



King County

KING COUNTY AUDITOR'S OFFICE

MAY 14, 2024

Recorder's Office: Better Financial Oversight Will Reduce Risk

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EXECUTIVE SUMMARY

The King County Recorder's Office (KCRO) provides essential government services, such as recording official documents and collecting tax revenue. In 2022, it handled more than \$1 billion on behalf of state, county, and local districts. Despite its major role in revenue collection, we found that KCRO did not take sufficient steps to ensure reliable financial reporting. As a result, they are at a greater risk for uncollected revenue, non-compliance, and undetected fraud. Reviewing data from 2018 through 2023, we found errors allocating nearly \$7 million to the wrong customer accounts and overbilling invoice customers by more than \$1 million. These errors took place amid unclear roles and responsibilities, information silos, and outdated procedures that limited accountability. We make recommendations to improve quality assurance, develop clear roles and responsibilities, and increase data-informed decision-making.

Acknowledgment

The King County Recorder's Office (KCRO) took action to correct issues identified during the audit.

This included applying deposits to the correct customer accounts, removing duplicate charges, and updating transactions with missing information. KCRO provided operational insights to shed light on the audit context.

KCRO takes pride in the volume and complexity of documents it records. During the six-year period of our review (2018 through 2023), the office collected more than \$4 billion in Real Estate Excise Tax (REET) to pass on to state and local governments and recorded more than three million documents related to real estate transactions, marriages, name changes, and powers of attorney. An internal Lean assessment in 2023 found that the agency was performing well when it came to customer engagement, visual management, and delivering results. It had also developed and implemented solid controls targeting cash handled at front counters to safeguard this high-risk asset against loss.

The work of developing strong internal controls is complex and requires collaboration among people with diverse areas of expertise distributed throughout the County. We would like to thank KCRO for its time and efforts during the audit process.

REPORT HIGHLIGHTS

What We Found

The King County Recorder's Office (KCRO) has not taken sufficient steps to ensure the accuracy and completeness of its financial data. As a result, it is at a greater risk for uncollected revenue, non-compliance, and potential fraud. For example, in a review of data from 2018 through 2023, we found errors that applied nearly \$7 million in prepaid account deposits to the wrong customer accounts and overbilled invoice customers by more than \$1 million. KCRO does not closely monitor prepaid accounts, increasing the risk for outstanding payments and impermissible credit to private parties. The office does not review invoices for accuracy, increasing the likelihood that customers receive bills with missing and duplicate transactions. In addition, the office did not send unpaid accounts to collections for returned checks, reducing revenue, and inappropriately applied expired tax exemptions, increasing the risk that a few customers paid less in taxes than they owed.

Several factors contribute to the persistence of these issues. For one, the Records and Licensing Services Division that oversees KCRO did not document clear roles and responsibilities for financial oversight. The complexity of the work done at KCRO contributed to the siloing of information and lack of clarity. Also, turnover in a key fiscal position slowed process improvements. Gaps in financial procedures reduced accountability, efficiency, and effectiveness, while limited use of data hindered operational improvement.

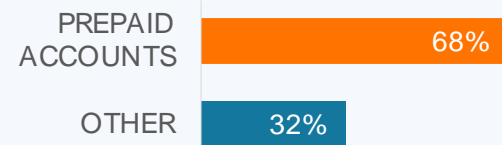
What We Recommend

We make recommendations for specific control activities to increase the accuracy and completeness of financial data and revenue collection. We also make recommendations to improve documentation of roles and responsibilities related to financial oversight and increase the use of available data and resources to proactively prevent and detect errors.

Why This Audit Is Important

KCRO is a section in the Department of Executive Services' Records and Licensing Services Division. In 2022, it collected more than \$1 billion in Real Estate Excise Tax (REET) to pass on to state and local governments. The same year, the office collected \$18 million in revenue for King County's General Fund. County revenue is largely made up of fees for collecting REET (73 percent) and recording official documents (22 percent). KCRO recorded nearly 300,000 documents in 2023, an average of more than 1,100 documents a day. Because of the volume of transactions it processes, it is essential that KCRO collects revenue timely, accurately, and completely to ensure King County achieves its strategic goals of best run government and financial stewardship.

Prepaid accounts are the most common payment type at the King County Recorder's Office.



Source: King County Auditor's Office analysis

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Section 1: Financial Issues Affected Multiple Areas

SECTION SUMMARY

The King County Recorder’s Office (KCRO) did not have the right steps in place to prevent and detect uncollected revenue, non-compliance, and potential fraud. In our review of data from 2018 through 2023, we identified seven financial issues related to prepaid accounts, invoices, interagency billing, checks, and Real Estate Excise Tax (REET) collection. In this section, we detail those issues and make recommendations for actions to improve quality assurance and financial stewardship.

Financial issues increased errors and risk **Gaps in office process led to several financial issues, increasing errors and risk of uncollected revenue, non-compliance, and potential fraud.** KCRO had some steps in place to address errors. However, these steps were not sufficient to prevent and detect the issues discussed below. Exhibit A summarizes the seven issues we found by risk, what steps were missing that led to the issue, the dollar value of affected transactions, and whether KCRO took action to address the issue prior to the publication of this report.

EXHIBIT A: Financial issues affected multiple areas due to gaps in the King County Recorder's Office processes.

Risk	Issue	Missing Process	Approximate Amount	Addressed?
Uncollected revenue, non-compliance, potential fraud	Inaccurate prepaid account credits	Review of deposits by customer	\$7,300,000 (2018–2023)	Partially
	Limited monitoring of prepaid accounts	Verify daily customer statements against county data Proactive management of inactive accounts	Unknown	No
Overcharging customers	Duplicate charges on invoices	Monthly review of invoices before mailing	\$1,000,000 (Jan 2018–Oct 2023)	Partially
	Duplicate charges to county agencies	Quarterly review of interagency charges	\$30,000 (2020–2023)	Partially
Uncollected revenue	Missing charges on invoices	Monthly review of error report	\$17,000 (2018–2023)	Partially
	Returned checks	Clear procedures for collections	\$91,000* (2018–2023)	No
Non-compliance	Inaccurate Real Estate Excise Tax exemptions	Removal of expired exemptions	Unknown	Yes

Note: Time frames are included in the scope column to clarify the period of data analysis that yielded the dollar value in the amount column. Time frames vary based on data availability at the time of analysis.

*Estimate for returned checks is a low-end estimate based on a subset of 17 checks totaling more than \$1,000 each.

Source: King County Auditor's Office analysis

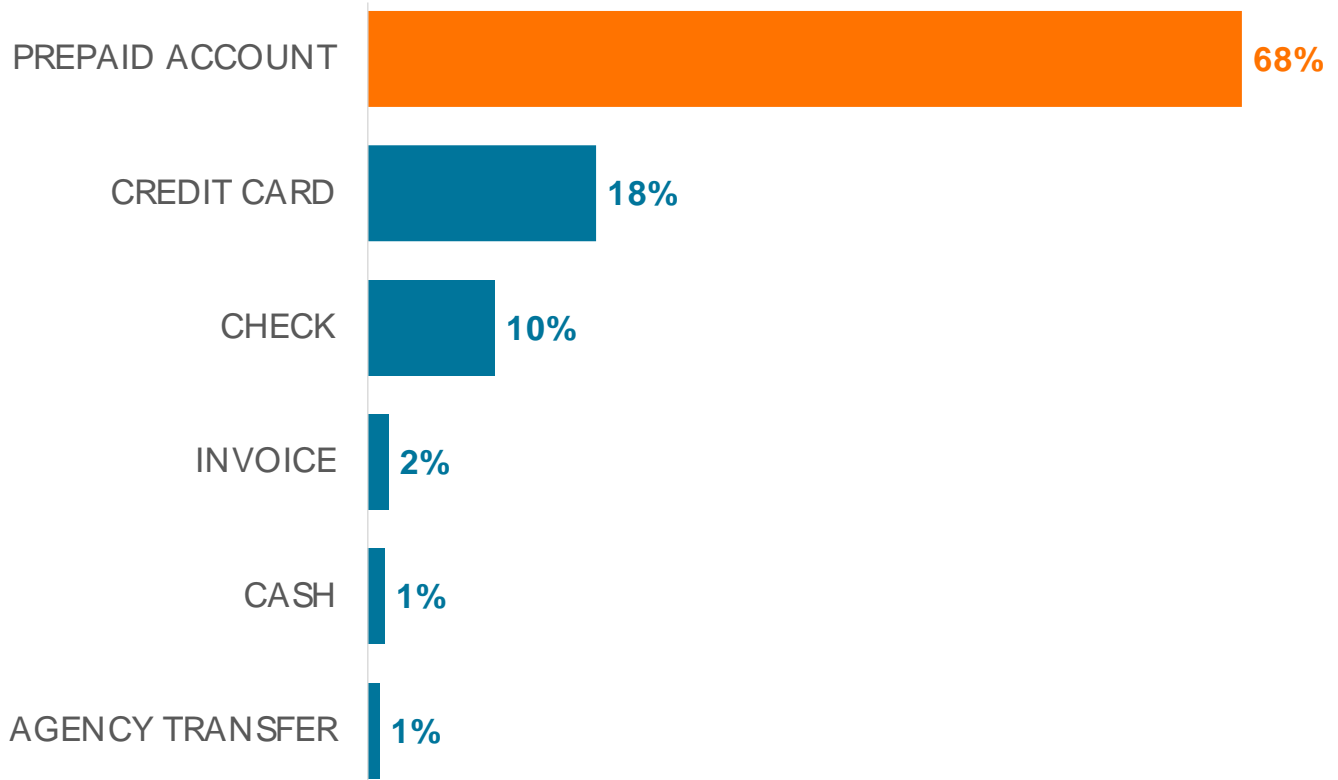
Prepaid account deposits went to wrong customers

