



King County



KING COUNTY AUDITOR'S OFFICE

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UPDATED SEPTEMBER 10, 2025

Department of Community and Human Services Needs to Strengthen Financial Stewardship

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This report was updated on September 10, 2025.

The previous version misstated the total amount of funding awarded by DCHS between 2019 and 2024.

For more information, see the [errata memo](#).

EXECUTIVE SUMMARY

The Department of Community and Human Services (DCHS) awarded more than \$1.8 billion in grant funding in 2023 and 2024 combined, up from \$922 million in 2019 and 2020. Amid rapid growth in grant funding, DCHS did not consistently apply internal controls, resulting in improper payments, including potential fraud, across multiple programs and contracts. DCHS took on greater financial risk as a strategy to reduce barriers to contracting among organizations with limited government experience. In our review of contract management among youth programs from 2022 to 2025, we found that the department has not done enough to manage its financial risk. We found gaps in several areas including enforcement of contract terms, validation of invoices, and communication of expectations to staff and grantees. We make recommendations to help DCHS strengthen financial stewardship and build a robust internal control framework.

Acknowledgment

King County has given the Department of Community and Human Services (DCHS) greater financial responsibility over the last decade. DCHS created isolation, quarantine, and recovery spaces during the COVID-19 pandemic and is now responsible for the oversight and management of five significant funding sources. DCHS also took on the management of the juvenile diversion program Restorative Community Pathways.

DCHS is working to strengthen its internal controls. County officials noted that during the COVID-19 pandemic, the need to distribute emergency funds quickly, as well as the County's declaration of racism as a public health crisis, informed DCHS practices more broadly. This led to a focus on speed over the need to prevent fraud. More recently, DCHS has taken action to start addressing issues discussed in our audit and has some initiatives underway. For example, in July 2024, DCHS established a cross-functional workgroup focused on contract monitoring. As part of this effort, DCHS is developing an orientation program for grantees to access information that can help them succeed. DCHS updated its Contract Compliance Monitoring Policy in July 2025 and added three positions to its compliance team the same year. DCHS uses various internal controls, such as periodic progress reports, site visits, checks of government suspension and debarment lists, and grantee risk assessments.

DCHS works to increase contracting opportunities for smaller organizations and ensure communities receive essential services. DCHS incorporates equity into its procurement processes in many ways, such as engaging residents in the solicitation process and providing technical assistance and capacity building.

REPORT HIGHLIGHTS

What We Found

The Department of Community and Human Services (DCHS) has taken steps to make community grants more accessible and, in so doing, has exposed itself to significant financial risk. During our review of youth programs, we found instances of improper payments, including potential fraud, across multiple contracts. In its annual risk-assessment process in 2024, DCHS scored nearly half of the 359 grantees it reviewed as high risk. DCHS has not fully developed a strategy to promote financial stewardship or sufficiently prioritized resources to improve oversight. Through the Best Starts for Kids capacity-building program, DCHS offers some grantees free consulting services to help them succeed. However, we found that grantees rarely use the capacity-building program for financial management support, limiting the program’s ability to reduce financial risk.

DCHS lacks documented policies and procedures, training, and checklists for validating invoices — reducing consistency and increasing opportunities for fraud, waste, and abuse. In our review, we identified grantees whose spending deviated significantly from contract budgets without appropriate amendment or oversight. We also found insufficient documentation for expenses that are at higher risk of misuse, such as prepaid cards and stipends. DCHS has gaps in document management and did not have clear criteria for ending contracts or awarding grants to for-profit companies, reducing consistency and transparency.

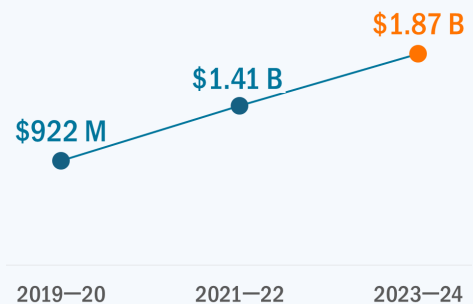
What We Recommend

We make recommendations to help DCHS strengthen financial stewardship and build a robust internal control framework to support it. This includes ensuring that staff have the guidance and tools to validate invoices, promote contract compliance, and prevent and detect fraud. We also recommend that DCHS develop a plan to better support the financial management needs of grantees.

Why This Audit Is Important

Between 2019 and 2024, the Department of Community and Human Services awarded 87 percent of county grants that were active as of April 2025. The department has experienced significant growth in grant funding, awarding more than \$1.8 billion in 2023 and 2024, up from \$922 million in 2019 and 2020. During the COVID-19 pandemic, DCHS faced pressure to absorb some risk to distribute emergency funds quickly. In addition, DCHS manages tax levies including the six-year Best Starts for Kids levy, ending in 2027, and the nine-year Crisis Care Centers levy, ending in 2032. DCHS runs its own procurement processes to award these funds, resulting in contracts known as community grants. Unlike other contracts, community grants are outside the scope of King County’s central procurement group, limiting independent oversight. In this environment, DCHS faces a higher risk of fraud, waste, and abuse as it allocates public funds.

DCHS awarded more than \$1.8 billion in grants from 2023–24.



Source: King County Auditor’s Office analysis

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Section 1: Internal Controls and DCHS

SECTION SUMMARY

We reviewed Department of Community and Human Services (DCHS) contract management across four youth programs, by evaluating the department’s internal controls. Internal controls are actions organizations take to be reasonably sure that their financial operations, reporting, and compliance efforts are efficient, effective, and reliable. We looked at how well internal controls prevented and detected improper payments, which can result in a loss of public funds. Our original sample included community grants for juvenile diversion programs, including but not limited to Restorative Community Pathways. We expanded our sample to programs funded by the Best Starts for Kids levy to better understand the “hybrid” payment model, discussed below, and include programs that had contract terminations. Contract management staff for the programs we reviewed mainly worked in two DCHS divisions, the Director’s Office, which houses fiscal and compliance staff, and the Children, Youth, and Young Adults Division (CYYAD).

Which DCHS programs did you review?

We reviewed 36 contracts from four programs that serve youth ages 5 to 24.

Payments to these contracts accounted for about 2 percent of DCHS provider payments in 2024. Three of the four programs — which DCHS calls strategies — receive funding under the Best Starts for Kids levy and are managed by DCHS’s CYYAD (see exhibit A). The Behavioral Health and Recovery Division (BHRD) manages the fourth program, Family Intervention and Restorative Services. In our findings, we generally discuss departmental systems rather than specific contracts or programs. More detailed information on our sample, provider payments, and program-specific findings can be found in the appendices of this report.

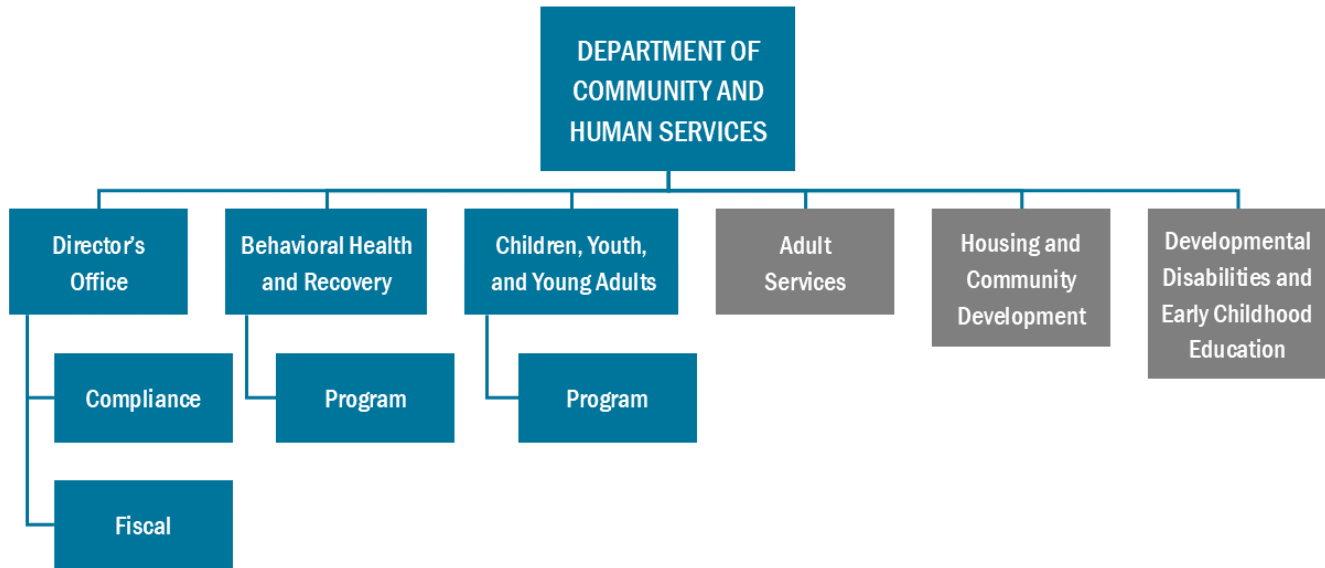
EXHIBIT A: Contracts sampled for this audit spanned four youth programs, multiple funding streams.

PROGRAM	PERIOD	BUDGET	CONTRACTS	FUNDING SOURCE
Family Intervention and Restorative Services	2022–2024 (36 months)	\$2.8M	3	Mental Illness and Drug Dependency levy, King County, and City of Seattle
Liberation and Healing from Systemic Racism	2022–2025 (36 months)	\$10.5M	19	Best Starts for Kids levy
Restorative Community Pathways	2021–2024 (40 months)	\$12.5M	6	King County General Fund and Best Starts for Kids levy
Stopping the School-to-Prison Pipeline	2022–2024 (30 months)	\$8.6M	8	Best Starts for Kids levy

Source: King County Auditor's Office analysis

Which DCHS divisions have contract management staff?

Contract management staff are spread across DCHS. Program staff work in divisions that focus on specific populations or services, e.g., youth or behavioral health. Fiscal and compliance staff work in the Director's Office (see exhibit B). In the context of contract management, program staff have tasks such as invoice approval, program site visits, and liaising with grantees. Fiscal staff have tasks such as budget monitoring and invoice approval, while compliance staff have tasks such as risk assessments and fiscal site visits. Because fiscal and compliance staff are more familiar with financial reporting and program staff are more familiar with contracted services, they all play important roles in contract management.

