



King County



KING COUNTY AUDITOR'S OFFICE

APRIL 6, 2026




First Follow-Up on DCHS Contract Management Audit

The Department of Community and Human Services (DCHS) made significant progress on audit recommendations, improving training and awareness. DCHS plans to offer annual anti-fraud training to all staff and new financial stewardship courses to grantees starting in 2026. DCHS will require grantees with multi-year contracts to take a financial management and best practices course starting in July 2026, to comply with King County Ordinance 19978. Staff training on two other recommended procedures began in the first quarter of 2026.

DCHS strengthened internal controls related to the hybrid payment model and subcontracts. DCHS completed a risk assessment of the payment model, which accounted for about 12 percent (about \$76 million) of the department's 2025 provider payment budget. The risk assessment recommends steps to mitigate the risk of loss, including clear eligibility criteria and reconciliation instructions. DCHS also developed resources to help staff enforce subcontracting requirements. Starting in March 2026, DCHS began requiring all grantees to request approval for any subcontracts. Subcontracting without prior written approval can result in corrective action, including potential withholding of payment.

DCHS is working to boost collaboration with Public Health – Seattle & King County and evaluate fiscal capacity-building. DCHS and Public Health created a workgroup to increase efficiency in the oversight of grantees. Data from October 2025 showed that 13 percent of grantees funded by at least one of the two departments had funding from both. DCHS plans to issue a report on the effectiveness of financial capacity-building among Best Starts for Kids (BSK) grantees in June 2027.

Of the 10 recommendations:

 1 DONE	 9 PROGRESS	 0 OPEN
FULLY IMPLEMENTED Auditor will no longer monitor.	PARTIALLY IMPLEMENTED Auditor will continue to monitor.	REMAIN UNRESOLVED Auditor will continue to monitor.

See details below for implementation status of each recommendation.

Recommendation 1

PROGRESS



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.

STATUS UPDATE: DCHS hired a consultant to help develop its strategy and vision. DCHS is working to implement its strategy, document its vision, and develop job aids to clarify roles and responsibilities. DCHS is also working to begin recruitment for a chief compliance officer position. The department expects to complete this recommendation by June 30, 2027.

WHAT REMAINS: This recommendation will be complete when DCHS documents and implements a strategy that includes a clear vision and staff roles in supporting that vision.

Recommendation 2

PROGRESS



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.

STATUS UPDATE: DCHS and Public Health created a workgroup to implement this recommendation, holding their first meeting in October 2025. At that time, data showed that of the 945 service providers funded by at least one of the two departments, 125 had funding from both (13 percent). The workgroup is exploring ways to increase efficiency related to documentation, site visits, and emerging issues. DCHS aims to document and begin implementing its plan by June 30, 2026.

WHAT REMAINS: This recommendation will be complete when DCHS documents and implements its plan for increasing efficiency in financial oversight.

Recommendation 3

PROGRESS



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.

STATUS UPDATE: DCHS has developed and documented a plan to offer annual anti-fraud training for all staff starting in 2026. DCHS developed the training content with input from the Finance and Business Operations Division (FBOD) and Public Health. The training discusses the impact of fraud in the public sector, including interruptions to service delivery, reputational damage, and diversion of staff resources. It also incorporates the underlying reasons why people commit fraud and signs that fraud may be occurring. The training directs DCHS staff to notify the department's finance and grants compliance officer by email to report suspected fraud, waste, or abuse.

WHAT REMAINS: To complete this recommendation, DCHS needs to implement its plan to make the training available regularly.

Recommendation 4

DONE



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.

STATUS UPDATE: DCHS completed its assessment and identified additional steps to mitigate the risks associated with the hybrid payment model (also known as the allocated payment model). As of October 1, 2025, 39 percent of active DCHS contracts (390) used the hybrid payment model, accounting for about 12 percent of DCHS' 2025 provider payment budget (approximately \$76 million). This model involves paying out a grant award evenly over its term. For example, if an organization had a 12-month grant for \$120,000 and a monthly payment cycle, DCHS would generally pay \$10,000 per month. To avoid paying for services not delivered, DCHS needs to reconcile payments to actual expenses on a regular basis. The risk assessment recommends reducing the risk of loss by establishing clear criteria for which grantees are eligible for hybrid payment and when and how reconciliations should occur. DCHS plans to implement the new controls by June 30, 2026.