KCRO credited prepaid accounts incorrectly, increasing the risk of uncollected revenue, customer disputes, and non-compliance. Prepaid accounts are the most common payment type, making up nearly 70 percent of KCRO transactions. In a review of a sample of electronic deposits made by three high-volume non-governmental customers, we found that KCRO entered the wrong customer's name on five deposits.¹ This incorrectly reduced one customer's account by \$6.8 million and incorrectly increased the accounts of two other customers by \$4.5 million and \$2.3 million, respectively. As a result of a customer email, we became aware of nine account credits KCRO entered without a corresponding bank deposit, and one omitted despite its deposit into the bank. These errors inflated the customer's account balance by about \$550,000.

Incorrectly inflating customers' prepaid account balances makes it possible for them to record documents with, or request refunds of, deposits that either do not exist or belong to another customer and risks masking a negative balance. Further, these mistakes may violate the Gift of Public Funds Doctrine under Article 8, Section 7 of the Washington State Constitution, which prohibits local governments from providing credit to private parties.

¹ These three customers made 4,299 deposits from 2018 through 2023, or an average of about 700 deposits per year.

EXHIBIT B: Prepaid accounts are the most common payment type at the King County Recorder's Office.



Note: Percentages are based on the number of receipted transactions in 2023. Prepaid accounts make up 98 percent of the total value of receipts because these payment types are more common for large transactions subject to Real Estate Excise Tax.

Source: King County Auditor's Office analysis

KCRO uses customer-provided statements to enter deposits and does not have a review process to check that deposits go to the right customer, increasing the likelihood of undetected errors and misdirected funds. The agency said it does ad hoc checks to see if the relative values of prepaid accounts appear logical. It also works with an accountant in King County's Treasury Division to identify variances in its cash account. These checks did not detect the errors we found in manually entered deposits, nor did the checks result in timely correction. Best practice is for management to use relevant, quality information to support the functioning of internal controls and consider the potential for fraud when responding to risks.

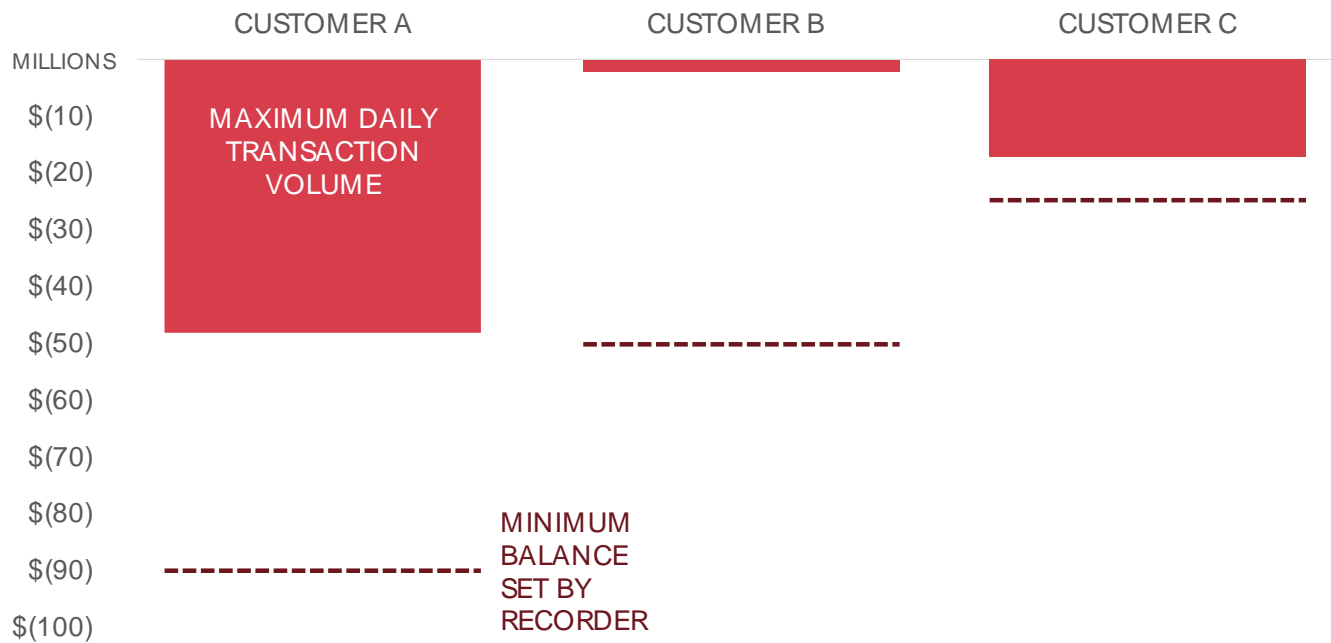
Recommendation 1

The King County Recorder's Office should develop, document, and implement a process to regularly verify customer prepaid account deposits against office bank statements.

Largest accounts not reviewed for accuracy

KCRO did not balance high-volume prepaid accounts daily, increasing the risk of uncollected revenue and non-compliance with state law. For the three high-volume non-governmental prepaid account customers discussed above, KCRO allows negative account balances of \$90 million, \$50 million, and \$25 million, respectively. RALS said large negative balances are necessary for these customers to ensure that large real estate transactions are recorded timely. However, the current minimum-allowed balances are between two and twenty-three times larger than each company's maximum daily transaction volume. RALS also said it expects any negative balances to be cleared within a day because these customers send nightly electronic payments. However, in a review of deposits from 2018 through 2023, we found 30 business days where KCRO entered payments for only two of the three customers. On one of these days, the customer that failed to make a deposit accrued a negative balance of \$147,000 on Friday that grew to \$4.06 million on Monday before the account was settled on Tuesday. Moreover, as stated above, KCRO booked at least nine payments in 2023 that did not actually occur. This shows that these private customers do not always make daily payments, increasing the risk that credit is extended to private parties.

EXHIBIT C: The King County Recorder's Office allows large negative balances for three private prepaid accounts.



