordance with applicable Government Auditing Standards.

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2 KING COUNTY IMPLEMENTATION OF HOUSE BILL 1386

Chapter Summary

This chapter reviews King County's implementation of House Bill 1386. It includes a review of the county's financial accounting for the recording surcharge revenues and examines whether the county's use of the surcharge revenues was consistent with legislative intent. In addition, the chapter considers whether the revenues generated from the recording surcharges complemented or replaced other county resources allocated to heritage organizations and preservation programs. Finally, we discuss the benefit of establishing county policies and protocols for allocating and monitoring the use of future surcharge revenues.

General Conclusion

Recording Surcharge Revenues Used for Purposes Authorized

King County established the financial funds and accounts required by House Bill 1386; collected and deposited the recording surcharge revenues into the appropriate funds; and used the revenues for the historic purposes identified in the legislation. The total amount of annual appropriations for historic preservation purposes from the county's Current Expense Fund during the past three years exceeded the total amount of recording surcharge revenues collected and were substantially higher than prior years' appropriations. Policies and protocols are needed, however, to restrict the use of the Current Expense Fund portion of the recording surcharge revenues to historic preservation purposes because there was not a clean audit trail. This would facilitate tracking the actual revenues and expenditures and promote greater transparency and

accountability over how the recording surcharge proceeds are used.

KING COUNTY'S ACCOUNTING FOR REVENUES GENERATED FROM THE RECORDING SURCHARGE FOR HISTORIC PRESERVATION PURPOSES

House Bill 1386 not only identifies the amount of recording surcharges to be collected for historic preservation purposes, but also stipulates that Washington State and King County establish and maintain particular funds and accounts for the receipt of the surcharge revenues. These funds and accounts include:

1. The county general fund (Current Expense Fund);
2. A Recorder's Centennial Document Preservation and Modernization Account; and
3. A Recorder's Operation and Maintenance Fund.

The King County Records and Licensing Division manages the overall county records function, including the Recorder's Operation and Maintenance Fund. The Recorder's Office was responsible for establishing two accounts in the Recorder's Operation and Maintenance Fund for receipt of recording surcharge revenues: The Document Preservation Account (shortened title for the Recorder's Centennial Document Preservation and Modernization Account) and the Historic Preservation Surcharge Account.

The King County Office of Management and Budget manages the Current Expense Fund. The Office of Management and Budget was responsible for establishing a second Historic Preservation Surcharge Account in the Current Expense Fund for receipt of the recording surcharge revenues.

Finding 1: King County Properly Accounted for the Revenues Generated from the Recording Surcharge for Historic Preservation

King County complied with House Bill 1386 in establishing new or maintaining existing accounts (previously established with the enactment of the Centennial Document Preservation Act of 1989) for the receipt and disbursement of recording surcharge revenues. Exhibit C below provides an overview of the annual recording surcharge revenues received and deposited by the Records and Licensing Division into various county funds and accounts between 2003 and 2007.

EXHIBIT C
Recording Surcharge Revenue Analysis (2003 – 2007)

Funds and Accounts	2003	2004	2005	2006	2007	Five-Year Total
Current Expense Fund Revenues						
Historic Preservation Surcharge Account - 44136	$0	$0	$299,300	$706,759	$673,919	$1,679,978
Current Expense Fund Subtotal[1]	**$0**	**$0**	**$299,300**	**$706,759**	**$673,919**	**$1,679,978**
Recorder's Operation and Maintenance Fund Revenues						
Document Preservation Account - 33604	$439,300	$513,477	$374,494	$629,778	$680,962	$2,638,011
Historic Preservation Surcharge Account - 34136	$1,113,292	$747,701	$1,040,051	$1,420,333	$1,351,658	$5,673,035
Recorder's Fund Subtotal	**$1,552,592**	**$1,261,178**	**$1,414,545**	**$2,050,111**	**$2,032,620**	**$8,311,046**
Recording Surcharge/Historic Preservation Revenues						
Total –All Funds	**$1,552,592**	**$1,261,178**	**$1,713,845**	**$2,756,870**	**$2,706,539**	**$9,991,024**

[1]**Note**: King County's collection of recording surcharge revenues deposited in the Current Expense Fund for discretionary historic preservation purposes became effective in July 2005. Prior to July 2005, no surcharge revenues were deposited into the county's Current Expense Fund.