EXHIBIT B: Contract management responsibilities are shared by staff in different divisions.

Note: Areas of audit focus are in blue. We did not review contracts in the divisions shown in gray.

Source: King County Auditor's Office analysis

? What is the “hybrid” payment model?

DCHS uses several payment models, but most contracts in our sample used one of two: cost reimbursement and “hybrid.” For cost reimbursement, grantees submit expense reports monthly along with their invoices. DCHS then reviews the reports and pays organizations the amount that corresponds to the allowable costs. For the hybrid model, DCHS pays set monthly amounts based on contract budgets (see exhibit C). For example, if an organization had a 12-month contract with a \$120,000 budget, DCHS would pay \$10,000 per month. Organizations using this model submit expense reports quarterly. DCHS reconciles payments to expense reports after three months or more. The hybrid model directs staff to reconcile payments to expenses starting in the fourth month of a one-year contract and the second year of a multi-year contract. Organizations paid under the hybrid model also submit quarterly budget-to-actuals reports. These reports compare actual expenses, by category, to budget line items and payments to date.

EXHIBIT C: Hybrid model pays set monthly amounts based on contract budgets.

COST REIMBURSEMENT	HYBRID
MONTHLY PAYMENT Variable	MONTHLY PAYMENT Set
EXPENSE REPORTING Monthly	EXPENSE REPORTING Quarterly
RECONCILIATION BEGINS At first payment	RECONCILIATION BEGINS After several payments*
CONTRACTOR BUDGET-TO-ACTUALS REPORT Not required	CONTRACTOR BUDGET-TO-ACTUALS REPORT Required

*According to an internal memo describing the hybrid model, the timing of reconciliation depends on contract length. For one-year contracts, reconciliation begins in the second quarter; for multi-year contracts, it begins in the second year.

Source: King County Auditor's Office

DCHS and Public Health – Seattle & King County (Public Health) developed the hybrid payment model in part to increase consistency in how they paid Best Starts for Kids grantees and in part to provide grantees stable, expected sources of funding. Both departments award and manage Best Starts for Kids funding in different program areas. DCHS later applied the hybrid model to Restorative Community Pathways, allowing organizations to choose their preferred approach. Three of the organizations providing services for Restorative Community Pathways use the hybrid model. The other four use cost reimbursement.

? What are internal controls?

Internal controls are actions organizations take to be reasonably sure they are meeting their goals. Common control activities include segregation of duties, appropriate documentation, and performance reviews. Under King County policy (FIN-15-5-1-EP), internal controls are specific to financial objectives and aim to

promote efficiency, effectiveness, data reliability, and compliance. The County identifies internal controls as foundational requirements for “best run government,” emphasizing that weak internal controls put the County’s reputation and credibility at risk. This is because internal controls are necessary for efficient and effective financial operations and compliance.

What are improper payments?

Standards for Internal Control in the Federal Government define improper payments as payments that should not have been made or were made in the wrong amount. In this report, we focus on improper payments relating to insufficient documentation, suspicious financial activity, and overpayment. Best practice is for organizations to manage the risk of improper payments. This risk increases with program complexity, payment volume, and gaps in staff training or experience.

What are the differences between fraud, waste, and abuse?

These terms are often used together because they can result in a loss of public funds, but they mean different things (see exhibit D). Waste means using resources carelessly, extravagantly, or to no purpose. Abuse means misuse of authority or position for the benefit of oneself or another. Waste and abuse do not necessarily involve fraud but may indicate potential fraud. King County policy defines fraud as the event of a known, attempted, or suspected loss of public resources by deceit, wanton disregard, or illegal activity. Meanwhile, *Government Auditing Standards* and *Standards for Internal Control in the Federal Government* define fraud as obtaining something of value through willful misrepresentation. Under *Government Auditing Standards*, auditors must report as findings fraud or noncompliance that has occurred, or is likely to have occurred, when these events relate to audit objectives.

EXHIBIT D: Fraud, waste, and abuse can all result in a loss of public funds.



FRAUD

Fraud means obtaining something of value through **willful misrepresentation.**



WASTE

Waste means **using resources carelessly, extravagantly, or to no purpose.**



ABUSE

Abuse means **misuse of authority or position** for the benefit of oneself or another.

Source: King County Auditor's Office analysis of *Government Auditing Standards*



Section 2: Financial Stewardship

SECTION SUMMARY

Intending to promote equity in contracting, DCHS exposed itself to greater financial risk. In its annual risk-assessment process, DCHS scored nearly half of the 359 grantees it reviewed as high risk in 2024. Of the 18 organizations we tested that had fiscal site visits between 2020 and July 2025, 11 had findings, most commonly due to a lack of supporting documentation for contract expenses. DCHS has experienced significant growth in its contract management portfolio and aims to be a good steward of public funds. However, it lacks a solid system of internal controls. DCHS has limited fiscal capacity, has not trained staff to prevent and detect fraud, lacks a documented risk assessment of its hybrid payment model, and has not effectively supported the financial management needs of grantees. To address these findings, we recommend DCHS develop a strategy to strengthen internal controls, increase collaboration with Public Health, provide anti-fraud training, conduct a risk assessment of the hybrid payment model, and improve communication with grantees on financial documentation and contract requirements.

DCHS promotes equity in contracting

DCHS has taken steps to reach new communities with opportunities for public funding, promoting equity in contracting. The department reduces barriers to contracting with recommended practices such as multi-year funding, financial support for overhead expenses, and efforts to make timely payments. It also negotiates payment advances and provides consulting services free of charge to some organizations. These efforts make it more financially feasible for smaller organizations to apply for and successfully manage county funds.

DCHS needs greater emphasis on financial stewardship

DCHS manages more than \$1 billion annually, increasing financial risk and the importance of internal controls. DCHS is responsible for the oversight and management of five significant funding sources derived from property and sales taxes.¹ DCHS spending on community grants has increased significantly in recent years due to voter-approved levies and funding for COVID-19 response and recovery. For example, the Best Starts for Kids levy, a cross-departmental initiative

¹ These are 1) Best Starts for Kids, 2) Health Through Housing, 3) Mental Illness and Drug Dependency, 4) Veterans, Seniors, and Human Services levy, and 5) Crisis Care Centers.

with DCHS and Public Health, is expected to generate an average of \$152 million in annual tax revenue from 2022 through 2027. Crisis Care Centers's revenue is estimated at an average of \$129 million per year between 2024 and 2032.

DCHS manages high-risk grants. In 2024, DCHS rated 48 percent of the 359 grant recipients it reviewed as high risk. DCHS assigns risk levels to all the organizations it funds through community grants, which are contracts for services delivered in the community as opposed to directly to a county department. DCHS assigns higher risk to entities that lack experience being funded or monitored by federal, state, or local agencies as well as those with fewer fiscal resources and limited policies and procedures. These risk areas relate to equity in contracting because DCHS aims to increase access to funding to entities that are not accustomed to government contracting. Additional risk areas are documented in the results of fiscal site visits. DCHS conducted fiscal site visits with 18 of the 39 grantees that we tested. Eleven of the 18 had findings or exit items that required corrective action. DCHS found that 8 of the 11 lacked sufficient supporting documentation, while several had gaps in policies and procedures, data reliability, and cost allowability.

We found several indications that DCHS missed opportunities to strengthen financial stewardship. An effective internal control system is grounded in a culture of financial stewardship. Standards for Internal Control in the Federal Government describe this culture as one in which management attitudes, directives, and behaviors demonstrate a commitment to doing what is right to ensure efficient and effective financial operations and compliance. Without a strong culture of financial stewardship, organizations may have gaps in risk identification, control activities, and communication. This section covers overarching findings related to culture change at DCHS, including the need for:

- a comprehensive change management strategy
- anti-fraud training
- a risk assessment of the hybrid payment model
- clear external communication with grantees.

Addressing these issues will build a foundation upon which the findings of the second section of this report can be resolved.

Change effort
missing key
elements

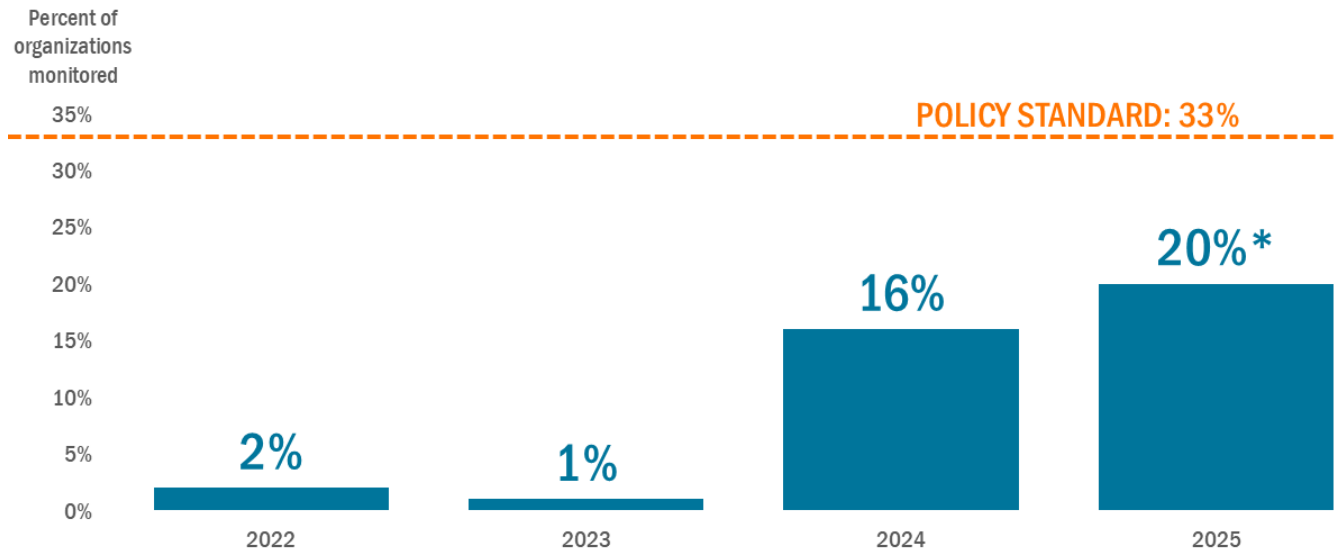
DCHS does not yet have a comprehensive strategy to embed the value of financial stewardship into its culture, reducing the likelihood of lasting change.