Source: King County Auditor's Office analysis

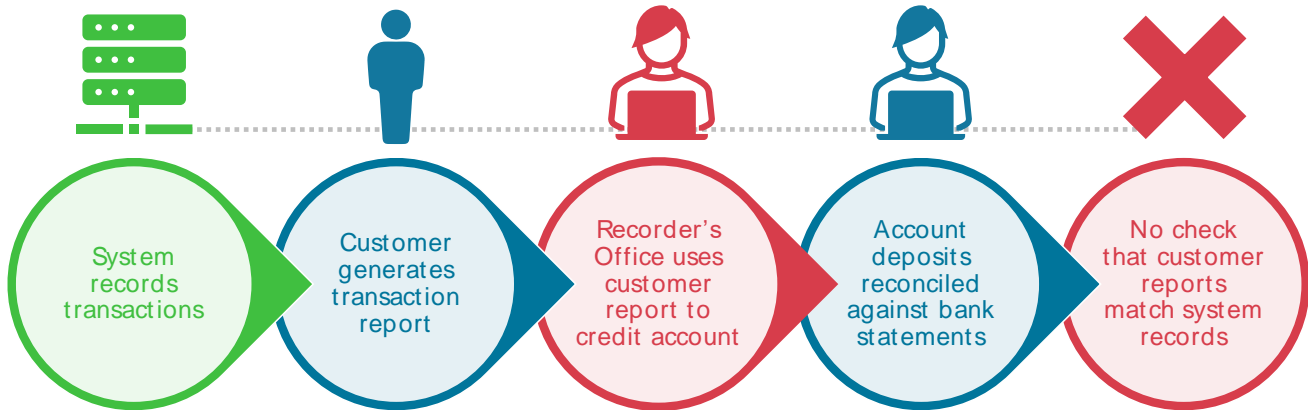
The Records and Licensing Services Division (RALS) does not check that statements provided to KCRO by three high-volume non-governmental customers included all transactions processed in the recording system, increasing the risk of uncollected revenue. In contrast, Pierce County said it checks customer statements against its own records because it has found errors in customer data caused by system glitches and human error, making reliance on customer data insufficient. Pierce County fiscal staff external to the recording section balance its high-volume prepaid accounts daily by reviewing three statements — those of the recorder, customer, and the bank.²

KCRO checks customer statements against bank statements, without comparison to its own data. This means that KCRO does not compare how much these three customers pay against how much they owe based on recorded transactions, running the risk that the office is processing transactions that customers do not pay for. The County's recording software includes a report that lists transactions by customer and date. KCRO could use this to verify that customer-

² King and Pierce counties are the only recording offices in Washington that collect Real Estate Excise Tax in addition to providing recording services. At Pierce County, if all three sources match, the fiscal staffer enters the deposits into the financial system and the recording staff sets the customers' account balances to zero in the recording system.

reported daily totals match the total value of all recorded transactions, then any variances can be reviewed for potential errors. The use of such a premade report would be an efficient means to safeguard against lost revenue. Best practice is for management to design activities to ensure that all transactions are paid for in full.

EXHIBIT D: The King County Recorder's Office does not check that customer statements used to record deposits include all transactions processed in its recording system.



Source: King County Auditor's Office analysis

Recommendation 2

The King County Records and Licensing Services Division should develop, document, and implement a process to verify daily usage reported by customers against actuals in the recording system for the accounts of non-governmental customers for whom the King County Recorder's Office allows negative minimum balances.

RALS does not have contracts with high-volume prepaid account customers, increasing the risk of non-compliance with the state constitution. The constitution prohibits local governments from providing credit to private parties. In addition to balancing accounts daily to ensure all debts are paid, Pierce County maintains contracts with the private customers for whom it allows negative balances to ensure timely payment within clear time frames. KCRO did not have contracts with these same customers even though it has an expectation that they pay off negative balances no later than the following business day. Discrepancies found in prepaid account balances may indicate the extension of credit, uncollected revenue, or delays

in data entry. Contracts could specify the specific time frames for calculating daily transactions (should they differ from a 24-hour cycle beginning at midnight), clarify the period of time accounts may be negative, state the consequences for failing to meet agreed-upon terms, and establish procedures for managing disputes. Best practice is for management to design activities that respond to risks and to externally communicate necessary quality information to achieve objectives.

Recommendation 3

The King County Records and Licensing Services Division should develop, document, and sign agreements with non-governmental customers for whom the King County Recorder's Office allows negative balances to ensure timely, complete, and accurate payment of major prepaid accounts.

Inactive prepaid accounts accumulated

Nineteen percent of active prepaid accounts have negative balances, reducing transparency, efficiency, and effectiveness. Of its 343 active prepaid account customers, 64 had negative account balances exceeding \$6.5 million, even though KCRO set up only 10 of these accounts to allow negative balances when it started using this system in 2017. Three-quarters of the \$6.5 million was in accounts KCRO set up for governmental entities and utilities external to King County. The remainder were for county agencies. About 56 percent of these customers paid for services without using prepaid accounts, indicating that their negative balances may be legacy data instead of uncollected revenue.³ KCRO did not, however, have records accounting for its negative prepaid account balances, increasing the risk that a portion of it may be uncollected revenue.

KCRO does not have a process to proactively close prepaid accounts, allowing negative balances to accrue. The last time KCRO purged its accounts was more than 10 years ago, longer than the six-year retention period for banking and collections documents. Purging or annotating negative accounts is important for several reasons. First, because King County needs to know whether customers owe money to allow for collection. Second, because the use of prepaid accounts with negative balances may have contributed to unexpected variances in the accounting ledger. And finally, because removing unnecessary account data can increase efficiency of reconciliation.

³ Twenty of twenty-eight external customers received invoices and an estimated 40 percent of internal county agencies either received invoices or made interfund transfers.

Recommendation 4

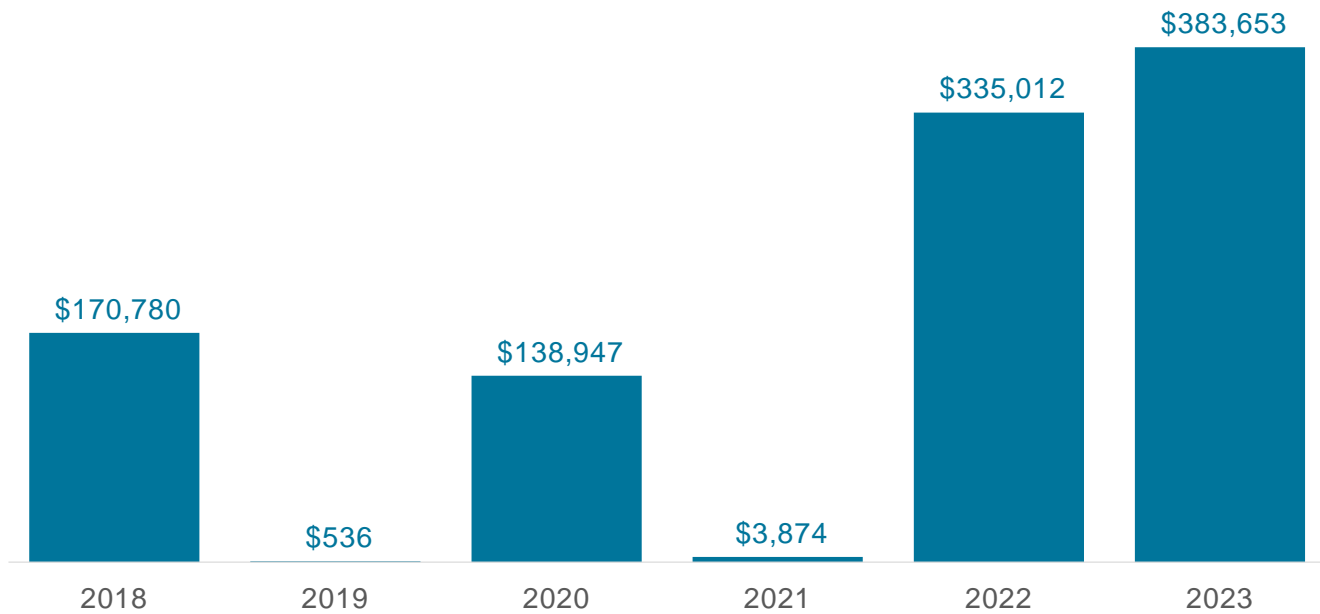
The King County Recorder's Office should develop, document, and implement a routine and proactive process to inactivate unused prepaid accounts in line with county records and finance policies.

Invoices included extra charges

KCRO mailed invoices with duplicate transactions totaling \$1 million over six years, overcharging customers and creating extra work. The same transactions, identified by their receipt number and transaction date, appeared multiple times on different monthly invoices. KCRO billed invoiced customers a total of \$6.7 million during the period. King County District Court was overbilled by nearly \$500,000, while about 40 other customers had excess charges ranging from \$11 to \$130,000. Customers included municipalities, law firms, and utilities. In August and September 2023, at least three customers notified Accounts Receivable, a section in the Finance and Business Operations Division (FBOD), of the issue, resulting in account credits. Customers who did not contact the County either overpaid or paid less than the amount on the invoice, resulting in aging accounts receivable.⁴ KCRO had about \$240,000 in receivables that were more than 91 days overdue as of September 28, 2023, including \$37,000 that were more than 361 days overdue. Duplicate transactions were likely caused by a problem with the interface between the recording and central finance systems. KCRO said it was only aware of errors that took place in 2023.