SOURCE: King County Revenue Detail Reports and Fund and Account Summary Reports for Years 2003 to 2007.

County Collected More than $9.9 Million in Surcharge Revenues During Past Five Years

As shown in Exhibit C, the Records and Licensing Division collected more than $9.9 million in total recording surcharge revenues between 2003 and 2007. The amount of revenue collected fluctuated annually consistent with increases or decreases in the number of documents recorded. However, all

recording surcharge revenues collected were deposited into the funds and accounts established for historic preservation purposes.

Approximately $1.7 million (17 percent) of the $9.9 million was deposited into the Historic Preservation Surcharge Account between 2005 and 2007. The Historic Preservation Surcharge Account was established within the county's Current Expense Fund in July 2005 specifically for the receipt of the "discretionary" recording surcharge revenues authorized by House Bill 1386. No surcharge revenues were deposited into the Current Expense Fund during 2003 and 2004, because the county was not authorized to use surcharge revenues for discretionary historic preservation purposes until 2005.

County Established Funds and Accounts Required by House Bill 1386

Between 2003 and 2007, the Records and Licensing Division also deposited approximately $8.3 million in recording surcharge revenues into the Document Preservation Account and the Historic Preservation Surcharge Account established within the Recorder's Operation and Maintenance Fund. The Recorder's Operation and Maintenance Fund was established as a special revenue fund for the purpose of collecting the original two-dollar recording surcharge revenues previously authorized by the Centennial Document Preservation Act. The Document Preservation Account was also established within the Recorder's Fund as the county's equivalent of the Centennial Document Preservation and Modernization Account. Approximately $2.6 million of the $8.3 million in surcharge revenues were deposited into the Document Preservation Account between 2003 and 2007. The Washington State Treasurer confirmed that the amount of recording surcharge revenues deposited into the Document Preservation Account was consistent with the amount of funds annually rebated back to King County by the state.

Finally, the Records and Licensing Division collected and deposited the remaining $5.7 million in surcharge revenues during the five-year audit period into the Historic Preservation Surcharge Account in the Recorder's Operation and Maintenance Fund. Thus, the Records and Licensing Division complied with House Bill 1386 in establishing and maintaining the legislatively-mandated funds and accounts, and by collecting and depositing the recording surcharge revenues into those accounts.

RECOMMENDATION None.

KING COUNTY'S USE OF RECORDING SURCHARGE REVENUES FOR HISTORIC PRESERVATION PURPOSES

House Bill 1386 states the historic preservation purposes and uses of the recording surcharge revenues. Those surcharge revenues deposited into the county Current Expense Fund can be used at the County Council's discretion to promote historic preservation, support historic preservation programs, or to augment resources for the preservation of county historic records. House Bill 1386 and the preceding Centennial Document Preservation Act requires surcharge revenues deposited into the Recorder's Operation and Maintenance Fund to be used for the preservation of county historic records. The costs involved with the purchase, installation, and maintenance of an improved system for copying, preserving, and indexing documents recorded in the county were also allowable uses of the surcharge revenues.

Audit Focuses on Two General Areas of Inquiry

In addressing the audit objective of whether King County complied with House Bill 1386 in using recording surcharge revenues as intended, we focused on two general areas of inquiry:

1. Did the county use the Current Expense Fund portion of the surcharge revenues to promote historic preservation organizations or programs, or to preserve historic records?
2. Did the county use the Recorder's Operation and Maintenance Fund portion of the surcharge revenues to preserve historic documents, or for costs associated with an improved system for copying, preserving, and indexing recorded county documents?