Effective change management strategies have a clear vision and strategically deployed resources to achieve that vision. Moving forward on change management efforts without these elements can lead to miscommunication and frustration. Acknowledging the need for a vision, DCCHS drafted a statement that mentions both financial stewardship and equity. However, this statement does not show clearly and concisely the interrelationship between the two in providing quality services to residents. DCCHS said it is working to refine its vision as part of the Fiscal Contract Compliance and Program Monitoring Workgroup it launched in July 2024.

DCCHS did not conduct fiscal site visits as frequently as its policy required, suggesting that it had not prioritized resources for financial stewardship.

DCCHS's policy is to conduct fiscal site visits of grantees at least once every three years. Public Health does fiscal site visits more often — once every six months for high-risk organizations and at least once every two years for low-risk organizations. DCCHS conducted fiscal site visits of 1 percent of grantees in 2023, and 16 percent in 2024, compared with its standard of 33 percent (see exhibit E). Low retention and recruitment of compliance staff contributed to the lack of fiscal site visits. The compliance team started 2022 with five staff and ended it with two after three people left the team. Staff said that high workload and difficulty defining the necessary skills for the role made it hard to hire and retain employees. DCCHS allocated three new positions to its compliance team in 2025 and had one vacancy as of July 2025. With added capacity, DCCHS has a plan to fiscally monitor 20 percent of grantees in 2025.

EXHIBIT E: Department of Community and Human Services does fewer fiscal site visits than its policy standard requires.



Note: The policy standard is to monitor all organizations with community grants at least once every three years. Percentages are calculated using the number of organizations with risk scores in 2024 (N=359), due to lack of available data and limited variation in the number of funded organizations in other years.

*For 2025, the number of site visits refers to scheduled, not completed, visits. All other years are completed visits.

Source: King County Auditor's Office analysis

Staff not engaged in financial oversight

DCHS relied on compliance staff for both preventive and detective controls, limiting accountability for financial oversight. As shown in exhibit B, in section 1, contract management tasks are divided between program, compliance, and fiscal staff. Compliance responsibilities cover all DCCHS grantees and include annual risk assessments, which can prevent issues by identifying gaps in financial management, and fiscal site visits, which can detect issues after they have occurred. In 2024, this workload included 359 risk assessments and a target of 120 fiscal site visits for four filled positions. DCCHS's risk-assessment template shows that fiscal and program staff are meant to participate in the process, but compliance staff said they were not consistently involved. DCCHS provided training on its revised Contract Compliance Monitoring Policy to all divisions in June and July 2025. The training included a summary of roles and responsibilities which noted that program and fiscal staff are responsible for providing input on risk assessments.

A staff member we interviewed at Public Health referred to the workload of DCCHS compliance staff as "excessive" by comparison. For example, Public Health has a team of 3.5 staff responsible for fiscal site visits of the approximately 110 organizations it funds through the Best Starts for Kids levy. Public Health assigns all other fiscal site

visits to fiscal staff and assigns risk assessments to program staff with fiscal support (see exhibit F). In addition, instead of conducting them annually, Public Health conducts risk assessments when a new contract begins and updates them as needed based on fiscal and program monitoring. As a result, Public Health fiscal and compliance staff have capacity to assess the department’s internal controls, contributing to continuous improvement. Best practice is for management to adjust excessive pressure on personnel — for example, by rebalancing workloads. DCHS said that it has started rebalancing workloads by reducing the role of compliance staff in supporting program site visits. One potential indicator of successful rebalancing would be for DCHS to meet its policy requirement for the frequency of fiscal site visits.

EXHIBIT F: Department of Community and Human Services (DCHS) has not delegated ownership of compliance activities to program and fiscal staff.

Duties	DCHS	Public Health
Annual or initial risk assessments*	Compliance	Program and Fiscal
Fiscal site visits (Best Starts for Kids)	Compliance	Compliance
Fiscal site visits (non-Best Starts for Kids)	Compliance	Fiscal
Internal controls audit	N/A	Compliance

*DCHS conducts annual risk assessments of all grant-funded organizations, while Public Health – Seattle & King County (Public Health only conducts risk assessments at the beginning of a contract and adjusts risk levels as needed based on fiscal and program monitoring.

Note: Public Health divides fiscal site visits into two categories based on whether organizations are funded by the Best Starts for Kids levy.

Source: King County Auditor’s Office analysis

Recommendation 1

The Department of Community and Human Services should develop, document, and implement a strategy to strengthen internal controls for financial management that includes, at a minimum, 1) a clear vision of how financial stewardship relates to program goals, and 2) the role of compliance, fiscal, and program staff in supporting fiscal stewardship.

DCHS is missing opportunities for efficiency

DCHS does not routinely coordinate with Public Health on fiscal site visits, missing opportunities for efficiency and consistency. DCHS and Public Health both have internal compliance teams that carry out fiscal site visits to ensure that grantees manage funds appropriately. Both departments are also responsible for awarding Best Starts for Kids funds. As a result, when the departments fund the same organizations, they can end up conducting two separate fiscal site visits for the same organization, reviewing the same organizational processes. This creates redundancies that increase the workload of both staff and grantees without clear benefits. DCHS and Public Health have not formalized their collaboration to identify efficiencies.

Recommendation 2

The Department of Community and Human Services should work with Public Health – Seattle & King County to develop, document, and implement a plan to identify opportunities for efficiencies in the financial oversight of organizations funded by both departments.

DCHS does not manage high fraud risk effectively

DCHS leadership said that the department relies on relationships to clarify roles and navigate complexity, which, without documented processes, limits fraud prevention and detection. According to interviews with management-level staff, DCHS culture may signal that relationships are more important than accountability. As part of this culture, there is tension around how invoices should be validated between program staff, on one side, and finance staff on the other. Staff attributed these challenges, in part, to the COVID-19 pandemic response and recovery. During that time, the need to distribute emergency funds quickly outweighed the need to prevent fraud; in-person oversight stopped and staff collaboration within DCHS declined. Staff said that these issues persist. The DCHS staff we interviewed rarely expressed concern about fraud risk.

Anyone, including county employees and grantees, can commit fraud if they have the opportunity, motivation, and ability to rationalize their actions. Under county policy, employees are required to report different types of fraud, including:

- forgery or alteration of documents
- misappropriation of funds
- impropriety in the handling or reporting of financial transactions
- theft of time.

Fraud, ethics violations likely occurred

We found instances of potential fraud among both employees and grantees, illustrating some of the risks of an uneven internal control environment. Under generally accepted audit standards, auditors must report as findings fraud or noncompliance that has occurred, or is likely to have occurred, when these events relate to audit objectives. We notified DCHS of one instance of dual employment, which is considered theft of time or intentional time reporting error under the fraud policy.² This relates to audit objectives because internal controls include human resource management and require appropriate staffing to function properly. We also found an instance in which a grantee changed an invoice to a higher dollar amount for reimbursement, which is considered forgery or alteration of documents under the County's fraud policy. Another grantee likely submitted altered documentation related to expenses, likely in violation of the same policy. More details regarding fraud, improper payments, and noncompliance are described in appendix 2.

We also found issues in compliance with the King County Ethics Policy. We identified one incomplete financial disclosure form, limiting information on a potential conflict of interest. An employee disclosed a relationship that could present a potential conflict of interest but did not name the organizations involved, which is required by King County Ethics Code. The employee's supervisor said they heard about the relationship by early 2024 and spoke with the employee and the King County Ethics Program but did not escalate the issue further. This approach did not appear to take seriously the risk of a potential conflict of interest. One way that an agency could mitigate a potential conflict of interest is to designate an alternative employee to perform relevant duties.

DCHS does not provide departmentwide anti-fraud training despite its experience of and exposure to fraud. Anti-fraud training is a best practice. It can inform staff why fraud is important — for example, because of the negative impact it can have on service quality, why people commit fraud, how to identify it, and what to do if they notice something suspicious. According to the Association of Certified Fraud Examiners, fraud awareness training can reduce fraud losses and result in faster fraud detection. The longer fraud continues, the higher the losses can become. Anti-fraud training is most effective when it is tailored to address specific concerns and includes practical knowledge that employees can use. DCHS noted that staff in BHRD are required to take an annual course on fraud, waste, and abuse as part of the requirements to manage federal Medicaid funds.

² FIN-15-6-EP, Reporting and Investigating Fraud, Losses, or Other Illegal Acts.

Recommendation 3

The Department of Community and Human Services should develop, document, and implement a plan to offer ongoing anti-fraud training for all staff. At a minimum, this training should include information on the impact of fraud, why people commit fraud, how to identify it, and how to report it.

Hybrid payment model heightens risk of overpayment

DCHS has not fully addressed the risks of the hybrid payment model, increasing the likelihood of overpayment. Risk assessments are one of the key components of internal controls. During this process, management identifies and analyzes risks to achieving its objectives to provide a basis for responding appropriately to those risks. An appropriate response brings risk to a defined and acceptable level (risk tolerance). Best practice is for management to consider risks related to improper payments. In doing so, management considers factors such as the volume of payments, staff training for verifying payments, internal control deficiencies, and the risk of fraud.

The hybrid model accounted for 14 percent of the \$960 million in contract payments DCCHS made in 2024. Cost reimbursement and fee-for-service payment models were much more common, accounting for 44 and 42 percent of contract payments, respectively. All DCCHS divisions, except for Housing and Community Development, made payments using the hybrid model. As stated in section 1, DCCHS pays grantees monthly but only receives expense reports quarterly under the hybrid payment model. This model significantly increases financial risk because DCCHS makes payments before it knows whether grantees are using funds on allowable costs. In addition, unlike Public Health's practice of conducting risk assessments at the beginning of a contract, DCCHS does not proactively assess the financial capacity of newly contracted organizations, since it conducts risk assessments starting the year after payments begin. As a result, DCCHS issues payments before knowing whether grantees have systems in place to track costs accurately. Finally, the hybrid model increases the workload of fiscal staff by requiring grantees to submit a budget-to-actuals report. Staff said that this report is often the source of discrepancies and payment delays. In other words, while the hybrid model may mean faster payments in the months before staff begin reconciling payments to actual costs, payments slow once reconciliation begins. This correlation between review and payment timing may create pressure for staff to limit their reviews to meet competing goals for increasing the speed of payment processing.