⁴ Accounts receivable show how much money is due from customers and can indicate financial problems, a possible dispute, or a possible misunderstanding about billing.

EXHIBIT E: Duplicate transactions on customer invoices ramped up in 2022 and 2023.



Note: Invoices with duplicate transactions went out in September and November 2018; August 2019; September through December 2020; October 2021; February, July, September, and December 2022, and July and August 2023. Scope of data analysis was June 2018 through October 2023.

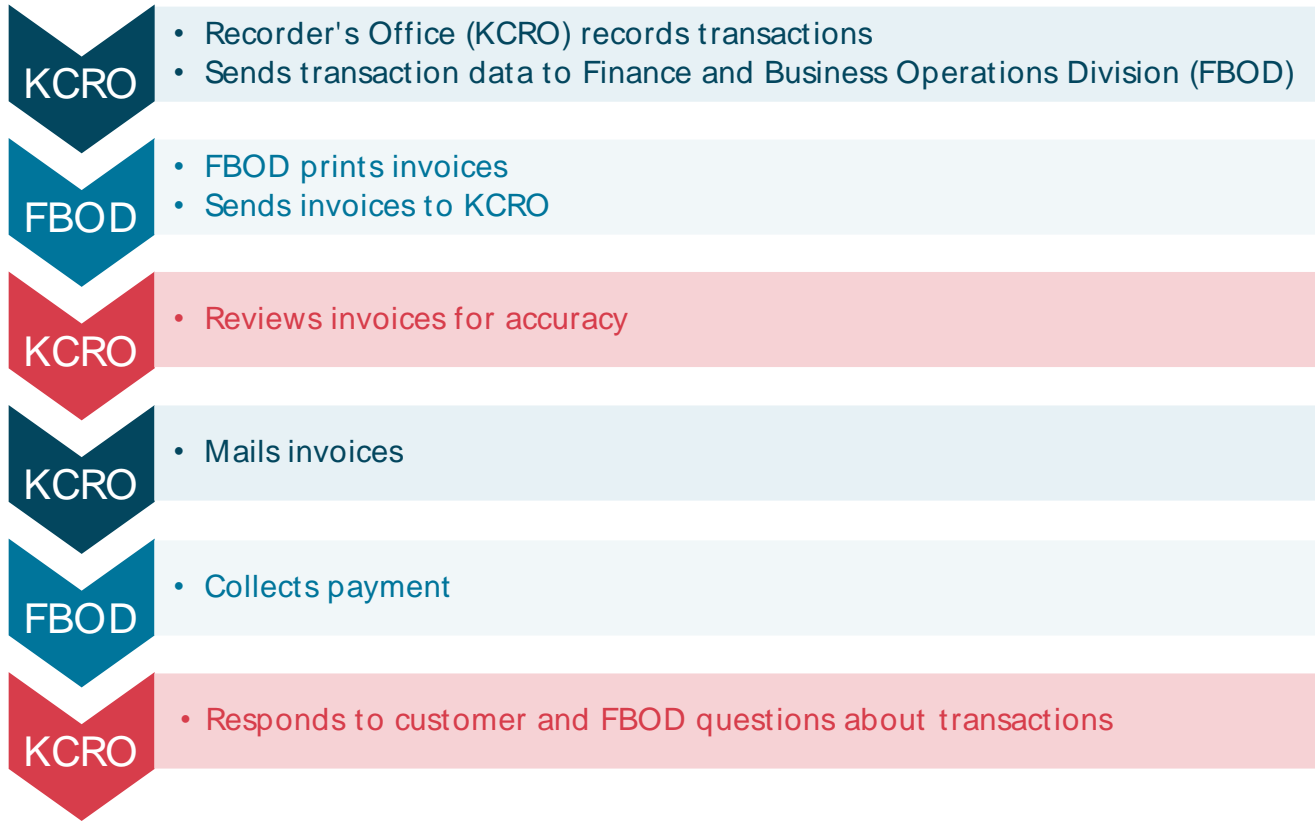
Source: King County Auditor's Office analysis

Staff did not proactively detect and correct the errors, allowing them to persist.

Separation of duties is a common way to reduce the risk of error, misuse, or fraud. For invoice payments, King County splits duties between the KCRO and the Accounts Receivable section. KCRO exports data from its recording system to the County's finance system, from which the Accounts Receivable section prints invoices. Since invoices were generated using the central finance system, which staff had limited experience with, KCRO directed customer inquiries about invoice accounts to FBOD for a period of several months in mid-2023. In addition, KCRO did not review invoices for accuracy before mailing, and RALS finance staff did not review aging accounts receivable monthly. County policy is for agencies to review accounts receivable both monthly and at year end to see if any amounts should be written off as bad debt.⁵ Agencies send requests to write-off receivables to the chief accountant at FBOD's Financial Management section. FBOD lists monthly review of accounts receivable on its finance managers' checklist.

⁵ FIN 11-3-1 (AP) Write-Off of Uncollectable Accounts Receivable.

EXHIBIT F: The King County Recorder's Office did not proactively detect or correct invoice errors amid process gaps.



Source: King County Auditor's Office

Recommendation 5

The King County Recorder's Office should develop, document, and implement a process to verify the accuracy of invoices and make any necessary corrections before mailing.

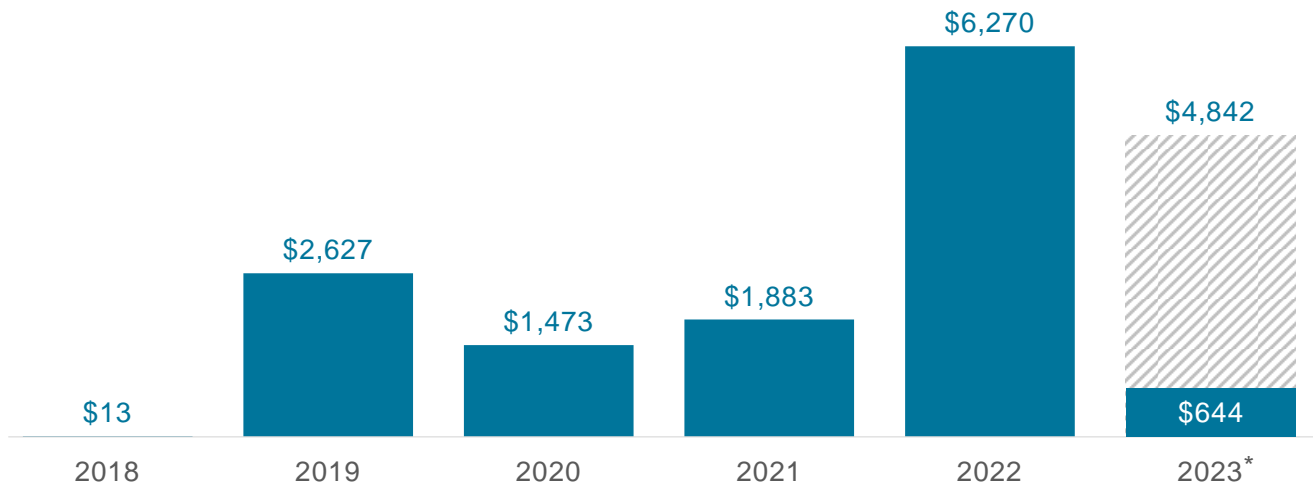
Recommendation 6

The Records and Licensing Services Division should develop, document, and implement a process to ensure finance managers review and reconcile accounts receivable monthly.

Errors lowered invoice revenue **KCRO did not invoice customers for all transactions between 2018 and 2023, reducing revenue to county, state, and local jurisdictions.** Exhibit G, below, shows

that the value of unbilled transactions more than doubled to \$6,270 in 2022 and remained above pre-2022 levels in 2023. The value of unbilled transactions across six years accounted for less than 1 percent of annual invoice revenue of approximately \$1.1 million. However, KCRO could easily find and correct errors using existing tools. As a result of our audit, KCRO promptly corrected data entry errors from 2023 but did not fix errors from prior years because it did not have a documented process for how to do so.

EXHIBIT G: Data entry errors left thousands of dollars in transactions unbilled.



*For 2023, the hashed area shows value of data entry errors that the King County Recorder's Office corrected during our audit. The solid area shows errors that were unresolved as of writing.