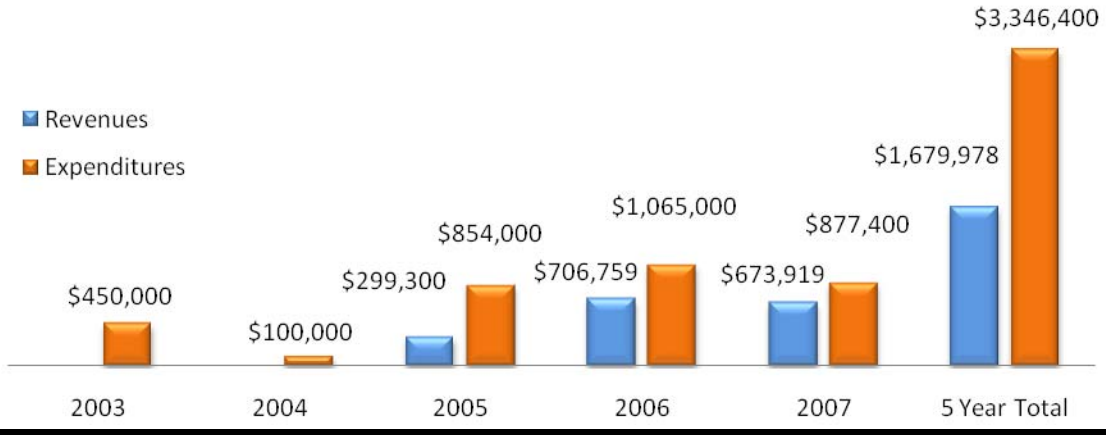
As discussed in Finding 4, the county has not yet established specific qualifications or criteria for historic preservation organizations or programs that are eligible to receive recording surcharge revenues. Nevertheless, Finding 2 identifies the community organizations that have received recording surcharge revenues to date for historic preservation purposes.

Finding 2: King County Used the Current Expense Fund Portion of the Recording Surcharge Revenues for the Purposes Authorized by House Bill 1386.

House Bill 1386 provides discretion to King County in using the recording surcharge revenues deposited into the Current Expense Fund. However, all surcharge revenues deposited into the Current Expense Fund must be used for historic preservation purposes. We determined that the county complied with House Bill 1386.

We found that the County Council appropriated more funds to community historic preservation organizations than the amount of the recording surcharge revenue collected by the county between 2005 and 2007. Exhibit D below displays the annual recording surcharge revenues collected by the county and corresponding appropriations to community-based historic preservation organizations or programs during the past five years.

EXHIBIT D
Annual Recording Surcharge Revenues and Historic Preservation Expenditures (2003 to 2007)



SOURCE: Office of Management and Budget and 4Culture—the Cultural Development Authority of King County, 2003 to 2007 Annual and Supplemental Budget Ordinances.

King County's Annual Contributions to Historic Preservation Since 2005 Exceeded Prior Years' Contributions

As noted in Exhibit D above, the King County Records and Licensing Division collected and deposited approximately $1.7 million of surcharge revenues into the Current Expense Fund from 2005 to 2007. The County Council appropriated a total of approximately $2.8 million revenues to historic preservation organizations and programs during the same three-year period (e.g., $854,000, $1,065,000 and $877,400). The total annual appropriations to the community-based organizations and programs not only exceeded the $1.7 million in surcharge revenues generated by $1.1 million, but the amount of

the annual appropriations after 2005 exceeded the amount of funds appropriated annually to the community prior to the enactment of House Bill 1386.

Historic Preservation Grants Appropriated to Community Agencies From Current Expense Fund

Over the full five-year review period, the County Council appropriated $3.3 million to heritage organizations and historic preservation organizations. Exhibit E below contains a complete listing of heritage organizations and historic preservation programs that received grants and amount of the grant awards between 2003 and 2007.