Recommendation 4

The Department of Community and Human Services should conduct and document the results of a risk assessment of its hybrid payment model that specifies how its response appropriately mitigates the risks of fraud and improper payments.

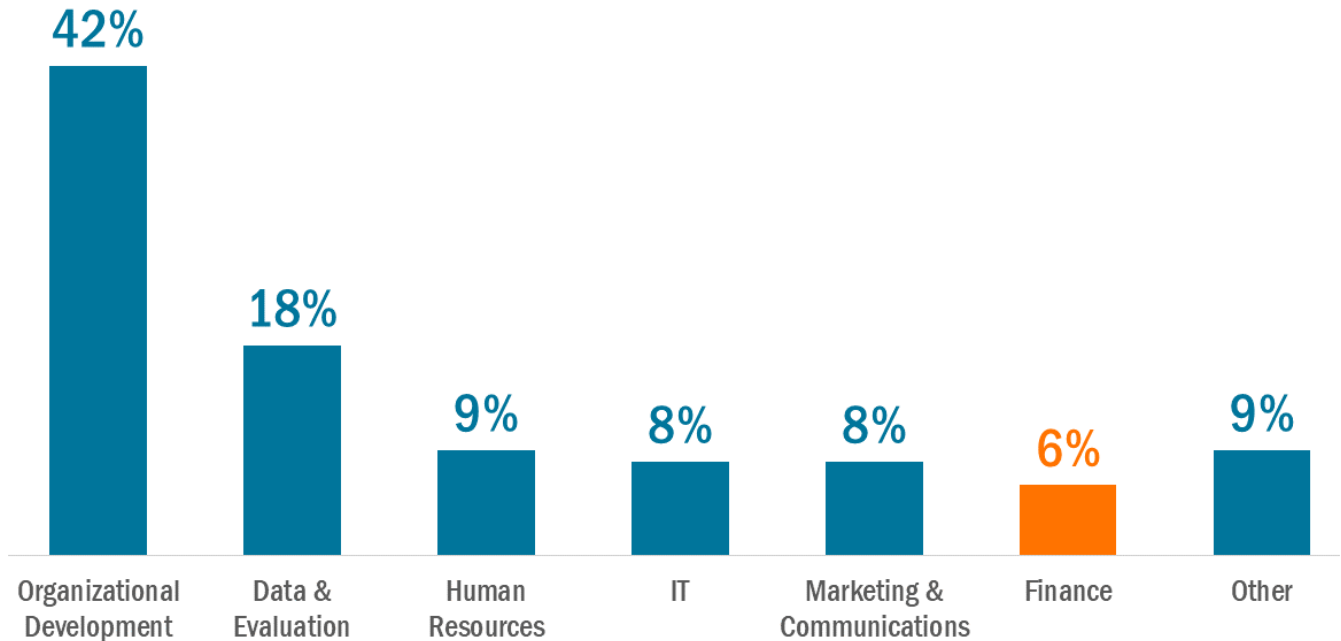
Financial capacity building not widely used

Grantees rarely sign up for free financial consulting, limiting the ability of the Best Starts for Kids capacity-building program to reduce financial risk. Within DCHS, the Best Starts for Kids levy allocates \$1 million per year to building organizational capacity among grantees. Through this program, DCHS offers free consulting services to any organization that is funded by the Best Starts for Kids levy. DCHS tracks the number of hours grantees spend with consultants in several areas, including organizational development, data and evaluation, and finance. Between 2022 and 2024, we found that financial consulting accounted for 6 percent of the 22,825 consulting hours used by about 150 organizations (see exhibit G).³

Organizations need financial capacity building, but the Best Starts for Kids capacity-building program may not fill this gap. In the 2023 Best Starts for Kids annual report, the King County Executive noted that grantees expressed a need for more training and support, particularly regarding budget development and financial management. However, the capacity-building program lacked consultants with financial expertise. In addition, grantees that need financial consultation may lack the time or staff to use it. Although the program was developed for small, developing nonprofits, larger organizations may take advantage of free consulting more often. DCHS sends participating organizations surveys about their overall experience but does not measure the program's impact on financial capacity. As a result, there is no clear evidence on the effectiveness of this program for meeting the financial management needs of grantees.

³ Of the 32 organizations in our sample eligible for capacity building, financial consulting made up 10 percent of total capacity-building hours used.

EXHIBIT G: Finance made up 6 percent of capacity-building hours used by grantees eligible for the Best Starts for Kids capacity-building program, 2022–2024.



Note: Percentages are of capacity-building consultation hours used by organizations funded by the Best Starts for Kids levy. We excluded hours from trainings organized by King County staff and open to all Best Starts for Kids organizations. Of this excluded subset, 5 percent of training hours were in finance.

Source: King County Auditor's Office analysis of Department of Community and Human Services data

Recommendation 5

The Department of Community and Human Services should develop, document, and implement a plan to monitor the effectiveness of the Best Starts for Kids capacity-building program in improving the financial capacity of grantees and use monitoring results to inform Recommendation 6.

External communication lacked clarity

DCHS has not clearly communicated financial management requirements to grantees, limiting their ability to comply. Staff said that grantees would benefit from more information on topics such as allowable costs and expense reports. For example, DCHS contracts require expense reports to clearly identify all expenditures and summarize them by budget line item. However, in our sample of 37 grantees, we found six that did not consistently submit detailed expense reports. Some reports did not clearly state who was paid, the reason they were paid, or the method of payment, making it difficult to determine whether costs were allowable. In addition, we found that three grantees had budget line items called "other," making it even more

difficult to determine cost allowability. The dollar value of these “other” line items ranged from \$7,500 to \$50,000 and accounted for 2 or 6 percent of the total contract values, respectively.

DCHS contract language that references the need for solid financial management is hard to understand, underscoring the need for better communication. One contract requirement often cited in fiscal site visits is that organizations need a “system of accounting and internal controls that complies with generally accepted accounting principles.” DCHS is developing an orientation for organizations that may help to fill this gap and plans to launch it in the fall of 2025. DCHS leadership said that external communication practices vary widely across teams, based on resources and prioritization, and indicated that they provided training and mock monitoring sessions in divisions outside of our audit scope.

Recommendation 6

The Department of Community and Human Services should develop, document, and implement a plan for effectively communicating to grantees their role in financial stewardship and how they are supported and held accountable to that role.



Section 3: Improper Payments

SECTION SUMMARY

DCHS lacks clear and consistent policies and procedures to guide contract management, reducing accountability. DCHS also lacks training and checklists to promote standardization. We found grantees whose spending deviated significantly from contract budgets without contract amendments, excessive stipend payments, gaps in document management, and unclear rules regarding the grant eligibility of for-profit companies. We make recommendations to establish documented policies and procedures, training, and checklists in several areas as well as increase oversight of high-risk areas like subcontracts.

Invoices not thoroughly vetted

DCHS program and fiscal staff do not consistently validate invoices, resulting in improper payments. During the invoice review process, DCHS program and fiscal staff are assigned to review and sign off that contract expenses are reasonable and allowable based on the contract. Staff typically limited their review of invoices to expense reports, without requesting additional documentation such as receipts or prepaid card logs. DCHS leadership said this practice was informed in part by the importance of making timely payments. In our review of expense reports and contract payments, we found several instances of improper payments. For example, we found one payment of \$37,500 for reimbursement of travel expenses that would be incurred after the contract ended (exhibit H). In this case, DCHS was able to recover the funds from the grantee. DCHS had yet to determine what improper payments it would recover from other entities at the time of writing. We discuss other actual and likely improper payments in more detail in appendix 2.

EXHIBIT H: Sample of likely improper payments approved by the Department of Community and Human Services (DCHS).

	\$106,000 Paid to unapproved subcontractors	\$37,500 Outside contract term	
\$12,300 Outside scope of work	\$7,300 Cash withdrawals claimed as rent	\$2,000 Altered invoice	

Note: Each example is from one organization. During the audit, DCHS was able to recover the improper payment of \$37,500 listed above.
Source: King County Auditor's Office analysis

DCHS lacks written policies and procedures for invoice review, reducing consistency and accountability. Documenting policies and procedures to ensure staff know what they are supposed to do and how to do it is a best practice. This is especially the case in areas that require professional judgment or discretion, such as assessing costs for allowability or reasonableness based on a contract's scope of work. DCHS leadership said that the department relies on relationships to clarify roles and navigate complexity. However, relying on the knowledge of individual staff to guide practice increases the risk of information loss and inconsistency and limits professional development.

We recommend that DCHS document policies and procedures for invoice review and other aspects of contract management. Recommendation 8, near the end of this section, lists this and other recommended policies and procedures to support internal controls at DCHS. The rest of this section discusses findings related to policies and procedures, high-risk expenses, checklists, and training.

Subcontracts increase risk, reduce transparency

DCHS did not consistently enforce contract terms for subcontractors and contract amendments, increasing opportunities for fraud and reducing transparency. A subcontract is any agreement between an organization contracted with King County and another entity to provide services based on the county

contract.⁴ Subcontractors present financial and programmatic risks since they receive funding and provide services but are not vetted and monitored as closely as grantees.

We found organizations whose subcontracting expenses deviated significantly from their contract budgets. One organization had 6 percent (\$63,000) of its budget allocated to subcontractors but reported spending 43 percent (\$439,000). Another reported that 30 percent of its expenses went to subcontractors (\$106,000) despite having no funding allocated to subcontractors in its contract. Standard contract terms include requiring that the County provide written approval for both subcontractors and contract changes. In the first example, the subcontractors are named in the contract, but there were no contract amendments to approve budget revisions. In the second example, neither the subcontractors nor the budget changes were approved. DCHS did not have clear guidance about when to amend contracts, contributing to this issue. Contracts and their amendments are important to clearly outline the responsibilities of each party and document how public funds are spent, providing transparency into government operations.