Source: King County Auditor's Office analysis

KCRO did not regularly run and review a report that lists transactions that need to be corrected before billing, reducing efficiency.⁶ To ensure the accuracy of financial reporting, the process for updating prior-year transactions requires more fiscal oversight than for current-year transactions. As a result, conducting regular checks for missing transactions within the same fiscal period could reduce the workload of fiscal staff at KCRO and RALS by minimizing accounting entry adjustments. Catching errors early also could reduce time spent responding to customer inquiries about missing charges.⁷ In addition, running the report provides

⁶ Errors tended to be missing elements, like customer names or addresses.

⁷ One customer emailed KCRO about \$630 in missing charges on its September 2023 invoice, resulting in at least 11 emails between the customer, FBOD, and KCRO. KCRO resolved the issue in time to include the missing charges in the next month's invoice.

information useful for training staff on data entry for invoice transactions. Since invoices are mailed to customers monthly, a monthly review would be sufficient to prevent invoices from missing relevant transactions.

Recommendation 7

The Records and Licensing Services Division should develop, document, and implement a process for correcting common errors, including in prepaid account deposits and invoice transactions, that specifies appropriate steps for transactions in current and prior fiscal periods.

Recommendation 8

The King County Recorder's Office should develop, document, and implement a process for monthly review of data entry errors to ensure invoices include all valid transactions.

Agencies also saw extra charges

KCRO sent duplicate charges to other county agencies, inflating their costs by \$30,000 over four years. These charges represented 3 percent of KCRO's \$922,000 interagency billing between 2020 and 2023. As in the case of invoice overbilling, the same transactions were sent to the central finance system multiple times. The Department of Local Services' Permitting Division had the most duplicate charges. FBOD directs agency finance managers to review interfund billing quarterly. Best practice is for agencies to perform ongoing monitoring to ensure internal controls are functioning.

Recommendation 9

The Records and Licensing Services Division should develop, document, and implement a process to ensure finance managers review interfund transfers for duplicate transactions quarterly.

Returned checks not sent to collections

KCRO did not send returned checks to collections, reducing revenue for county, state, and local jurisdictions. The agency received at least 245 checks totaling at least \$196,000 between 2018 and 2023 that were returned by the bank for lack of funds. During the six-year period, the office collected more than 234,000 checks. Returned checks were for recording services, property taxes, and REET. KCRO received payment for 130 returned checks between 2018 and 2023, accounting for 53 percent

of the returned checks flagged in its recording system, by sending notices to customers. In 2023, the agency received payment on 38 returned checks, higher than any other year in the review period. Checks that remained uncollected by the time of our audit included 11 valued at more than \$1,000, of which one was for more than \$31,000 (in property taxes). The writers of these 11 checks were largely companies, with some sending more than one bad check. Returned checks recorded in 2022 and 2023 were for no more than \$261 each, averaging \$2,000 in all per year.

KCRO leadership was not aware that it had the authority to send customers to collections. However, its own cash handling procedures instruct the agency to send customers to collections. County financial policies give agencies the authority to determine whether to send customers to collections. Agencies send customers to collections by providing evidence of nonpayment to Accounts Receivable, which has a contracted collections agency. The contractor works on commission based on a percentage of the amount its recovers. Since the collections contractor works on commission, the higher the check value, the greater the contractor's incentive to collect.

Recommendation 10

The King County Recorder's Office should develop, document, and implement a collections process for returned checks, taking into consideration the value and frequency of returned checks.

Taxpayers granted expired exemptions

KCRO granted outdated tax exemptions on 24 transactions, increasing the risk that it collected insufficient revenue for state and local governments. KCRO used expired exemptions in 5 percent (24 of 515) of REET exemptions it recorded since April 22, 2019.⁸ That is the date of expiry for excise tax exemption WAC 458-61A-103(2), for transfers involving underlying debt. The Washington State Department of Revenue publishes a list of REET exemptions on its website, so agencies know which exemptions are in effect. During the audit, we provided KCRO with the list of exemptions. Afterward, it removed expired exemptions from its recording software to prevent future use. Three more exemptions are set for expiry in 2030 and 2035. The Department of Revenue suggests that county staff implement processes to ensure they only use exemption codes that are valid at the time of transfer.

⁸ The Washington State Department of Revenue has a four-year statute of limitations on REET audits. One of the transactions took place in 2021, within the last four years, while the other 23 took place in 2019.

Recommendation 11

The King County Recorder's Office should develop, document, and implement a process to identify outdated exemptions and prevent staff from applying them once they have expired.



Section 2: Limited Oversight Reduced Accountability

SECTION SUMMARY

KCRO does not have a solid foundation for achieving King County’s financial objectives, resulting in the issues discussed in the previous section. Financial oversight is limited in part due to the complexity of the work, which has contributed to information siloing and unclear roles and responsibilities. Turnover has also contributed to uncertainty and gaps in information, stalling continuous improvement. We found that KCRO responded to customers’ requests to fix specific errors without effectively using its own data to find and fix root causes and systemic issues. We make recommendations to establish clear roles and responsibilities, reduce turnover, and increase data-informed decision-making.

Gaps in financial foundation

KCRO does not have a solid foundation for achieving financial objectives, increasing reputational risk. Financial objectives defined in the state Budgeting, Accounting, and Reporting System (BARS) Manual are to have effective and efficient operations, comply with relevant laws and regulations, safeguard public resources, and ensure reliable financial reporting.⁹ Ensuring that internal controls are adequate to achieve these financial objectives is the responsibility of management working in harmony with a governing body responsible for oversight.

KCRO has taken initial steps, but there are several areas for improvement. For example, it regularly sends transaction information to the County finance system but does not have efficient and effective means to help ensure data reliability for financial reporting. It safeguards funds collected at front counters but has fewer controls in other areas where they manage more money, such as prepaid accounts. The office has worked to adhere to state laws on recording fees but has made limited progress in developing its overarching cash handling procedures and ensuring it does not extend credit to private parties. Below we discuss gaps in these and other areas.

⁹ This manual prescribes accounting and reporting for local governments under RCW 43.09.200. See Internal Control, Section 3.1.3.20.

EXHIBIT H: Financial objectives for local governments.

FINANCIAL OBJECTIVES

- 1 Maintain effective and efficient operations
- 2 Comply with relevant laws and rules and safeguard public resources
- 3 Ensure reliable financial reporting

Source: King County Auditor's Office summary of Section 3.1.3.20 in the Budgeting, Accounting, and Reporting System (BARS) Manual maintained by the Office of the Washington State Auditor.

Limited financial oversight

RALS conducts limited oversight of financial activities in KCRO, reducing accountability. RALS finance team sits within the director's office and conducts oversight of budgeted revenue and expenses. This team does not, however, have clear authority to oversee financial controls that relate to the issues discussed in the first section of this report. Effective oversight is one principle of a solid control environment. Without appropriate oversight, there is a greater risk of inappropriate control activities, miscommunication, and lack of action. Best practice is for those responsible for oversight to have the appropriate skills to enable discussion, constructive criticism, and decision-making. These skills can include programmatic, technical, financial, and internal controls expertise. KCRO staff hold programmatic knowledge but varying amounts of financial, internal control, and technical knowledge. In contrast, RALS finance staff have skills related to internal controls and finance but have less programmatic and technical knowledge to navigate source data in the recording software. Technical expertise resides with RALS functional analyst, the County's software vendor, and King County Information Technology.

Recommendation 12

The Records and Licensing Services Division should

- a) develop, document, and assign clear roles and responsibilities for independent oversight of King County Recorder's Office financial controls
- b) develop, document, and implement a plan to ensure that staff assigned to oversight roles and responsibilities have the appropriate skills and resources to conduct oversight.

Unclear roles, responsibilities

Unclear roles and responsibilities for financial activities have limited efficiency and effectiveness. KCRO enters transactions into the recording system and exports it to the County finance system. KCRO staff said that they have no visibility into what happens with the data once it is exported. This can create confusion when there is a separation of duties that crosses teams and agencies. For example, KCRO has no documentation of the responsibilities for accounts receivable, which are shared between FBOD and KCRO. It has no clear process for correcting errors, which can impact FBOD, RALS finance team, and customers (e.g., other county agencies and private parties). It also lacked clarity about other financial responsibilities such as collections.