EXHIBIT E

Annual County Appropriations to Historic Preservation Organizations and Programs (2003 to 2007)

Years	Organizations	Awards	Annual Subtotals
2003	Wing Luke Museum	$450,000	
	2003 Subtotal		**$450,000**
2004	Highline Historical Society	$50,000	
	Shoreline Historical Society	50,000	
	2004 Subtotal		**$100,000**
2005	Wing Luke Museum	$750,000	
	Kent Historical Society	4,000	
	Southwest Seattle Historical Society	20,000	
	History Link	30,000	
	Highline Historical Society	50,000	
	2005 Subtotal		**$854,000**
2006	Museum of Flight	$500,000	
	Historic Chinatown Gate	100,000	
	City of Auburn Mary Olson Farm	80,000	
	Highline Historical Museum	250,000	
	History Link	50,000	
	Issaquah Historical Society	25,000	
	NW Railway Museum	40,000	
	Sammamish Heritage Society	5,000	
	Skykomish High School	5,000	
	Snoqualmie Valley Historical Museum	5,000	
	Tolt Historic Society at Carnation	5,000	
	2006 Subtotal		**$1,065,000**
2007	Black Diamond Historical Society	$2,400	
	Daybreak Star Cultural Center	250,000	
	Duwamish Longhouse Project	100,000	
	Eastside Heritage Center	10,000	
	Federal Way Historical Society	5,000	
	Highline Historical Society	200,000	
	History Link	55,000	
	Maritime Heritage Initiative	150,000	
	Seattle Chinese Garden Society	100,000	
	White River Historical Museum	5,000	
	2007 Subtotal		**$877,400**
		Grand Total	**$3,346,400**

SOURCE: Office of Management and Budget and 4Culture—the Cultural Development Authority of King County Correspondence Referencing 2003 to 2007 Annual and Supplemental Budget Ordinances and Appropriations.

As shown in Exhibit E, $3.3 million in funds were appropriated to historic preservation organizations and programs between 2003 and 2007, which substantially exceeded the $1.7 million in recording surcharge revenue collected during the same period.

County Has Not Yet Designated the Historic Preservation Surcharge Account as a Restricted Account

Although House Bill 1386 mandates that King County use the Current Expense Fund portion of the surcharge revenues for historic preservation purposes, the county has not yet designated the Historic Preservation Surcharge Account in the Current Expense Fund as a restricted account. In addition, the county does not typically develop financial plans at the account level. As a result, the Office of Management and Budget does not track the use of the surcharge revenues at the account level, and had difficulty determining the total Current Expense Fund revenues appropriated for historic preservation purposes during the audit review. Other county programs that do not have a historic mission or purpose may inadvertently benefit from the use of the recording surcharge revenues unless sufficient controls are established to restrict the use of the funds.

Generally accepted accounting principles suggest that reserved and unreserved portions of a particular fund be distinguished when "*legal restrictions impose a limitation narrower than the purpose of the [general] fund itself."* [1] Establishing a restriction on the Historic Preservation Surcharge Account in the Current Expense Fund would help promote accountability and transparency in the use of the surcharge revenues, consistent with accounting principles. A financial plan would also be helpful in readily identifying the revenues available at the beginning and end of the year, and from year to year, for historic preservation activities versus other general government activities. The county's Chief Accountant agreed the fund should be restricted to conform to accepted accounting principles.

[1] Governmental Accounting and Financial Reporting, 2005, p. 50.

RECOMMENDATION 1

The Accounting Section in the Finance and Business Operation Division should restrict the Historic Preservation Surcharge Account to ensure that the recording surcharge revenues are used exclusively for historic preservation purposes, consistent with House Bill 1386 and generally accepted accounting principles. An annual financial plan should also be developed to promote transparency for the expended and unused balance of the account.