Recommendation 7

The Department of Community and Human Services should enforce contract requirements related to subcontractors by ensuring, at a minimum, that, 1) it has issued written approval for all subcontractors, 2) subcontracts contain language required by contract, and 3) it takes action to correct any improper payments that may have occurred related to unapproved subcontracts.

Stipend payments not capped

DCHS did not do enough to ensure stipends were reasonable, increasing the risk of misuse. Stipends are common in youth programs and aim to promote the program mission by either compensating people for their time, incentivizing them to achieve a positive outcome, or supporting their basic needs. However, if stipends are not managed appropriately, they could be considered a gift of public funds, which is prohibited by the Washington State Constitution. Several people received high value stipends, well above thresholds outlined in DCHS's draft stipend policy. Effective

⁴ This excludes support services and supplies. DCHS standard terms defines subcontract as follows: "Subcontract' shall mean any agreement between the Contractor and a Subcontractor or between Subcontractors that is based on this Contract, provided that the term 'subcontract' does not include the purchase of (1) support services not related to the subject matter of this Contract, or (2) supplies."

January 2025, this draft policy lists \$400 as the maximum activity amount without advance approval from senior fiscal leadership. We found that one organization documented plans to pay 11 parents each \$500 to \$2,000 per month over the seven or eight months ending in August 2025. Another organization paid one person more than \$15,000 in stipends over the nine months ending in March 2025. A third organization paid stipends of about \$9,000 each to three individuals between 2023 and 2024.

Prepaid card logs lacked required elements

DCHS did not ensure that grantees tracked prepaid cards appropriately, increasing the risk of improper payment. Prepaid cards include store gift cards, prepaid debit cards, and reloadable bank cards. They are cards that store specified dollar amounts and can be used as payment without personal identification or a bank account. DCHS contracts include clear standards for how organizations should track the purchase and distribution of prepaid cards to reduce the risk of misuse. Contracts further state that King County will not reimburse organizations for cards that were not distributed, underscoring the importance of logs in determining allowable costs. Some contracts also clarify that the County will not reimburse organizations for cards that were not properly documented. Despite these requirements and recommendations from the Office of the Washington State Auditor, DCHS program and fiscal staff did not regularly request logs from grantees to approve payments when expense reports included prepaid cards. Program, fiscal, and compliance staff reported to us that these reviews were either not required or outside the scope of their role. There is no documented policy or procedure that directs staff to review logs during invoice review.

None of the prepaid card logs we reviewed had all required elements, meaning DCHS may have made some improper payments. Contracts require logs to include the unique card number and card value, dates of purchase and distribution, reason for distribution, and signatures of the distributor and recipient. We requested logs from five organizations across two programs. None of the logs included the signatures of staff distributing them, while only one log had the signatures of recipients (see exhibit I).

EXHIBIT I: Grantees did not log prepaid card spending as required by contract.

	Log A	Log B	Log C	Log D	Log E
Period	2023–2024	2023–2024	2023 to Mar 2025	2023 to Mar 2025	2024 to Mar 2025
Total spent	\$3,100	\$300	\$25,000*	\$5,000*	\$10,000*
Card number	Y	Y	N	N	N
Date purchased	N	Y	N	Y	N
Date distributed	Y	Y	Y	N	N
Cash value of card	Y	Y	Y	N	Y
Staff signature	N	N	N	N	N
Recipient signature	N	N	Y	N	N
Reason issued	N	N	Y	N	Y

*These amounts are estimates based on a review of available documentation.

Note: Organization A is the fiscal sponsor of organization B. As a result, there is a significant overlap in the cards logged by the two organizations. All the cards purchased by A were distributed to B, who then distributed the cards to participants.

Source: King County Auditor's Office analysis

Overpayments handled inconsistently

DCHS did not consistently handle overpayments, increasing the risk of fraud, waste, and abuse. Some contracts state that if payments exceed actual expenditures, DCCHS has three options:

1. pause or skip a payment
2. ask the organization to submit a plan for how it will spend the excess
3. ask the organization to return the excess.

However, DCCHS does not have guidance on when to use each of these options, which carry different levels of risk. For example, it is easier for DCCHS to pause or skip payment than to compel an organization to return the excess. Thus, the latter has a higher risk of loss. In addition, without clear criteria for an acceptable plan under

option two, DCHS could inappropriately justify overpayment, resulting in fraud, waste, or abuse.

We found two organizations that regularly reported spending less than budgeted. Under the hybrid payment model, this meant that DCHS paid them more than their actual expenses. In one case, DCHS paused payments after 9 months and excess payments of \$28,000. In another, DCHS waited three times as long to pause payment, after 31 months and payments of \$80,000 more than expense reports justified.

Contract termination lacked criteria

DCHS did not have clear guidance on contract termination, increasing the risk of differential treatment. Contract termination is a complex decision involving multiple staff. It can create legal risk and reduce access to services. DCHS staff terminated three contracts in our sample. The first ended in October 2023, after a program monitoring visit found that work was not being performed. The second ended in January 2024, after DCHS learned that the organization did not have the partnership agreements it alleged to have, and that the executive director made payments to their own subcontracting business without approval. The third ended in March 2025, following a fiscal site visit where the organization did not produce supporting documentation for expenses.

Standard contract language allows King County to terminate contracts with or without cause for various reasons, including nonperformance or financial mismanagement. However, DCHS does not have documented criteria for when issues reach the level of termination. State law requires state agencies to adopt policies that include termination criteria, and the state’s contract management manual includes a contract termination checklist to guide discussions.

For-profit companies received public grants

Grantees included out-of-state and for-profit companies, limiting equity impacts. King County’s most recent Equity and Social Justice Strategic Plan calls on agencies to modify contracting requirements so that “small non-profit organizations” can fairly and effectively compete for health and human service contracts. DCHS policy notes both that community grants may go to for-profit entities and that they “generally” go to nonprofit or community benefit organizations. These general statements lack sufficient detail to help staff determine when or if staff should restrict for-profit eligibility.

We reviewed requests for proposals (RFP) for the three programs in our sample with Best Starts for Kids funding. Two of the three did not make for-profit companies

eligible for grant funding. Among the awardees for these two RFPs, we found one for-profit company, which did not align with grant requirements. The third RFP has two types of applicants. A general statement of eligibility includes “small for-profit organizations,” however, other language in the RFP is less clear. Among the awardees for this RFP, 11 were for-profit companies, including four which applied under the applicant type that, due to inconsistent language, might be exclusively for nonprofit organizations. Two of the 12 for-profit companies were registered outside Washington state. In addition, from available subcontracts and expense reports of grantees in our sample, we counted 11 subcontractors that were for-profit companies, six of which were registered outside Washington state. One out-of-state, for-profit subcontractor received about \$260,000 between August 2022 and March 2025 on a single contract. DCHS did not have clear policies and procedures for funding eligibility based on business type, limiting opportunities to optimize its equity impact.

Contract documents poorly managed

DCHS does not have clear filing rules for important contract documentation, reducing transparency and accountability. Properly managing and maintaining documents and records to ensure they are readily available for examination is a common internal control. However, staff commonly kept expense reports and decisions about allowable costs in email. This practice limits access to information by staff, auditors, and others conducting oversight. In addition, DCHS did not regularly collect annual financial statements despite contract requirements — which only allow one-year waivers in “extraordinary” circumstances — and recommendations from the Office of the Washington State Auditor. Among 39 grantees tested, we found that 14 had no documents on file with DCHS compliance, indicating that they had not submitted required financial statements. Furthermore, DCHS requests grantees to submit questionnaires as part of its annual risk-assessment process. Unlike financial statements, these questionnaires are not required by contract. However, their submission is one indicator of grantees’ responsiveness to DCHS requests and increases information available for DCHS to assess financial risk. In 2024 and 2025, respectively, DCHS reported that 29 and 23 percent of about 360 grantees submitted questionnaires in response to requests sent by the DCHS compliance team.

Staff keep documents in unapproved systems, limiting the availability of public information and increasing security risk. The auditor found one team that was keeping documents on an unapproved system. When it asked DCHS about relevant policies, DCHS staff said that this issue had been discovered among “a few teams” over the past few years. According to King County Information Technology, the use

of unauthorized software is prohibited. DCHS has developed policies and procedures for document storage, but has not effectively implemented them, thus reducing consistency and compliance.

Recommendation 8

The Department of Community and Human Services should develop, document, and implement clear and consistent policies and procedures for:

1. invoice validation including, at a minimum, a) guidance on allowable and reasonable costs and b) staff duties to request and review supporting documents for high-risk costs, like subcontracts, stipends, and prepaid cards
2. contract amendments
3. stipend payments
4. prepaid card logs
5. when contract payments exceed actual expenditures
6. contract termination
7. funding eligibility of for-profit businesses as both grantees and subcontractors on community grants
8. documentation management including, at a minimum, the appropriate system(s) for collecting and storing documentation that is used to validate invoices and comply with contract terms.

Lack of checklists reduced standardization

DCHS does not provide staff with well-designed checklists, reducing

standardization. According to research on the use of checklists, these tools are helpful at standardizing work by clarifying who does what tasks when and how.⁵

Well-designed checklists are short and simple and reflect the needs of staff through inclusive and iterative design. Compliance staff said more tools — such as a list of what to look for when reviewing expense reports — would be helpful. These tools could help to prevent or detect issues before a fiscal site visit. In general, checklists could help increase consistency, improve documentation, and facilitate quality assurance. The *WA-State Contract Management Manual* (January 2019), from the Washington State Department of Enterprise Services, includes multiple checklists on

⁵ Winters BD, Gurses AP, Lehmann H, Sexton JB, Rampersad CJ, Pronovost PJ. Clinical review: checklists - translating evidence into practice. *Crit Care*. 2009;13(6):210. doi: 10.1186/cc7792. Epub 2009 Dec 31. PMID: 20064195; PMCID: PMC2811937. Accessed June 23, 2025.

topics from contract summary, contract management, and change management to when issues persist, contract termination, and lessons learned.