IMPACT: By completing this recommendation, DCHS increased awareness about the hybrid payment model, documented its risks, and created a plan to mitigate these risks to improve consistency and financial accountability.

Recommendation 5

PROGRESS



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.

STATUS UPDATE: DCHS documented a plan to evaluate the effectiveness of the BSK capacity-building program to improve financial capacity of grantees. In its plan, DCHS defines financial capacity as a grantee's ability to track, manage, and report financial activity in ways that meet King County contracting requirements. DCHS plans to collect survey data from grantees that receive capacity-building and to hold a focus group with consultants providing capacity-building services between 2026 and early 2027. It aims to issue a final evaluation report in June 2027.

WHAT REMAINS: To complete this recommendation, DCHS needs to implement its evaluation plan and use results in support of Recommendation 6.

Recommendation 6

PROGRESS



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.

STATUS UPDATE: DCHS developed and documented a plan to offer three new financial stewardship courses to grantees. The courses are a) financial management and best practices, b) contract overview, and c) fiscal contract compliance. DCHS will require grantees with multi-year contracts to take the financial management course starting in July 2026 to comply with provisions established in King County Ordinance 19978. To increase awareness, DCHS updated the standard terms and conditions of its contracts to require grantees to take the training and attest to their completion. DCHS plans to develop a new website and email inbox dedicated to grantee training, to send regular messages to staff and grantees reminding them of available resources, and to develop Spanish versions of the courses to increase language access.

WHAT REMAINS: To complete this recommendation, DCHS needs to implement its plan to offer new training and communication to build awareness.

Recommendation 7

PROGRESS



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.

STATUS UPDATE: DCHS developed a procedure, training, and job aids to help staff enforce subcontracting requirements. Starting in March 2026, DCHS began requiring all service providers to request approval for any subcontracts 15 days before they begin. The request should state the relevant scope of work, the process for hiring the subcontractor, and any potential conflicts of interest. DCHS created a webpage and emailed service providers explaining when and how to get approval. Once approved, DCHS contract managers are also required to review subcontracts to ensure the documents include mandatory provisions. The new procedure notes that subcontracting without prior written approval can result in corrective action, including potential withholding of payment. DCHS informed staff that this process will not apply retroactively to service providers whose contracts began before March 2026; however, if staff know of subcontractors who do not meet minimum eligibility criteria, contract managers should elevate the issues to their division director.

WHAT REMAINS: DCHS needs to implement its process by issuing written approvals for subcontractors, reviewing subcontracts for compliance, and taking corrective action when appropriate.

Recommendation 8

PROGRESS



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.**

STATUS UPDATE: DCHS developed and drafted all eight of the recommended policies and procedures. DCHS reported that it formally approved four policies and procedures and is refining the other four. Training on the policies and procedures began in the first quarter of 2026.

WHAT REMAINS: DCHS needs to finalize and implement all eight policies and procedures.

Recommendation 9

PROGRESS



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.

STATUS UPDATE: DCHS hired a temporary contract management learning and development manager to help develop checklists, training, and other resources to support staff implementation of new policies and procedures. The new employee plans to hold weekly office hours to help staff address contracting challenges and will respond to a new email address dedicated to DCHS contract management learning and development.

WHAT REMAINS: To complete this recommendation, DCHS needs to document and implement checklists to support new policies and procedures established in Recommendation 8.

Recommendation 10

PROGRESS



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.

STATUS UPDATE: DCHS hired a temporary contract management learning and development manager to help develop and deliver training content for new policies, procedures, and checklists. DCHS held the first of its new contract management training for staff in February 2026. The new employee plans to hold weekly office hours to help staff address contracting challenges and will

respond to a new email address dedicated to DCHS contract management learning and development.

WHAT REMAINS: DCHS needs to document and implement its comprehensive staff training plan.

Megan Ko conducted this review. If you have any questions or would like more information, please contact the King County Auditor's Office at KCAO@KingCounty.gov or 206-477-1033.