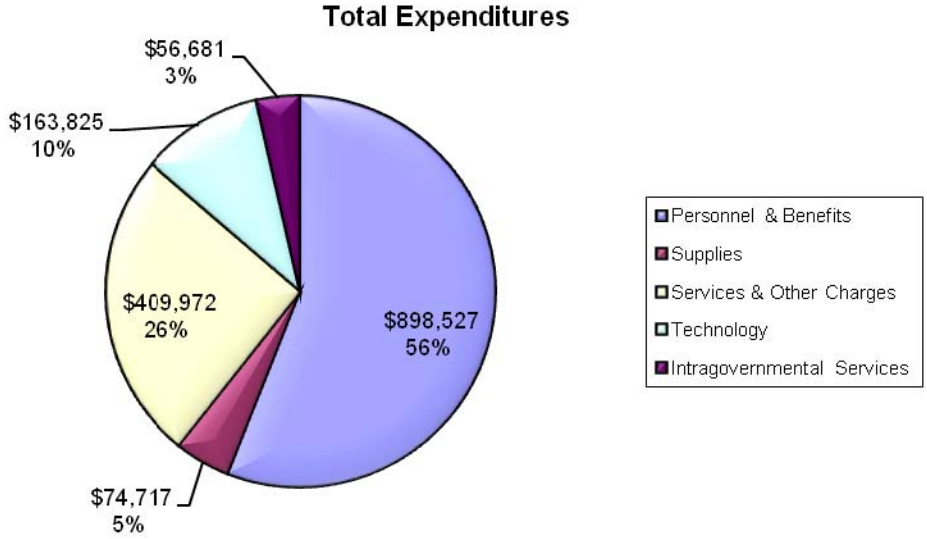
Finding 3: King County Used the Recorder's Operation and Maintenance Fund Portion of Surcharge Revenues for Purposes Authorized in House Bill 1386.

In 1995, the King County Council adopted legislation establishing the Recorder's Operation and Maintenance Fund to collect the original two-dollar recording surcharge revenues authorized by the Centennial Document Preservation Act of 1989. Even though House Bill 1386 increased the surcharge and authorized the discretionary use of one dollar of surcharge, the legislation did not alter previous state or county policies for the use of the Recorder's Operation and Maintenance Fund revenues.

Approximately $8.3 Million Deposited into Recorder's Operation and Maintenance Fund to Preserve County Records

Nevertheless, we reviewed the use of the recording surcharge revenues deposited in the two designated recording surcharge accounts within the Recorder's Operation and Maintenance Fund. Approximately $8.3 million of $9.9 million collected between 2003 and 2007 was deposited into the Recorder's Operation and Maintenance Fund for the preservation of historic county records and associated system costs.

EXHIBIT F
Recorder's O&M Fund Expenditures - 2007



SOURCE: Office of Management and Budget and 4Culture—the Cultural Development Authority of King County Correspondence Referencing 2003 to 2007 Annual and Supplemental Budget Ordinances and Appropriations.

County Use of Recording Surcharge Revenues also Consistent with "Allowable" Uses Identified by the State Auditor's Office

Exhibit F displays the Records and Elections Division's use of the $1.6 million in recording surcharge revenues by expense category for 2007. Based on our more detailed review of Recorder's Office expenditures and interfund transfers, we determined that the Records and Licensing Division's used the recording surcharge revenues for the purposes authorized by the King County Code and House Bill 1386. For example, the Washington State Auditor's Office concluded that funding personnel dedicated to the recording function was an acceptable use of the surcharge revenues (see Appendix 1 for State Auditor's Office interpretation of allowable uses of surcharge revenues). We found that the Recorder's Office used the funds only for dedicated staff, technology improvements, and other expenses that conformed to the allowable uses of the revenues identified by the State Auditor's Office.

Financial and Strategic Plans Identify Allowable Uses of Revenues Deposited into the Recorder's Operation and Maintenance Fund

Also, the Records and Licensing Division has developed both financial and strategic plans that address allowable uses of the Recorder's Operation and Maintenance Funds. The plans provide important direction and transparency in the use of Recorder's Operation and Maintenance Fund portion of the recording surcharge revenues. As discussed in the finding below, the development of similar policies and procedures for the Current Expense Fund portion of the surcharge revenues would be useful to ensure transparency in allocating those revenues.

RECOMMENDATION None.