Recommendation 9

The Department of Community and Human Services should develop, document, and implement checklists that help ensure staff adhere to all policies and procedures established in Recommendation 8.

Lack of financial training limited oversight

DCHS provides limited training related to fiscal stewardship, creating gaps in oversight. Training is important to reinforce policies and procedures that clarify expectations. Training also aids in professional development and can contribute to consistency and continuous improvement. In a 2025 survey of 294 DCHS employees, 50 percent agreed or strongly agreed that they had the training they needed to do their job effectively. This was 15 percentage points below the King County average of 65 percent among all 8,524 employees who took the survey. Among 80 people leaving DCHS employment between 2022 and 2024, 36 percent disagreed or strongly disagreed that they had adequate opportunities for professional development and advancement.

Training gaps existed in contract management. An internal memo on the hybrid payment model identified the need for invoice review training. We requested a status report on the training and found gaps in implementation. First, the training was not specific to invoice reviews or DCHS. Public Health created the presentation, which was an overview of contract monitoring, with many elements that did not reflect DCHS policies and procedures. DCHS said it is developing new training on invoices and financial reports for program and fiscal staff. However, it does not currently have a comprehensive training plan. A training plan is more likely to meet staff needs than a single training because contract management includes staff from different teams and multiple tasks. In interviews, staff noted various training needs — from general clarity on roles and responsibilities to specific expectations about determining allowable costs, reconciling expense reports, storing documents, and understanding contract terms.

Recommendation 10

The Department of Community and Human Services should develop, document, and implement a comprehensive staff training plan that covers policies, procedures, and checklists from Recommendations 8 and 9.

CONCLUSION

The Department of Community and Human Services aims to be a good steward of public funds, but to get there it needs to strengthen its internal controls. By clearly communicating its vision and allocating resources appropriately, DCHS will be better prepared to embed the value of financial stewardship into its culture. Documenting policies and procedures outlined throughout this report will help to create a robust framework for transparency, accountability, and continuous improvement. With more guidance and tools, staff throughout the department may find that their abilities to support effective financial management are essential to their ability to promote equity in contracting and deliver quality services that help the community thrive.

Appendix 1: Provider Payments, 2022–24

EXHIBIT 1.1: Community grant payments by contract and program, 2022–2024.

PROGRAM	CONTRACT	ORGANIZATION	PAYMENTS
Family Intervention and Restorative Services	6200077	Institute for Family Development	\$635,063
	6277312	Ryther*	\$373,097
	6277333	Therapeutic Health Services	\$1,096,279
			\$2,104,439
Liberation and Healing from Systemic Racism	6336225	ArtsEd Solutions	\$316,690
	6336224	The Breakfast Group	\$367,822
	6336226	Bridging Cultural Gaps	\$371,300
	6336221	CS Media LLC	\$87,000
	6336237	Educate to Liberate Consulting	\$376,500
	6336227	Faith Finance Center	\$820,708
	6336235	Gerri Hill (d/b/a Your Pretty Perfect)	\$314,826
	6437138	Inspirational Workshops (d/b/a B.R.A.V.E.)	\$66,664
	6336219	JSOL Studios	\$158,604
	6336220	Kreative Collective	\$276,870
	6336236	Let's Dance Productions	\$105,750
	6336228	Partners for Education Reform and Student Success	\$108,766
	6336222	Praxis Institute for Early Childhood Education	\$220,041
	6336229	Restore Assemble Produce	\$553,796
	6336230	Seattle CARES Mentoring Movements	\$394,423
	6336231	Stemtac Foundation	\$248,080
	6336232	Trafton International Group	\$424,752
6336233	Unleash the Brilliance	\$553,000	
6336234	Victorious Youth	\$316,318	
			\$6,081,910

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PROGRAM	CONTRACT	ORGANIZATION	PAYMENTS
Restorative Community Pathways	6242292	Community Leaders Roundtable of Seattle (d/b/a CHOOSE 180)	\$852,946
	6210074	Congolese Integration Network	\$750,271
	6103753	East African Community Services	\$1,361,743
	6242287	Pacific Islander Community Association	\$842,788
	6206904	RVC Seattle**	\$3,201,632
	6316703	RVC Seattle	\$4,236,961
			\$11,246,341
Stopping the School-to- Prison Pipeline	6322322	African American Leadership Forum	\$374,344
	6204058	Black Star Line ACFEC, LLC	\$898,487
	6437101	El Centro de la Raza	\$198,747
	6437102	Empowering Youth and Families Outreach	\$132,498
	6204682	Glover Empower Mentoring	\$1,204,175
	6206719	Neighborhood House	\$1,050,806
	6336171	Pro Se Potential	\$740,420
	6322324	Urban Native Education Alliance	\$811,747
			\$5,411,224

*Ryther took over the contract for the Family Intervention and Restorative Services Respite Center in mid-2024 from Pioneer Health Services (PHS). Payments to PHS totaled \$1,726,206 for 2022 through 2024.

**RVC Seattle subcontracted with Collective Justice and fiscally sponsored Creative Justice to carry out the two scopes of work in this contract.

Source: King County Auditor's Office analysis of payment data

Appendix 2: Potential Fraud and Noncompliance by Program

Generally Accepted Government Auditing Standards require auditors to report as findings instances of actual or likely fraud and noncompliance, when they have sufficient and appropriate evidence. In this context, noncompliance can be with laws, regulations, contracts, and grant agreements. Below, we list issues of actual or likely fraud and noncompliance that we documented during our audit by program. Our audit covered 36 Department of Community and Human Services (DCHS) contracts, known as community grants. Payments on these grants accounted for about 2 percent of DCHS provider payments in 2024. There may be other issues that we did not identify as part of our audit work.

EXHIBIT 2.1: List of issues that occurred or are likely to have occurred among community grants in our sample.

ISSUE	PROGRAM	DESCRIPTION
Fraud	Stopping the School-to-Prison Pipeline	<p>Forgery or alteration of document(s): One organization submitted an altered invoice showing subcontracting expenses of \$7,000. This amount was likely an overpayment against actual expenditures based on the total amounts showing on both the unaltered document (\$1,000) and the invoice provided directly by the subcontractor (\$5,000). The organization likely altered other documents, as we found irregularities in six other invoices submitted to King County.</p> <p>Another organization likely submitted forged or altered documents, as we found irregularities in three agreements and two invoices submitted to the County.</p>
	Not applicable	<p>Theft of time: We notified DCHS that one employee likely had dual employment, which is an intentional time reporting error under the County's fraud policy.</p>

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ISSUE	PROGRAM	DESCRIPTION
<p>Noncompliance with Contract</p>	<p>Liberation and Healing from Systemic Racism</p>	<p>Budget variance: One organization spent at least \$439,000 on subcontractors without a contract amendment despite having only \$63,000 of its \$1.03 million contract budget allocated to subcontractors.</p>
		<p>Another organization spent \$106,000 on subcontractors without a contract amendment despite having none of its \$350,000 contract budget allocated to subcontractors.</p>
		<p>A third organization reallocated about 10 percent of its contract budget and 100 percent of the subcontractor line item without a contract amendment. The budget includes \$45,275 for subcontractors and \$23,200 for scholar and parent incentives, with no funding allocated for professional development and training. However, the organization used \$37,575 for professional development and training and \$5,000 more for incentives after it said its subcontracting partnership ended. The organization used the reallocated funds to make large payments to individuals, including one person who had also received wages. One person received \$15,000 between July 2024 and March 2025. Two others received \$6,000 and \$5,000, respectively. The organization was on track to overspend its staffing budget at the time of the budget reclassification.</p>
	<p>Liberation and Healing from Systemic Racism</p>	<p>Insufficient prepaid card documentation: Three organizations with prepaid card expenses totaling about \$40,000 did not include all required elements in their prepaid card logs.</p>
	<p>Restorative Community Pathways</p>	<p>Two organizations with prepaid card expenses totaling about \$3,400 did not include all required elements in their prepaid card logs.</p>
	<p>Liberation and Healing from Systemic Racism</p>	<p>Insufficient stipend documentation: One organization reported spending \$96,000 on parent/student stipends between 2023 and 2024. During that period, general ledgers suggest that three people received between \$8,000 and \$10,000 each. Stipend documentation lacked required information regarding the purpose for the payments.</p>

<p>Stopping the School-to-Prison Pipeline</p>	<p>One organization did not submit sufficient documentation of stipend payments totaling \$22,700 in December 2024. Information was lacking about how much each participant received and in what form payments were made.</p>
<p>Stopping the School-to-Prison Pipeline</p>	<p>Insufficient supporting documentation: One organization provided copies of two checks requested during the audit that did not match amounts or payees on expense reports. The organization did not provide several other requested documents, including a copy of a check for \$4,378, a lease to validate rent payments, insurance to validate premium payments, and proof of payments to subcontractors from a financial institution.</p>
	<p>Another organization did not provide requested supporting documentation for costs totaling about \$4,100.</p>
<p>Liberation and Healing from Systemic Racism</p>	<p>One organization provided bank statements showing cash withdrawals of \$4,505 and \$10,010 as support for rent expenses of \$2,252.50 and \$5,000 in June and December 2024, respectively. Other rent expenses within 2024 were for different amounts averaging about \$3,000 per month where the period was specified. The organization also provided a subcontracting agreement for \$5,164 as support for multiple payments totaling \$24,000 to the organization’s registered agent.</p>
<p>Liberation and Healing from Systemic Racism</p>	<p>Unsubmitted expense reports: Four organizations submitted summary statements or other financial reports in lieu of expense reports.</p>
<p>Stopping the School-to-Prison Pipeline</p>	<p>Two organizations submitted summary statements in lieu of general ledgers for some reporting periods.</p>

Continued next page.