Without clear documentation, and amid high turnover of fiscal staff, training on cross functional roles and responsibilities was limited. Gaps in documented controls and clear expectations undermine accountability for proper financial controls. King County's cash handling policy assigns responsibility for establishing internal controls to managers and supervisors. Internal control principles include clear roles and responsibilities, commitment to develop and retain staff, and accountability for internal controls. According to county job classifications, division-level staff are responsible for compliance with county policies and priorities and coordinating services across county agencies.

Recommendation 13

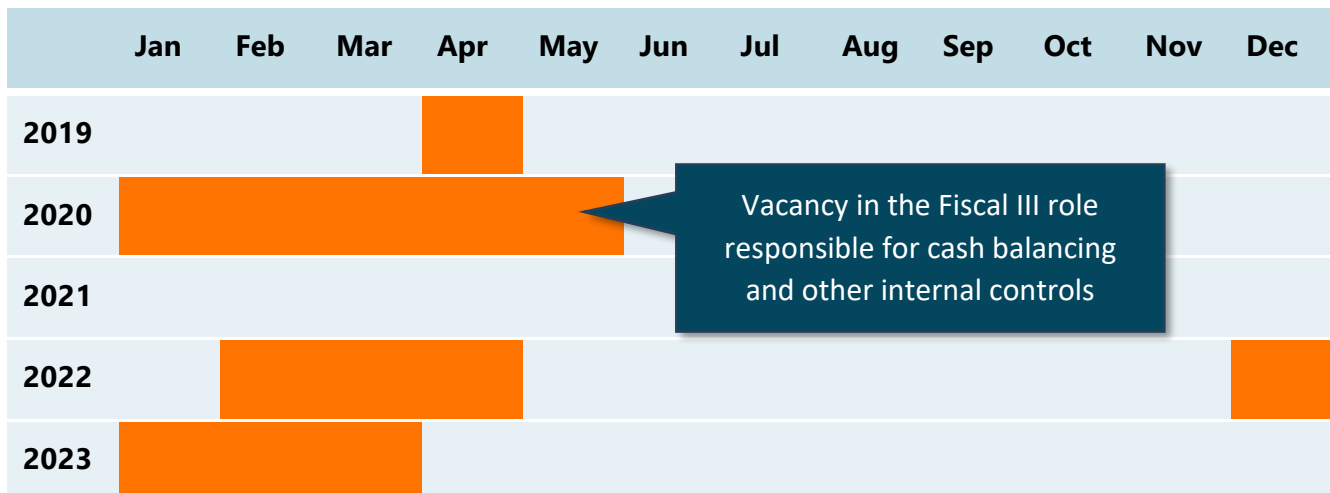
The Records and Licensing Services Division should:

- develop and document the structures, reporting lines, and appropriate authorities and responsibilities of the King County Recorder's Office and other county agencies as they relate to the achievement of financial objectives
- train staff on these roles and responsibilities
- hold staff accountable for carrying out these roles and responsibilities.

Turnover hindered progress

Turnover in a key fiscal position slowed process improvements. KCRO has one position responsible for most financial controls. In the last five years, this role has been filled by five different people. As a result of imbalances in its prepaid accounts, RALS hired an accountant to support KCRO in 2022, but due to fiscal staff turnover in RALS, the accountant has not dedicated all their time to the office. Staff said that turnover has limited the focus on process improvement in favor of correcting errors and maintaining daily operations.

EXHIBIT I: Turnover in a key fiscal position at the King County Recorder's Office negatively affected financial performance.



Source: King County Auditor's Office

Vacancy in the key fiscal position affected financial operations in part because most KCRO staff have customer service, not financial, expertise. KCRO had a total of two fiscal III positions, two supervisors, and two vacant customer service positions as of

October 2023. KCRO could better leverage its additional fiscal III or supervisory staff to shore up internal controls. In addition, county agencies may reclassify vacant positions without external approval, meaning it could change vacant customer service positions to fiscal posts.

KCRO did not have a contingency plan to reduce the impact of turnover in fiscal staff. A contingency plan assigns responsibilities if a key role is vacated without advance notice. Best practice is for management to define contingency plans for key roles to help the entity continue achieving its objectives and avoid compromising the internal control system.

Recommendation 14

The King County Recorder's Office should develop, document, and implement a contingency plan as needed to assign responsibilities of the fiscal staff responsible for internal controls in the event of an unexpected vacancy.

Key policy outdated

KCRO has outdated cash handling procedures, reducing accountability. The agency's current cash handling procedures, which are meant to establish accountability and support internal controls, became effective in 2016. This was before major operational changes, such as the implementation of the current recording system and closure of regional service centers. To protect employees and safeguard county funds, county policy directs agencies to establish and implement their own internal cash handling and receipting procedures, using county policy as a guide, and revising them when conditions change.¹⁰ FBOD's Financial Management Section is responsible for reviewing these policies and procedures prior to adoption. FBOD had not yet reviewed or approved KCRO's updated cash handling procedures. KCRO did have some documented processes related to cash handling, but its own Lean assessment in 2023 noted that process documentation was an area for improvement. Documentation provides a means to retain organizational knowledge, mitigate the risk of having knowledge limited to a few personnel, and communicate knowledge as needed to external parties.

¹⁰ FIN 15-3-2 (AEP) Cash Handling, Receipting and Reconciliation.

KCRO assigned fiscal staff to update the cash handling procedures, resulting in delay due to turnover. Vacancy in the fiscal III position, discussed above, reduced capacity to update these procedures. However, job classifications indicate that fiscal staff may not be the appropriate staff to revise high-level procedures. Classifications say that fiscal staff interpret established procedures to carry out their work, while the finance manager assesses procedural issues and makes recommendations on course of action. Similarly, the deputy division director is responsible for overseeing and revising policies and procedures. According to the RALS deputy division director, their duties are primarily related to human resources, not finance.

EXHIBIT J: Responsibility for policies and procedures are distributed throughout the Records and Licensing Services Division.

Title	Job Classification Duty
Deputy Director	Oversee and/or revise policies and procedures
Finance Manager	Identify and assess policy and procedural issues and make recommendations on course of action
Senior Accountant	Review policies and procedures for compliance
Fiscal III	Interpret established policies and procedures

Source: King County Auditor's Office summary of King County job classifications

Recommendation 15

The Records and Licensing Services Division should assign division-level staff to update the King County Recorder's Office cash handling procedures and send them to the Finance and Business Operations Division for review and approval.

Gaps in data-informed decision-making

KCRO worked to fix errors that its customers alerted the agency to, but it did not check for similar errors or ensure that fixes worked as expected, limiting effectiveness. A Lean assessment the office conducted in 2023 noted that problem-solving was reactive instead of proactive. For example, as discussed in section 1, invoice customers who flagged duplicate charges had those charges cleared from

their account, while other customers accrued aging accounts receivable. In addition, changes made to correct customer names on misdirected prepaid account deposits resulted in a new error, i.e., reducing the dollar amount by \$30,000 in one corrected transaction. Prepaid account errors we shared with KCRO in late November did not result in a proactive review of all transactions, and a customer informed the agency of more errors three months later.

KCRO staff typically researched transactions one by one rather than using aggregated information, limiting efficiency and effectiveness. The front end of the recording software that staff rely on for daily operations can be used to verify data and reference documents attached by staff; however, it is not an interface suited to identifying systemic problems. We developed findings in section 1 of this report using a combination of data pulled from the back end of the recording software using queries, as well as system reports, single transactions, and data from the County's financial system. The RALS functional analyst and software vendor supported our analysis on request. In contrast, KCRO reported that it was unclear what the role of the RALS functional analyst was in supporting the work of KCRO. Similarly, KCRO responded to but did not log or analyze customer complaints that came in via email, making it more difficult to spot patterns and make proactive improvements. Best practice is to use relevant, quality information to support the functioning of internal controls.

Recommendation 16

The King County Recorder's Office should develop, document, and implement a process for logging customer financial issues, and it should use the logs to ensure responsive service and to identify and address systemic issues.

Recommendation 17

The Records and Licensing Services Division should develop, document, and assign clear roles and responsibilities for when and how its functional analyst will support the King County Recorder's Office in obtaining and using relevant, quality system information to support internal controls.

Conclusion

The King County Recorder's Office needs strong financial controls because it is responsible for moving more than \$1 billion a year in tax receipts and recording revenue. Since most of its revenue comes from prepaid accounts, KCRO should expand controls in that area. Other issues identified in this report provide examples of how the roles of operations and finance intersect and require clear, well-defined roles and responsibilities that cross agencies and teams to ensure appropriate separation of duties and financial stewardship. Support for building internal controls exists both inside and outside KCRO, however, more work needs to be done to bring in the right support at the right time and build the relationships that create momentum for change. Strong internal controls are the foundation of "best run government."