IMPACT OF THE HOUSE BILL 1386 IN COMPLEMENTING OR REPLACING KING COUNTY'S PRIOR CONTRIBUTIONS TO HISTORIC PRESERVATION ORGANIZATIONS AND PROGRAMS

Finding 4 considers whether the revenues generated from the recording surcharges complemented or replaced other county resources allocated to historic preservation organizations and programs based on existing council policies and related appropriations during the past five years. In addressing this audit objective, we also focused on relevant questions from the community historic preservation organizations and by 4Culture—the Cultural Development Authority of King County. The questions surfaced, in part, because the county has not yet adopted formal policies or criteria for the use of the Current Expense Fund portion of the recording surcharge revenues. The questions include:

- Is the county's use of the surcharge revenues consistent with the definition of historic preservation per the King County Code, Revised Code of Washington, Washington Administrative Code, or other policy directives?

- What constitutes a heritage organization or historic preservation program?
- Were appropriations of recording surcharge revenues to a non-heritage organization consistent with the intent of House Bill 1386?
- Will the county establish policies to clarify its intent for the community in the use of the recording surcharge revenues, and to ensure that the funds are solely allocated to promote historic preservation, historic preservation organizations, or preserve historic county documents?

The benefits of establishing county policies and protocols for allocating and monitoring the use of future surcharge revenues are also discussed.

Finding 4: County's Use of the Recording Surcharge Revenues Complemented Other Current Expense Fund Resources, But Further Clarification Is Needed Over Use for Historic Preservation Purposes.

Community Interest in Use of Current Expense Fund Portion of Surcharge Revenue

Officials from community historic preservation organizations and programs were interested in determining whether the Current Expense Fund portion of the surcharge revenues were used to complement rather than replace county resources allocated to such organizations prior to House Bill 1386. It is generally presumed that replacement (e.g., supplanting) of funds has occurred if new funds are used to offset rather than add to the previous level of funding. As depicted in Exhibits D and E, we found the county had increased its investment in historic preservation efforts rather than replaced existing recording surcharge revenues subsequent to the enactment of House Bill 1386. For example, the annual appropriations prior to 2005 were $450,000 or less. In 2005 and thereafter the annual appropriations increased ranging between a low of $854,400 to a high of $1.06 million.

However, we also determined that additional clarification is needed in defining historic preservation and identifying relevant uses of the surcharge revenues, because not all interested organizations agree on what constitutes a historic preservation organization or program. For example, some interested organizations considered the $500,000 grant to the Museum of Flight for a pedestrian walkway connecting the main museum to other exhibits, and the $100,000 grant for the Seattle Chinatown Gate to be more relevant as a contemporary museum exhibit and public art, respectively, than to historic preservation. A question was also raised about whether recording surcharge revenue could be used to preserve contemporary county documents.

The differing perspectives may result from the lack of a common definition of what constitutes historic preservation activities. Although we were unable to find a definition of historic records in the state or county code, Title 20 of the of the King County Code defines heritage and historic resource as follows:

> *"Heritage" is a discipline relating to historic preservation and archaeology, history, ethnic history, traditional cultures and folklore. "Historic resource" is a district, site, structure or object significant in national, state, or local history, architecture, archaeology, and culture.*

These definitions encompass both historic and contemporary resources, e.g., traditional cultures, physical objects, and structures of significance.

State Officials Agreed That Historic Preservation Includes Contemporary Documents and Resources

The Office of Management and Budget, which manages the Current Expense Fund, considered the historic preservation organizations and programs funded by the county with surcharge revenues to be consistent with the above definitions. The Office of Management and Budget's position was also consistent with the Washington State Attorney General's, Auditor's, and Archivist's interpretations of the State Legislature's intent in

enacting the original Centennial Document Preservation Act and House Bill 1386. All three state officials concluded that preservation of *contemporary* as well as historic records with *enduring value* for both the public and agency was consistent with the letter and spirit of the legislation.

Broader Definitions and Interpretation of Historic Resources Encompass Traditional Cultures, Physical Objects, and Structures of Significance

In considering whether the recording surcharge revenues complemented or replaced other Current Expense Fund resources, we determined that the county used the surcharge revenues for preservation programs and activities that were consistent with the broader code definitions and interpretations of Washington State officials. Given these definitions, interpretations, and the increased amount of the appropriations from the Current Expense Fund surcharge revenues and other county funds to community-based historic preservation programs between 2005 and 2007, we also concluded that House Bill 1386 was appropriately implemented.

