



DATE: 5/8/26

TO: Chris Klaeyen, Homelessness Division Director (HSD); Jelani Jackson, Acting Director (HCD/DCBS)

CC: KCRHA Governing Board

FROM: William Towey, Associate Deputy Strategy (KCRHA)

SUBJECT: Forensic Audit by Clark Nuber - May 8th Response to Funder Cover Letter

Dear Mayor Wilson and Executive Zahilay,

Thank you for your April 22, 2026, letter and for the independent forensic evaluation conducted by Clark Nuber. We take full accountability for the conditions identified and have already implemented immediate control actions while advancing a structured reconciliation and corrective action process. The findings primarily reflect conditions present through mid-2025; since that time, KCRHA has made significant improvements to financial systems, processes, and controls. This letter addresses the four high-risk items requested for May 8, 2026. A comprehensive Corrective Action Plan will be provided by May 23, 2026.

KCRHA understands these findings as a set of related financial management issues involving unreconciled balances, administrative cost alignment and overspend, and associated cash flow impacts. These issues are interrelated: reconciliation gaps and payment timing contribute to cash flow pressures and interest costs, while classification and allocation challenges affect how administrative costs are recorded and understood. These conditions are being addressed through the coordinated actions outlined below.

1. Strategy to address unreconciled balances, administrative overspend, and interest

Unreconciled balances (~\$8M). KCRHA has initiated a structured, transaction-level effort to reconcile and resolve, to the extent possible, the approximately \$8M in unmatched balances identified in the evaluation.

All KCRHA expenditures were processed through King County Treasury systems, which maintained records of disbursements, including amounts paid and recipients. The primary issue identified in the audit relates to KCRHA's ability during certain periods to fully reconcile and align those disbursements with internal contract, invoice, and accounting records.

KCRHA operates under a cost-reimbursement funding model in which payments to service providers are made in advance of reimbursement from funders. As a result, the agency carries a fluctuating negative cash balance within the King County Investment Pool that reflects timing differences rather than an underlying deficit. This balance varies over time based on reimbursement cycles and is actively managed through improved billing cadence and coordination with funding partners.

Against this backdrop, KCRHA's initial review of the general ledger indicates that the approximately \$8M balance is driven primarily by timing differences between expenditures and reimbursements, partial or short payments, limited remittance detail, and cross-fund reimbursement practices. While a fully itemized, transaction-level composition is still being finalized, initial analysis indicates that most of the balance is driven by these factors rather than a simple underbilling issue. This work is being conducted in coordination with King County and the City of Seattle, including validation of balances and alignment on any required recovery actions or accounting treatment.

Timeline:

By May 23, we will isolate the population of transactions, prioritize high-dollar items, and provide a categorized analysis of the balance along with a corrective action framework.

By June 30, we will complete reconciliation and categorization of most of the balance, identify timing and misapplied payment issues, and quantify any potential billing gaps with recovery actions initiated where appropriate.

By July 31, we will complete reconciliation to the extent possible, quantify remaining balances, distinguish between reconcilable, recoverable, and unrecoverable amounts, and establish ongoing reconciliation processes. This work will include strengthened documentation and reconciliation protocols, maintenance of transaction-level workpapers and accounting adjustments, and ongoing finance leadership review and reporting through established oversight structures, including the Finance Committee and Governing Board as appropriate.

Administrative overspend and interest (~\$4.26M, including approximately \$1.26M KCIP interest). KCRHA's review confirms that the identified administrative overspend reflects real costs incurred above planned budget levels primarily occurring during late 2022 through early 2025. This includes interest expense and additional administrative and system investment expenditures not included in approved budgets, including Salesforce implementation. These costs are being validated, classified, and addressed through clear accounting treatment.

Interest expense is directly tied to KCRHA's negative cash position, driven by delays and inconsistencies in reimbursement timing. These costs are a function of cash flow timing



dynamics and are not associated with any loss of underlying funds. KCRHA is prioritizing improvements to billing cadence and coordination with funders to reduce reliance on the KC investment pool and associated interest costs.

Timeline:

By May 23, we will validate the composition of the remaining administrative overspend and provide a corrective action framework.

By June 30, we will complete a detailed review and alignment of administrative costs, implement required reclassifications, and begin actions to reduce the negative cash position.

By July 31, we will finalize the administrative cost position and implement a sustained mitigation plan to reduce structural drivers of interest and improve alignment between expenditures and reimbursements. This work will include strengthened documentation and reconciliation protocols, maintenance of transaction-level workpapers and accounting adjustments, and ongoing finance leadership review and reporting through established oversight structures, including the Finance Committee and Governing Board as appropriate.