Executive Response



King County

Dow Constantine

King County Executive

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April 16, 2024

KyMBER Waltmunson
King County Auditor
Room 1033
King County Courthouse

Dear Ms. Waltmunson:

Thank you for the opportunity to review and comment on the proposed audit report titled “Recorders Office: Better Financial Oversight Will Reduce Risk.”

The Department of Executive Services (DES) concurs with each of the 17 recommendations included in the report. Consistent with the audit report, we agree that these recommendations will increase the financial oversight of the King County Recorder’s Office (KCRO) work and further reduce risk. The enclosed recommendation table outlines responses to each recommendation.

DES is approaching work associated with these recommendations with a systematic, continuous improvement approach. KCRO will document its oversight actions that will further reduce risk, while continuing to minimize County liability. The KCRO is committed to ensuring statutorily required, timely recording of multi-million-dollar real estate transactions continues.

The KCRO is moving expeditiously to complete its work on these 17 recommendations. It projects that it will complete work on ten of the recommendations by the end of this year, with the remaining seven recommendations anticipated to be completed by the end of the first quarter of 2025.

KyMBER Waltmunson
April 16, 2024
Page 2

We appreciate the thorough work of the Council auditor's team and the collaborative approach taken throughout the audit.

Sincerely,

DocuSigned by:

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Dwight Dively
Chief Operating Officer

Enclosures

cc: Karan Gill, Chief of Staff, Office of the Executive
Jennifer Hills, Deputy Chief Operating Officer
Kelli Carroll, Director of Special Projects
Lorraine Patterson-Harris, Director, County Administrative Office, Department of Executive Services (DES)
Norm Alberg, Director, Records and Licensing Services Division (DES)
Ken Guy, Director, Finance and Business Operations Division (DES)

Recommendation 1

The King County Recorder’s Office should develop, document, and implement a process to regularly verify customer prepaid account deposits against office bank statements.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	12/31/2024
Responsible agency	King County Recorder’s Office (KCRO)
Comment	KCRO is currently in the testing phase of this process to regularly verify customer prepaid account deposits against office bank statements. It will document and implement as standard work once testing and training is complete.

Recommendation 2

The King County Records and Licensing Services Division should develop, document, and implement a process to verify daily usage reported by customers against actuals in the recording system for the accounts of non-governmental customers for whom the King County Recorder’s Office allows negative minimum balances.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	3/31/2025
Responsible agency	Records and Licensing Services (RALS)
Comment	RALS staff will develop, document, and implement a process to verify daily usage reported by customers against actuals in the recording system for the accounts of non-governmental customers for whom the KCRO allows negative minimum balances.

Recommendation 3

The King County Records and Licensing Services Division should develop, document, and sign agreements with non-governmental customers for whom the King County Recorder's Office allows negative balances to ensure timely, complete, and accurate payment of major prepaid accounts.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	3/31/2025
Responsible agency	RALS
Comment	RALS will coordinate with the Prosecuting Attorney's (PAO), Finance and Business Operations Division (FBOD), King County Information Technology (KCIT), and a vendor to develop, document, and execute agreements with non-governmental customers for large volume third party e-recording submitters.

Recommendation 4

The King County Recorder's Office should develop, document, and implement a routine and proactive process to inactivate unused prepaid accounts in line with county records and finance policies.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	12/31/2024
Responsible agency	KCRO
Comment	KCRO will develop, document and implement a process to inactivate unused prepaid accounts in alignment with County records and finance policies.

Recommendation 5

The King County Recorder’s Office should develop, document, and implement a process to verify the accuracy of invoices and make any necessary corrections before mailing.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	10/31/2024
Responsible agency	KCRO
Comment	KCRO is currently in the testing phase of this procedure. It will document and implement a process to verify the accuracy of invoices and make necessary corrections before mailing.

Recommendation 6

The Records and Licensing Services Division should develop, document, and implement a process to ensure finance managers review and reconcile accounts receivable monthly.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	10/31/2024
Responsible agency	RALS
Comment	KCRO is currently working to develop, document, and implement a process for finance managers to review and reconcile KCRO accounts receivable monthly.

Recommendation 7

The Records and Licensing Services Division should develop, document, and implement a process for correcting common errors, including in-escrow¹¹ deposits and invoice transactions, that specifies appropriate steps for transactions in current and prior fiscal periods.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	3/31/2025
Responsible agency	RALS
Comment	In coordination with RALS' software vendor, Catalis, FBOD, Business Resource Center, and RALS will develop, document and implement a process for correcting common errors, including those that impact prior fiscal periods. This will be an iterative process, as some of these issues will require complex solutions.

Recommendation 8

The King County Recorder's Office should develop, document, and implement a process for monthly review of data entry errors to ensure invoices include all valid transactions.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	10/31/2024
Responsible agency	KCRO
Comment	KCRO is currently in the testing phases of a process for monthly review of data entry errors to ensure that invoices include valid transactions. It will document and implement as standard work once testing and training is complete.

¹¹ King County Auditor's Office revised a typo in recommendation 7 – replacing the phrase "in-escrow" with "prepaid account" – during the executive review process.

Recommendation 9

The Records and Licensing Services Division should develop, document, and implement a process to ensure finance managers review interfund transfers for duplicate transactions quarterly.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	10/31/2024
Responsible agency	RALS
Comment	RALS is currently in the process of developing, documenting, and implementing a process to ensure finance managers review interfund transfers on a quarterly basis.

Recommendation 10

The King County Recorder’s Office should develop, document, and implement a collections process for returned checks, taking into consideration the value and frequency of returned checks.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	11/30/2024
Responsible agency	KCRO
Comment	KCRO will partner with RALS and FBOD to develop, document, and implement a collections policy for returned checks which takes into consideration the value and frequency of returned checks.

Recommendation 11

The King County Recorder's Office should develop, document, and implement a process to identify outdated exemptions and prevent staff from applying them once they have expired.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	3/31/2025
Responsible agency	KCRO
Comment	KCRO will partner with King County Treasury Operations section and the state Department of Revenue to develop, document, and implement this process, along with improved communications, ahead of the next exemptions expiring in 2030.

Recommendation 12

The Records and Licensing Services Division should:

- develop, document, and assign clear roles and responsibilities for independent oversight of King County Recorder's Office financial controls
- b) develop, document, and implement a plan to ensure that staff assigned to oversight roles and responsibilities have the appropriate skills and resources to conduct oversight.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	3/31/2025
Responsible agency	RALS
Comment	RALS will update workplans and training materials with the new roles and responsibilities related to this recommendation. RALS will ensure that staff assigned to oversight roles and responsibilities have the appropriate skills and resources to conduct the necessary level of oversight.

Recommendation 13

The Records and Licensing Services Division should:

- develop and document the structures, reporting lines, and appropriate authorities and responsibilities of the King County Recorder's Office and other county agencies as they relate to the achievement of financial objectives
- train staff on these roles and responsibilities
- hold staff accountable for carrying out these roles and responsibilities.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	3/31/2025
Responsible agency	RALS
Comment	RALS will coordinate and consult with FBOD on the development, documentation, and implementation of work associated with this recommendation, including updating workplans and training materials.

Recommendation 14

The King County Recorder's Office should develop, document, and implement a contingency plan as needed to assign responsibilities of the fiscal staff responsible for internal controls in the event of an unexpected vacancy.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	3/31/2025
Responsible agency	KCRO
Comment	RALS will work with DES leadership to develop, document, and implement a KCRO fiscal contingency plan.

Recommendation 15

The Records and Licensing Services Division should assign division-level staff to update the King County Recorder’s Office cash handling procedures and send them to the Finance and Business Operations Division for review and approval.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	10/31/2024
Responsible agency	RALS
Comment	RALS will work with FBOD to update KCRO cash handling procedures.

Recommendation 16

The King County Recorder’s Office should develop, document, and implement a process for logging customer financial issues, and it should use the logs to ensure responsive service and to identify and address systemic issues.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	9/30/2024
Responsible agency	KCRO
Comment	KCRO will develop, document and implement a process responsive to this recommendation.

Recommendation 17

The Records and Licensing Services Division should develop, document, and assign clear roles and responsibilities for when and how its functional analyst will support the King County Recorder’s Office in obtaining and using relevant, quality system information to support internal controls.