Although the county allocated the "discretionary" surcharge revenues to community-based historic preservation organizations during the past few years, House Bill 1386 also permits the council to use the revenues for other county (rather than community) historic preservation programs, and for the county recording function. Using surcharge revenues for both purposes are clearly allowed, however, establishing polices to designate the use of the surcharge revenues has merit for two reasons. First, it would foster greater predictability in the use of the discretionary surcharge funds for the historic preservation community. Second, it would provide—along with a financial plan—greater transparency in officially defining what constitutes a historic preservation entity or activity and in tracking related appropriations.

RECOMMENDATION 2 The King County Council should consider adopting legislation, or direct the executive to develop policies and procedures for the use of the Current Expense Fund portion of the recording surcharge revenues to promote accountability in using the revenues for purposes authorized by House Bill 1386, and transparency for the interested community groups and general public.

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APPENDICES

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APPENDIX 1

STATE AUDITOR "AUDITOR'S O&M FUND POLICY STATEMENT"

(RCW 36.18.010, 36.22.160, 36.22.170)

<table>
<tr><th colspan="2">ALLOWABLE EXPENDITURES</th></tr>
<tr><td>RECORDING SYSTEM: Costs involved with the purchase, installation and maintenance of an improved system for copying, preserving, and indexing documents recorded in the county. This shall include: "the acquisition, installation, operation, and maintenance of the equipment provided for in the definition above, and the establishment of procedures for the continued preservation, indexing, and filing of all instruments and records that will after the effective installation dates, constitute a part of the improved system."</td><td>1. Purchase of equipment that is used to perform the recording of legal documents (i.e., imaging and/or digital systems and peripherals - this includes all related hardware and software and continuous upgrades).
2. Remodeling costs associated with system installation and/or upgrades (includes planning and architectural costs, workstation furniture, internal structure construction costs)
3. Personnel, if related to system maintenance, implementation or upgrade work.
a. Systems administration staff
b. Special project/temporary staff related to eliminating backlogs prior to system implementation, scanning backdated historical records into the system etc.
4. Travel costs associated with system upgrades, site visits prior to system installations, and training courses related to Recording System implementation and development.
5. Ongoing maintenance and training costs for personnel associated with administering and/or operating the recording system equipment.</td></tr>
<tr><td>HISTORICAL RECORDS: Expenditures for the preservation of historical/archival records. Archival records are defined in WAC 434-610-090. All documents designated archival on the Washington State Retention Schedules as authorized by the State Archivist would be eligible for preservation monies.</td><td>1. Expenditures for firms performing preservation/restoration work on historical documents (conservation treatment, physical and chemical stabilization, rebinding, and repairs).
2. Mechanical systems to preserve and make accessible series of archival records. (automated microfilming or imaging systems)
3. Personnel:
a. Professional individuals hired to perform historical/archival document work.
b. Staff used to do only historical document preservation work.
4. Purchase of equipment and supplies used for document preservation (purchase of special binders, storage units, climate control equipment, microfilm equipment, indexing software, etc.)</td></tr>
<tr><th colspan="2">UNALLOWABLE EXPENDITURES</th></tr>
<tr><td colspan="2">1. Supplanting regular staff - using the O&M money (i.e., Recording staff or Licensing Staff, etc.)
2. Furniture, equipment and remodeling for other county departments or other divisions of the County Auditor's Department.
3. Capital improvements and repairs of a general nature
4. Training costs for personnel that do not relate to the recording system or historical records preservation.</td></tr>
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Note: This table was copied into the report in its original format (without editing).

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LIST OF RECOMMENDATIONS & IMPLEMENTATION SCHEDULE

Recommendation 1: The Accounting Section in the Finance and Business Operation Division should restrict the Historic Preservation Surcharge Account to ensure that the recording surcharge revenues are used exclusively for historic preservation purposes, consistent with House Bill 1386 and generally accepted accounting principles. An annual financial plan should also be developed to promote transparency for the expended and unused balance of the account.