ISSUE	PROGRAM	DESCRIPTION
Overpayment	Liberation and Healing from Systemic Racism	One organization's expense reports suggest that the executive director is earning 46 percent more than budgeted and reimbursed themselves more than \$12,000 in expenses in January 2024.
		Another organization submitted an expense report that likely includes \$10,000 in duplicate expenses due to four \$2,500 checks being recorded twice. Funding from the City of Seattle is also included, increasing the likelihood that some of the listed expenses should be reimbursed by the City and not DCHS.
		A third organization submitted an expense report that includes a \$935 transportation cost for the month before the contract term began. After we identified this overpayment, DCHS removed it from allowable costs in the organization's budget-to-actuals report.
	Restorative Community Pathways	One organization submitted an expense report that included a \$37,500 transportation cost for a period outside the contract term. After we identified this overpayment, DCHS requested and received a check from the organization to recover the full amount.
	Stopping the School-to-Prison Pipeline	An organization included in its expense report, wages of about \$12,300 that it likely also billed to another funder.

Source: King County Auditor's Office analysis

Appendix 3: Executive Response



King County

Office of Performance, Strategy and Budget

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August 19, 2025

Kymer Waltmunson
King County Auditor
516 Third Ave., Suite 1033
Seattle, WA 98104

Dear Ms. Waltmunson:

Thank you for the opportunity to review the audit report titled “Department of Community and Human Services Needs to Strengthen Financial Stewardship.” The enclosed recommendation table outlines the Department of Community and Human Services (DCHS) responses to each of the 10 recommendations. DCHS concurs with all 10 recommendations.

The audit findings focus on contracts between 2022 and 2025. During this period, the department experienced rapid growth in scope and funding due to the County’s COVID-19 emergency response and recovery efforts without commensurate infrastructure, internal processes, and staffing. DCHS was at the forefront of the County’s emergency COVID response efforts, setting up and operating four Isolation and Quarantine sites, four deintensification shelters, COVID vaccination clinics, and a field hospital. The agency also executed over 100 new contracts for COVID recovery, including distributing close to \$400 million to nearly 40,000 households across King County for eviction prevention and rental assistance.

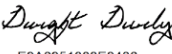
These efforts to provide financial and other resource assistance to community providers and contractors were not well balanced with our value of Responsible Stewardship. This report and its findings provide a path for DCHS to strengthen internal controls, improve oversight and accountability, and ensure that its contracting processes and standards evolve with its fiscal responsibilities. These improvements are foundational to the department’s responsible stewardship of County resources for its 557 contracted service providers and 1,290 programs and its role safeguarding the diverse and essential human services on which our region’s residents rely.

The Executive and DCHS are committed to fully and effectively implementing the Auditor’s recommendations. The department is working with my staff in the Office of Performance,

Strategy and Budget to develop funding proposals for the capacity to achieve the recommended improvements.

We appreciate the time and effort of the Auditor and staff throughout this process.

Sincerely,

DocuSigned by:

E9A6951003E9436...

Dwight Dively
Director of Performance, Strategy and Budget

cc: Karan Gill, Deputy County Executive, Chief of Staff, King County Executive Office
Kelli Carroll, Director of Special Projects, King County Executive Office
Jennifer Hills, Deputy Chief Operating Officer, King County Executive Office
Kelly Rider, Director, Department of Community and Human Services
Amber Green, Deputy Director, Department of Community and Human Services

Recommendation 1

The Department of Community and Human Services should develop, document, and implement a strategy to strengthen internal controls for financial management that includes, at a minimum, 1) a clear vision of how financial stewardship relates to program goals, and 2) the role of compliance, fiscal, and program staff in supporting fiscal stewardship.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 6/30/2027

RESPONSIBLE AGENCY DCHS

COMMENT Internal control strategies and ongoing monitoring will be developed and implemented by the Chief Financial and Operating Officer in coordination with DCHS' Fiscal Contract Compliance and Program Monitoring Workgroup. This work will include building on the department's updated Contract Compliance Monitoring Policy along with other guidance that may be developed by the department, the Finance, Business, and Operations Division (FBOD) of the Department of Executive Services, and consultants. The updated and strengthened controls will address a vision for how financial stewardship relates to programmatic goals along with the role of compliance, fiscal, and program staff in supporting fiscal stewardship.

DCHS plans to develop and implement department-wide communications and practices throughout 2026 and complete this recommendation in 2027. The timeline is dependent on staffing capacity and may require engagement of external experts.

Recommendation 2

The Department of Community and Human Services should work with Public Health – Seattle & King County to develop, document, and implement a plan to identify opportunities for efficiencies in the financial oversight of organizations funded by both departments.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 06/30/2026

RESPONSIBLE AGENCY DCHS and Public Health – Seattle & King County

COMMENT DCHS will work directly with Public Health – Seattle & King County to increase coordination of financial compliance oversight between the two departments for organizations funded by each department. Increased coordination will include the development, documentation, and implementation of a plan to identify opportunities for efficiencies in the financial oversight of organizations funded by both departments. The fiscal oversight plan is expected to be developed and documented by the end of 2025 and implemented in 2026.

Recommendation 3

The Department of Community and Human Services should develop, document, and implement a plan to offer ongoing anti-fraud training for all staff. At a minimum, this training should include information on the impact of fraud, why people commit fraud, how to identify it, and how to report it.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 12/31/2026

RESPONSIBLE AGENCY DCHS

COMMENT DCHS will develop, document, and implement a plan to offer ongoing anti-fraud training for all staff. This work will be undertaken in partnership with FBOD. DCHS plans to deliver this training to all staff by the end of 2026. This will build on anti-fraud training already completed by 38 priority DCHS staff in 2025.

Recommendation 4

The Department of Community and Human Services should conduct and document the results of a risk assessment of its hybrid payment model that specifies how its response appropriately mitigates the risks of fraud and improper payments.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 6/30/2026

RESPONSIBLE AGENCY DCHS

COMMENT The department will conduct and document the results of a risk assessment of the hybrid payment model that specifies how it mitigates the risks of fraud and improper payments. DCHS has hired a new Chief Financial and Operating Officer who has begun analyzing this payment model. DCHS may also engage FBOD and external consultants along with DCHS Finance and Compliance Services team and Contracts and Procurement staff to support the assessment, documentation, and design of risk mitigation measures. This work is planned to be implemented by the end of June 2026.

Recommendation 5

The Department of Community and Human Services should develop, document, and implement a plan to monitor the effectiveness of the Best Starts for Kids capacity-building program in improving the financial capacity of grantees and use monitoring results to inform Recommendation 6.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 6/30/2027

RESPONSIBLE AGENCY DCHS

COMMENT DCHS will develop, document, and implement a plan to monitor the effectiveness of the Best Starts for Kids capacity-building program in improving the financial capacity of grantees and use monitoring results to inform Recommendation 6. The department is currently launching contractor orientation and training to strengthen grantee understanding and fulfillment of contract terms, including invoice documentation requirements. A full evaluation of Best Starts for Kids' Technical Assistance and Capacity Building program is scheduled to be completed in 2027, and this will include findings on capacity building's impact on contracted organizations. Best Starts staff will conduct an additional analysis of financial capacity building learnings and produce a supplemental report to the evaluation in 2027 to inform DCHS' improvements. External consulting may be utilized to support DCHS staff to fulfill this recommendation.

Recommendation 6

The Department of Community and Human Services should develop, document, and implement a plan for effectively communicating to grantees their role in financial stewardship and how they are supported and held accountable to that role.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 3/31/2026

RESPONSIBLE AGENCY DCHS

COMMENT DCHS is launching quarterly training for grantees in 2026 which will incorporate financial management, contract compliance, and contracting requirements to reinforce grantees' responsibilities as financial stewards of County resources. A comprehensive plan that includes these trainings and additional forms of communication is expected to be complete and implementation initiated by the end of March 2026. This plan will be led by DCHS' Director of Strategic Partnerships with support from DCHS' Communications Director. External consulting may be utilized to support DCHS staff to fulfill this recommendation.

Recommendation 7

The Department of Community and Human Services should enforce contract requirements related to subcontractors by ensuring, at a minimum, that 1) it has issued written approval for all subcontractors, 2) subcontracts contain language required by contract, and 3) it takes action to correct any improper payments that may have occurred related to unapproved subcontracts.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 3/31/2026

RESPONSIBLE AGENCY DCHS

COMMENT DCHS will take steps necessary to fulfill this recommendation. This includes issuing written approval for all subcontractors, 2) subcontracts that contain language required by contract, and 3) correction of any improper payments that may have occurred related to unapproved subcontracts. DCHS contract language requires that all subcontractors be approved in writing. Enforcement will ensure these requirements are consistently met, grantees are educated on these terms, and written approval is issued for all subcontractors in order for invoices to be paid. Review of these processes will be integrated into the department's contract compliance monitoring processes to ensure ongoing oversight. The Finance and Compliance Services team, in coordination with Contracts and Procurement staff may engage FBOD and external consultants to support implementation of the procedures to assist in identifying and addressing any improper payments related to unapproved subcontracts. DCHS plans for full implementation by March 31, 2026. All DCHS staff, including program managers and fiscal and compliance services team members, will be trained to hold contractors responsible for these updated terms and conditions.

Recommendation 8

The Department of Community and Human Services should develop, document, and implement clear and consistent policies and procedures for:

1. invoice validation including, at a minimum, a) guidance on allowable and reasonable costs and b) staff duties to request and review supporting documents for high-risk costs, like subcontracts, stipends, and prepaid cards
2. contract amendments
3. stipend payments
4. prepaid card logs
5. when contract payments exceed actual expenditures
6. contract termination
7. funding eligibility of for-profit businesses as both grantees and subcontractors on community grants
8. documentation management including, at a minimum, the appropriate system(s) for collecting and storing documentation that is used to validate invoices and comply with contract terms.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 3/31/2026

RESPONSIBLE AGENCY DCHS

COMMENT DCHS will prioritize and phase the work necessary to develop, document, and implement clear and consistent policies and procedures for each of the items in this recommendation. DCHS contracting standards are planned to be updated by March 31, 2026 as part of overall improvements the department is making to contracting practices. The Chief Financial and Operating Officer will lead this work. External consulting may be utilized to support DCHS staff to fulfill this recommendation.

Recommendation 9

The Department of Community and Human Services should develop, document, and implement checklists that help ensure staff adhere to all policies and procedures established in Recommendation 8.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 12/31/2026

RESPONSIBLE AGENCY DCHS

COMMENT DCHS will develop, document, and implement relevant checklists for fiscal staff, compliance staff, and program managers to ensure consistent and effective implementation of the policies and procedures in Recommendation 8. Full implementation of this recommendation is anticipated by the end of 2026.