KCRHA will maintain supporting documentation for all reconciliation outcomes, including transaction-level workpapers, categorization of balances, and any required accounting adjustments or write-offs, with review and approval by finance leadership and reporting through established oversight structures, including the Finance Committee and Governing Board as appropriate.

2. Employee reimbursement and gift card controls

KCRHA has implemented both immediate and long-term control enhancements to ensure all employee reimbursements and gift card activities are subject to consistent authorization, documentation, and centralized oversight. These controls are being formalized through updated agency-wide policies and procedures aligned with applicable federal grant, internal control, and financial management standards.

Employee reimbursements

Effective April 28, 2026, all reimbursable expenses require documented pre-approval from the Department Head and Chief Executive Officer prior to incurrence. All requests must be submitted through the Halo system with complete supporting documentation. Requests without pre-approval are not eligible for payment and are returned with a documented non-conformance notice. The Controller has initiated 100% review of reimbursements through December 31, 2025, with results reported to executive leadership and the Finance Committee, including any required corrective actions.



Updated reimbursement policies include strengthened documentation, reconciliation, recordkeeping, and audit-readiness requirements, along with mandatory training and compliance expectations for staff involved in reimbursement approval and processing.

Gift cards

KCRHA has strengthened controls recognizing gift cards as cash-equivalent instruments. Effective April 28, 2026, all gift card purchases require documented pre-approval and must be tied to an authorized business purpose. Purchases are processed through the Halo system with enforced approval workflows and complete supporting documentation requirements.

Gift cards are stored in secured, access-controlled locations with designated custodians. Inventory is tracked through detailed logs with periodic independent reconciliation, and all distribution activity is documented by recipient, purpose, and program alignment.

These controls are being formalized through updated agency-wide Payment Cards, Gift Cards, and Cash-Equivalent Controls Policies, including strengthened recordkeeping, reconciliation, and audit-readiness requirements, as well as required staff training and oversight procedures.

3. Segregation of duties — accounting permissions

KCRHA has begun to implement immediate control enhancements to strengthen segregation of duties within financial systems.

A comprehensive review of NetSuite roles and permissions is in progress, with access being reconfigured based on least privilege. Responsibilities are explicitly separated across authorization, custody, recording, and reconciliation functions. A formal segregation of duties matrix is being updated to prevent incompatible role combinations. Maker/checker controls have been implemented for key transactions, including journal entries and system access changes. Where full segregation is not immediately feasible, compensating review controls have been implemented.

These actions directly address prior permission control gaps and establish clear accountability across financial processes.

4. Purchase card controls

KCRHA has implemented immediate control enhancements to reduce risk associated with purchase cards and strengthen authorization, documentation, oversight, and accountability.

Effective April 28, 2026, five of seven active cards have been deactivated. Two cards remain active solely for essential operational needs and are subject to enhanced monitoring.



All purchases must be submitted and approved through the Halo system prior to execution. No purchases may occur outside of this workflow. Cardholder responsibilities, documentation requirements, and compliance expectations are formalized through policy and required training. Transactions must be reconciled with full supporting documentation within defined timelines and are subject to monthly review and escalation where necessary.

KCRHA has further strengthened controls by requiring complete documentation of purchase, custody, and distribution activities; maintaining inventory and reconciliation logs subject to periodic independent review; assigning designated custodians responsible for safeguarding and accountability; and tracking distribution by recipient, purpose, and program alignment where applicable.

These controls are codified in updated Payment Cards, Gift Cards, and Cash-Equivalent Controls Policies and establish a controlled and auditable framework for purchase activity. Controls are subject to ongoing monitoring, periodic internal review, and reporting through established oversight structures to support sustained compliance and effectiveness.

Closing

KCRHA's approach is to move from initial pattern identification to comprehensive transaction-level reconciliation while strengthening financial controls and operational discipline. Financial processes and controls have improved materially since mid-2025, reflecting a transition from early-stage operating conditions to a more mature and controlled financial environment. The actions described above are designed to ensure sustained compliance, transparency, and accountability. Progress will be reviewed regularly by executive leadership and reported through established financial oversight structures. We will continue to provide regular updates and deliver a corrective action plan addressing each of the additional evaluation findings by May 23.

Sincerely,



Dr. Kelly Kinnison

CEO, KCRHA