Implementation Date: June 2009

Estimate of Impact: Restricting or reserving the Current Expense Fund portion of the recording surcharge revenues will help ensure that the surcharge revenues are exclusively used for the authorized purposes, and the county's full compliance with House Bill 1386. The annual financial plan for the reserved surcharge revenues will promote transparency in the use and availability of the revenues for the county's historic preservation and heritage organization on an annual basis.

Recommendation 2: The King County Council should consider adopting legislation, or direct the executive to develop policies and procedures for the use of the Current Expense Fund portion of the recording surcharge revenues to promote accountability in using the revenues for purposes authorized by House Bill 1386, and transparency for the interested community groups and general public.

Implementation Date: September 2009

Estimate of Impact: Developing policies and procedures for the use of the surcharge revenues will improve accountability by designating specific county historic preservation or heritage purposes for the use of surcharge revenues.

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EXECUTIVE RESPONSE

King County

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King County Executive
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December 24, 2008

Cheryle A. Broom
King County Auditor
Room 1020
COURTHOUSE

Dear Ms. Broom:

Thank you for your December 10, 2008 letter and the opportunity to respond to the Compliance Audit for Historic Preservation. We concur with the findings and recommendations in the audit report.

We are pleased that your audit found that the county's use of historic preservation funding is compliant with House Bill 1386, and that revenues have been properly recorded, and are used for authorized purposes. The audit also noted that the County supplemented funds for this program in excess of the revenues generated from the recording surcharges.

The Office of Strategic Planning and Performance Management and Office of Management and Budget, will develop policies and procedures to ensure that the allocation of Current Expense Fund revenues complies with authorized uses for historic preservation and heritage programs. An annual financial plan will also be developed for the program. This work is scheduled to be completed by the third quarter of 2009. Additionally, the Financial Management Section of the Finance and Business Operations Division will analyze the account and any unexpended balances will be reported as a reservation of the general fund balance, available exclusively for future historic preservation purposes.

We would like to acknowledge the professional approach and assistance provided by your audit team during the audit.

Attached is our detailed response to the audit's recommendations in the table format requested.

Sincerely,

Ron Sims
King County Executive

cc: Jim Buck, Director, Department of Executive Services
Bob Cowan, Director, Office of Management and Budget
Carolyn Ableman, Records and Licensing Services, Department of Executive Services
Susan Baugh, Senior Principal Management Auditor, King County Auditor
Allan Thompson, Senior Financial Auditor

Recommendation	Agency Position	Schedule for Implementation	Comments
Recommendation #1 The Accounting Section in the Finance and Business Operation Division should restrict the Historic Preservation Surcharge Account to ensure that the recording surcharge revenues are used exclusively for historic preservation purposes, consistent with House Bill 1386 and generally accepted accounting principles. An annual financial plan should also be developed to promote transparency for the expended and unused balance of the account.	Concur	January – June 2009	FBOD Financial Management Section will review the account as part of year-end closing and Comprehensive Annual Financial Report preparation and unexpended balances will be reported as a reservation of General Fund Current Expense Fund's Fund Balance. The reserved fund balance would be available exclusively for historic preservation purposes. Because historical historic preservation expenditures have exceeded dedicated revenues, the balance reported is expected to be minimal. The annual financial plan recommendation is addressed in the response to Recommendation #2.
Recommendation #2 The King County Council should consider adopting legislation, or direct the executive to develop policies and procedures for the use of the Current Expense Fund portion of the recording surcharge revenues to promote accountability in using the revenues for purposes authorized by House Bill 1386, and transparency for the interested community groups and general public.	Concur	January – September 2009	The Office of Strategic Planning and Performance Management and Office of Management and Budget will develop policies and procedures to ensure that the allocation of Current Expense Fund revenues complies with authorized uses for historic preservation and heritage programs as defined by House Bill 1386, and that the allocation is clearly described in the 2010 budget. An annual financial plan will be developed for 2010.