AGENCY RESPONSE	
Concurrence	CONCUR
Implementation date	9/30/2024
Responsible agency	RALS
Comment	KCRO is partnering with RALS management teams to develop, document and assign roles and responsibilities for the position, including as part of the functional analyst training plan.



Appendix 2: Statement of Compliance, Scope, Objective & Methodology

Statement of Compliance with Government Auditing Standards

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope of Work on Internal Controls

We assessed the extent to which the King County Recorder's Office (KCRO) and the Records and Licensing Services Division (RALS) have designed and implemented proper controls to achieve countywide financial objectives. In performing our audit work, we identified concerns relating to the control environment, control activities, and information and communication.

Scope

This audit reviewed KCRO fees and charges collected since 2017, with a focus on non-cash transactions.

Objectives

1. Assess extent to which KCRO is collecting fees and charges in line with state law.
2. Assess extent to which KCRO is collecting fees and charges timely, accurately, and completely.

Methodology

To assess compliance with state law, we considered the Constitution of the State of Washington and its prohibition on the provision of credit to private parties by county governments and the use of Real Estate Excise Tax (REET) exemptions that expired between 2017 and 2023. To check for the provision of credit, we attempted to reconstruct daily prepaid account balances dating back to July 17, 2017, when the current recording software went live for private customers with high transaction volumes. We looked for consecutive days of negative balances that occurred during business hours (i.e., not during weekends or holidays). We also worked with the software vendor to compare historical data from two tables in the recording database to check for variances in the prepaid account balances of high-volume customers that may indicate that reported balances were in error. Finally, we reviewed deposit data for these

customers from 2018 through 2023 to see if there were any days where deposits were made for some, but not all, of the customers who reportedly made daily payments.

To check for the use of expired REET exemptions, we ran a query of all exemptions in the recording system and compared the date the exemption was applied to the date the exemption expired.

To assess the timeliness, accuracy, and completeness of revenue collection, we conducted various analyses related to returned checks, accounts receivable (or invoice customers), interfund payments, and prepaid accounts. For returned checks, we analyzed timeliness and completeness by pulling data from the recording software on the number of checks labeled "NSF" (non-sufficient funds) to determine how much revenue was uncollected due to returned checks (2018 through 2023). We also pulled data on the number of NSF fees paid to KCRO to see how many returned checks were collected during the period.

For accounts receivable (June 2018 through October 2023) and interfund payments (2020 through 2023), we reviewed all transactions for duplicate charges as an indication of accuracy. We also pulled error reports for accounts receivable on November 1, 2023; November 6, 2023; and January 9, 2024, to see how many transactions were excluded from invoices due to data entry errors since the system went live.

The review of prepaid accounts conducted as part of our compliance review also provided evidence related to the timeliness, accuracy, and completeness of revenue collection among these customers. In addition, we compared deposit entries in the recording software to bank statements and customer statements of activity. We pulled all deposit data from January 2018 through November 2023 for the three private customers that make daily electronic payments to King County to replenish their prepaid accounts. We compared this data to deposits appearing on 95 bank account statements from July 2022 to December 2022 that were available online to check for any inconsistencies. On days outside the bank statement period, we looked for anomalies such as one of the three customers not making a payment, one making multiple payments, or the dollar amounts being well above or below the average payment. To verify if anomalies were errors, we requested a judgmental sample of additional bank statements.

In addition to data analysis, we conducted document review of the RALS website; KCRO work plan, standard work, cash handling policy, Lean assessment, bank statements, IT tickets, and customer emails; and King County job classifications and financial policies and procedures. We interviewed staff from KCRO, RALS, Finance and Business Operations Division, King County Treasury, Business Resource Center, Prosecuting Attorney's Office, and King County District Court. We also met with King County's recording software vendor, peer recording agencies in Pierce County and Snohomish County, and the State Department of Revenue.



Appendix 3: List of Recommendations

Recommendation 1

The King County Recorder's Office should develop, document, and implement a process to regularly verify customer prepaid account deposits against office bank statements.

Recommendation 2

The King County Records and Licensing Services Division should develop, document, and implement a process to verify daily usage reported by customers against actuals in the recording system for the accounts of non-governmental customers for whom the King County Recorder's Office allows negative minimum balances.

Recommendation 3

The King County Records and Licensing Services Division should develop, document, and sign agreements with non-governmental customers for whom the King County Recorder's Office allows negative balances to ensure timely, complete, and accurate payment of major prepaid accounts.

Recommendation 4

The King County Recorder's Office should develop, document, and implement a routine and proactive process to inactivate unused prepaid accounts in line with county records and finance policies.

Recommendation 5

The King County Recorder's Office should develop, document, and implement a process to verify the accuracy of invoices and make any necessary corrections before mailing.

Recommendation 6

The Records and Licensing Services Division should develop, document, and implement a process to ensure finance managers review and reconcile accounts receivable monthly.

Recommendation 7

The Records and Licensing Services Division should develop, document, and implement a process for correcting common errors, including those in prepaid account deposits and invoice transactions, that specifies appropriate steps for transactions in current and prior fiscal periods.

Recommendation 8

The King County Recorder's Office should develop, document, and implement a process for monthly review of data entry errors to ensure invoices include all valid transactions.

Recommendation 9

The Records and Licensing Services Division should develop, document, and implement a process to ensure finance managers review interfund transfers for duplicate transactions quarterly.

Recommendation 10

The King County Recorder's Office should develop, document, and implement a collections process for returned checks, taking into consideration the value and frequency of returned checks.

Recommendation 11

The King County Recorder's Office should develop, document, and implement a process to identify outdated exemptions and prevent staff from applying them once they have expired.

Recommendation 12

The Records and Licensing Services Division should:

- a) develop, document, and assign clear roles and responsibilities for independent oversight of King County Recorder's Office financial controls
- b) develop, document, and implement a plan to ensure that staff assigned to oversight roles and responsibilities have the appropriate skills and resources to conduct oversight.

Recommendation 13

The Records and Licensing Services Division should:

- a) develop and document the structures, reporting lines, and appropriate authorities and responsibilities of the King County Recorder's Office and other county agencies as they relate to the achievement of financial objectives
- b) train staff on these roles and responsibilities
- c) hold staff accountable for carrying out these roles and responsibilities.

Recommendation 14

The King County Recorder's Office should develop, document, and implement a contingency plan as needed to assign responsibilities of the fiscal staff responsible for internal controls in the event of an unexpected vacancy.

Recommendation 15

The Records and Licensing Services Division should assign division-level staff to update the King County Recorder's Office cash handling procedures and send them to the Finance and Business Operations Division for review and approval.

Recommendation 16

The King County Recorder's Office should develop, document, and implement a process for logging customer financial issues, and it should use the logs to ensure responsive service and to identify and address systemic issues.

Recommendation 17

The Records and Licensing Services Division should develop, document, and assign clear roles and responsibilities for when and how its functional analyst will support the King County Recorder's Office in obtaining and using relevant, quality system information to support internal controls.

Appendix 4: Advancing Performance & Accountability

KYMBER WALTMUNSON, KING COUNTY AUDITOR

MISSION Promote improved performance, accountability, and transparency in King County government through objective and independent audits and studies.

VALUES INDEPENDENCE • CREDIBILITY • IMPACT

The King County Auditor’s Office is committed to equity, social justice, and ensuring that King County is an accountable, inclusive, and anti-racist government. While planning our work, we develop research questions that aim to improve the efficiency and effectiveness of King County government and to identify and help dismantle systemic racism. In analysis we strive to ensure that communities referenced are seen, not erased. We promote aligning King County data collection, storage, and categorization with just practices. We endeavor to use terms that are respectful, representative, and people- and community-centered, recognizing that inclusive language continues to evolve. For more information, see the King County [Equity and Social Justice Strategic Plan](#), King County’s [statement on racial justice](#), and the King County [Auditor’s Office Strategic Plan](#).

ABOUT US The King County Auditor’s Office was created by charter in 1969 as an independent agency within the legislative branch of county government. The office conducts oversight of county government through independent audits, capital projects oversight, and other studies. The results of this work are presented to the Metropolitan King County Council and are communicated to the King County Executive and the public. The King County Auditor’s Office performs its work in accordance with Government Auditing Standards.



This audit product conforms to the GAGAS for independence, objectivity, and quality.