Recommendation 10

The Department of Community and Human Services should develop, document, and implement a comprehensive staff training plan that covers policies, procedures, and checklists from Recommendations 8 and 9.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 6/30/2027

RESPONSIBLE AGENCY DCHS

COMMENT DCHS staff with contract management responsibilities are required to complete new training on Contract Compliance Monitoring by the end of 2025. As new policies, procedures, and checklists are developed consistent with these recommendations, the training will be updated and expanded. DCHS is currently hiring a new Chief Administrative Officer who will be responsible for developing and implementing the associated training(s). As recommendations are complete, training will be developed and implemented.



Appendix 4: Statement of Compliance, Scope, Objective, & Methodology

Statement of Compliance with Government Auditing Standards

Auditors conducted this engagement in accordance with Generally Accepted Government Auditing Standards.

Scope of Work on Internal Controls

We assessed the extent to which internal controls were effective at preventing and detecting improper payments, including potential fraud, through invoice validation and budget monitoring. Section 2 of this report focuses on gaps in the control environment and risk assessments, especially as they relate to the tone at the top. Section 3 focuses on gaps in control activities and information and communication, with a focus on invoice validation and process documentation. We identified gaps in policies and procedures, checklists, and training to support invoice review and identified instances of improper payments. We identified gaps in communication and oversight and identified instances of significant budget variance.

Scope

This audit assessed the monitoring of juvenile diversion contracts by the Department of Community and Human Services (DCHS). Juvenile diversion contracts include those under the following programs: 1) Restorative Community Pathways, 2) Family Intervention and Restorative Services, and 3) Theft 3 and Mall Safety. This audit will primarily focus on administrative contract monitoring activities in 2023 and 2024 and will consider information as early as program origination and into 2025 as context. We will also conduct general review and testing of a sample of DCHS contracts with non-federally funded entities running programs outside juvenile diversion.

Objectives

1. How well does the Department of Community and Human Services ensure that contract spending aligns with contract terms for juvenile diversion services?
2. How well does the Department of Community and Human Services ensure accountability and program effectiveness for juvenile diversion services?

We issued our scope and objectives in January 2025. We modified our objectives in May 2025 to eliminate the portion of the second objective focused on program effectiveness. This was due to resource constraints following general review and testing of a sample of DCHS contracts outside juvenile diversion

services, which led to our determination that some issues relate more to the general control environment than being isolated to juvenile diversion programs. Our revised objectives focused on an analysis of contract spending and accountability.

Methodology

Our audit sample included the universe of juvenile diversion contracts active as of October 2024, when we initiated our audit, and a judgmental sample of non-juvenile diversion contracts. We reviewed contract terms and invoice documentation for the 36 contracts listed in Appendix 1. The 36 contracts represent 37 grantees because RVC Seattle contract number 6206904 covers the work of Collective Justice and Creative Justice, which invoice the county separately. For audit tests of documents and fiscal site visit results available centrally from DCHS compliance, we looked at 39 grantees, adding Community Passageways, a Restorative Community Pathways grantee whose contract ended in March 2023, and Latino Community Fund of Washington, which received Stopping the School-to-Prison Pipeline funding in 2019 and 2020. Our judgmental sample was based on funding stream and contract terminations. First, four of the organizations running juvenile diversion programs also received Best Starts for Kids funding to provide other services under the Stopping the School-to-Prison Pipeline strategy. Second, we learned during our interviews that DCHS had terminated contracts in the Best Starts for Kids strategy called Liberation and Healing from Systemic Racism. Because shared funding and termination could shed light on gaps in internal control or potential risk areas, we expanded our scope to include these two strategies. Appendix 1 is a list of DCHS provider payments on contracts we sampled within our scope, organized by program. We did not include in our sample organizations that received funding of less than \$60,000 between 2022 and 2024.

Our sample is not representative of all Best Starts for Kids strategies. We looked at two strategies within the levy focused on youth ages 5 through 24. We did not look at other strategies, such as youth under six, their caregivers, and pregnant persons. We also did not look at contracts managed by Public Health – Seattle & King County (Public Health), which also awards Best Starts for Kids funding. Our sample focused on contracts held by the Children, Youth, and Young Adults Division (CYAD). The only contracts we looked at that were not held by that division were those in Family Intervention and Restorative Services, which were held by the Behavioral Health and Recovery Division. Our findings can be projected to DCHS because its central Director's Office Division houses fiscal, compliance, and procurement staff who support contract management alongside program staff in the other divisions. As a result, while our sample was largely within CYAD, our findings can be generalized to the department because contract management functions are at least partially centralized, the control environment encompasses the entire department, and all divisions except Housing and Community Development used the hybrid payment model in 2024.

Criteria for this audit came from DCHS policy and contracts, King County Code and policy, the *WA-State Contract Management Manual* (January 2019) from the Washington State Department of Enterprise Services, the *Washington Nonprofit Handbook* (2022 Edition), the *Standards for Internal Control in the Federal Government*, and the Association of Certified Fraud Examiners

We gathered evidence through interviews, document review, and analysis of payment, compliance, and capacity-building data. To identify potentially improper payments, we reviewed actual expenditures on expense reports (also known as general ledgers) that grantees submitted to DCHS. We looked for potentially unallowable or unreasonable costs, based on period, payee, and dollar amount, as well as riskier expenses such as cash withdrawals or prepaid cards. We also compared expense reports to contract budgets, which were itemized in DCHS contracts, and budget-to-actuals reports submitted by grantees to look for deviations. We collected contracts, expense reports, and budget-to-actuals reports from contract management systems and, when not available on those systems, from DCHS staff. For a subset of expenses that we found questionable, we asked DCHS staff for additional supporting documentation such as invoices, contracts, logs, or proof of payment. This method allowed us to provide descriptive statements of the kinds of costs that service organizations submitted to the County for reimbursement as well as the ability of staff and grantees to provide reasonable explanations or sufficient and appropriate documentation to support expenses. In some cases, DCHS staff were able to directly request repayment or pause payment based on issues raised. Among our requests for additional documentation, we requested prepaid card logs from five organizations. Only two of the seven organizations in Restorative Community Pathways reported using prepaid cards, and we collected logs from both organizations. However, there was significant overlap in the cards logged by these organizations because one was the fiscal sponsor of the other. The other three card logs were from organizations in Liberation and Healing from Systemic Racism.

To understand staff processes, responsibilities, and oversight structures, we interviewed staff in program management, finance, compliance, procurement, and capacity building at DCHS. Because the Best Starts for Kids levy is co-managed by Public Health, we also interviewed levy and compliance staff at Public Health. For perspectives on juvenile diversion, we interviewed staff at King County Superior Court, the Prosecuting Attorney's Office, the Department of Public Defense, and the Office of Performance, Strategy, and Budget. To understand oversight work related to Restorative Community Pathways, we interviewed and reviewed audit documentation from the Office of the Washington State Auditor.

We organized payment data from King County central finance, i.e., the Finance and Business Operations Division, by contract and year to determine the extent to which payments aligned with contract terms or had been paused during the review period. We reviewed DCHS fiscal and program site visit results letters and other compliance files to understand the level and frequency of DCHS oversight and what issues

were common or known among grantees. We analyzed DCHS capacity-building data by type to determine the extent to which grantees used financial supports as opposed to supports in other areas.

Gaps in available expense reports and supporting documentation made it so that we could not calculate the total value of improper payments in the sample. Instead, we provide examples of the types of improper payments that we found in available documents.

Government Auditing Standards require auditors to report as findings instances of actual or likely fraud and noncompliance, when they have either occurred or are likely to have occurred, so long as they are significant to our audit objectives. They also allow auditors to limit their public reporting to matters that would not compromise investigative or legal proceedings. To facilitate further investigation and potential recovery, we issued a letter to DCHS in June 2025, with a list of potential improper payments. The list of known or likely fraud or noncompliance findings identified in this audit are included in appendix 2.



Appendix 5: List of Recommendations

Recommendation 1

The Department of Community and Human Services should develop, document, and implement a strategy to strengthen internal controls for financial management that includes, at a minimum, 1) a clear vision of how financial stewardship relates to program goals, and 2) the role of compliance, fiscal, and program staff in supporting fiscal stewardship.

Recommendation 2

The Department of Community and Human Services should work with Public Health – Seattle & King County to develop, document, and implement a plan to identify opportunities for efficiencies in the financial oversight of organizations funded by both departments.

Recommendation 3

The Department of Community and Human Services should develop, document, and implement a plan to offer ongoing anti-fraud training for all staff. At a minimum, this training should include information on the impact of fraud, why people commit fraud, how to identify it, and how to report it.

Recommendation 4

The Department of Community and Human Services should conduct and document the results of a risk assessment of its hybrid payment model that specifies how its response appropriately mitigates the risks of fraud and improper payments.

Recommendation 5

The Department of Community and Human Services should develop, document, and implement a plan to monitor the effectiveness of the Best Starts for Kids capacity-building program in improving the financial capacity of grantees and use monitoring results to inform Recommendation 6.

Recommendation 6

The Department of Community and Human Services should develop, document, and implement a plan for effectively communicating to grantees their role in financial stewardship and how they are supported and held accountable to that role.

Recommendation 7

The Department of Community and Human Services should enforce contract requirements related to subcontractors by ensuring, at a minimum, that 1) it has issued written approval for all subcontractors, 2) subcontracts contain language required by contract, and 3) it takes action to correct any improper payments that may have occurred related to unapproved subcontracts.

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The Department of Community and Human Services should develop, document, and implement clear and consistent policies and procedures for:

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8. documentation management including, at a minimum, the appropriate system(s) for collecting and storing documentation that is used to validate invoices and comply with contract terms.

Recommendation 9

The Department of Community and Human Services should develop, document, and implement checklists that help ensure staff adhere to all policies and procedures established in Recommendation 8.

Recommendation 10

The Department of Community and Human Services should develop, document, and implement a comprehensive staff training plan that covers policies, procedures, and checklists from Recommendations 8 and 9.

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