

The City of Seattle

Resolution 32202

A resolution regarding next steps after the forensic evaluation of the King County

Regional Homelessness Authority (KCRHA); requesting that the Seattle Mayor take steps to immediately safeguard public funds, provide an initial assessment of whether it is feasible for KCRHA to adequately address all of the findings in the forensic evaluation, recommend if KCRHA should be dissolved, restructured, or continue as is, submit a set of next steps on how the City will approach the dissolution or restructure of KCRHA if determined to be necessary, and submit monthly reports to Council.

Recitals:

In December 2019, as authorized by Ordinance 126021, The City of Seattle (Seattle) and King County entered into the Interlocal Agreement for the Establishment of the King County Regional Homelessness Authority (KCRHA) in order to provide a coordinated, regional approach that would improve the delivery of homeless services and enhance outcomes for those receiving such services.

In November 2024, as authorized by Ordinance 127105, Seattle and King County entered the Amended and Restated Interlocal Agreement (Amended Interlocal Agreement) to streamline the governance structure at KCRHA to improve transparency, coordination, and oversight.

Past audits performed by the Office of the Washington State Auditor have identified the following issues related to internal controls and negative cash balances at KCRHA: 1) the 2023 Single Federal Audit identified significant deficiencies in the design or operation of internal control over major federal programs; 2) the 2023 Accountability Audit Report found that KCRHA's funding model resulted in a negative cash balance at year-end placing its service levels and future obligations at risk; and 3) the 2022 Financial Audit found that KCRHA did not have effective internal controls in place to ensure accurate and reliable financial reporting and that internal controls were inadequate for ensuring compliance with federal requirements for subrecipient monitoring.

In 2025, Clark Nuber P.S. was engaged by Seattle in coordination with King County to conduct a forensic evaluation of KCRHA covering the period from mid-2021 through July 31, 2025. The evaluation focused on financial condition, governance, and risk management practices, with particular attention to factors contributing to negative cash balances and opportunities to strengthen processes and oversight.

On April 22, 2026 a report on the results of the forensic evaluation were sent to KCRHA and made publicly available. The forensic evaluation described a number of concerning observations regarding KCRHA's financial and internal control practices including but not limited to: 1) a receivables balance of \$8 million could not be reconciled based on available records, indicating a potential need to write it off; 2) an administrative operating deficit of approximately \$4.26 million; 3) recurring negative cash balances beginning in December 2023, reaching a

negative cash position of approximately \$44.7 million as of July 31, 2025. The negative cash balance is driven largely by inefficiencies in invoicing and review processes and has led to an approximately \$1.26 million in interest charges that are not expected to be recovered (part of the \$4.26 million operating deficit); 4) practices that led to inconsistent and unreliable financial reporting, making it difficult to understand the financial position of KCRHA at a given point in time, including revenues and expenses as compared to approved budgets and its cash position; 5) as of July 31, 2025, the internal 2024 year-end financial statements showed a difference of \$1.3 million dollars when compared to the audited financial statements. Typically, internal year-end statements and audited financial statements should match; 6) KCRHA had inadequate financial controls, including a lack of an internal control framework that puts it out of compliance with federal funding requirements; 7) the evaluation did not identify specific evidence of large-scale fraud in the samples reviewed. However, due to limitations in internal controls, the risk of fraud, waste, and abuse remains, as it would for any organization in a similar situation; 8) KCRHA did not always clearly track funds, and as a result it could not easily demonstrate that cash, including cash advances, was consistently used for its intended purpose. This increased the risk of potential noncompliance with funder and contract requirements; and 9) KCRHA did not follow some basic accounting and financial management principles, such as a hard monthly close or defined and consistently utilized cost centers, which contributed to the issues described above.

The forensic evaluation concluded that narrow, standalone recommendations are not practical because the issues at KCRHA are interrelated and reflect systemic conditions rather than a single root cause, event, or management team. Instead, addressing the issues at KCRHA would require a coordinated and multi-layered approach, which may represent a significant time and cost investment.

The depth, breadth, and severity of the issues identified in the forensic evaluation have deeply eroded public trust in KCRHA to be a responsible steward of public funds. However, there are important considerations as next steps are considered.

KCRHA administers hundreds of homeless service contracts on behalf of public funders, mainly the City and County, for programs such as homeless shelters, safe parking programs, day centers and rapid rehousing. Those programs serve some of the most vulnerable people in the community. Any potential transition of contracts back to public funders would need to be done carefully in order to ensure that services to these vulnerable people are not disrupted in any way.

KCRHA currently serves as the Continuum of Care (CoC) Lead Entity and will be coordinating the application response to the 2026 CoC Notice of Funding Availability, anticipated to be published this summer. King County currently receives \$67 million in CoC funding, which is potentially at risk due to federal funding changes. A strong and functional CoC Lead Entity is needed to ensure the region's best chance at a competitive application.

Any successful approach to effectively addressing homelessness must have a regional component, and as Council and the Executive consider next steps the importance of regionalism must be kept in mind.

Given these considerations, it is essential that the City take a measured, deliberative approach to determining the next steps following this forensic evaluation.

Therefore,

Be it resolved by The City of Seattle, the Mayor concurring:

Section 1. The Seattle Mayor (Mayor), King County Executive, and King County Regional Homelessness Authority (KCRHA) should take steps to immediately safeguard public funds. The City Council recognizes that some steps have already been taken, including:

A. The Mayor and King County Executive sent KCRHA a cover letter on April 22, 2026 accompanying the forensic evaluation report. The cover letter stated that by May 8, 2026 KCRHA must provide a written response to the Seattle Human Services Department (HSD) and the King County Department of Community and Human Services (DCHS) that describes how KCRHA will address the following high-risk findings in the evaluation: 1) a strategy with a detailed timeline outlining how the KCRHA is going to address issues related to unreconcilable and unrecoverable cash; 2) ensure appropriate approvals for employee reimbursements; 3) ensure sufficient approvals and documentation on gift cards; 4) ensure segregation of duties for accounting and expenditure permissions; and 5) ensure strong authorization, receipt, and review controls for purchase cards.

B. In the same April 22, 2026 cover letter the Mayor and King County Executive committed that, during the next 30 days, the City and County will coordinate to ensure sufficient accounting and oversight controls are in place within KCRHA. This may include actions that: 1) improve the quality and clarity of accounting records; 2) address

inconsistencies in financial and budget management and financial reporting; and 3) address administrative budget overspend.

C. At the April 24, 2024 KCRHA Governing Board meeting, the Governing Board voted to create a Finance Committee and established new requirements that the Finance Committee must approve any new agreements that increase costs or liabilities where existing budget authority has not been granted, approve any recruitment and hiring of vacant or new positions, and approve any discretionary spending.

Section 2. The April 22, 2026 cover letter to KCRHA requires that KCRHA must provide a written corrective action plan addressing each of the findings, including implementation timelines, by May 23, 2026. No later than June 15, 2026, the Mayor or designee should provide to the Chair of the Human Services, Labor, and Economic Development Committee an initial assessment of the corrective action plan submitted by KCRHA.

Section 3. The Mayor or designee should, no later than August 1, 2026, make a recommendation to the Chair of the Human Services, Labor, and Economic Development Committee on whether the City should terminate its participation in the Amended and Restated Interlocal Agreement and dissolve KCRHA, restructure KCRHA, or continue as is. If dissolution or restructure is recommended, then the Mayor or designee should also provide a plan no later than August 1, 2026 that addresses the following components:

A. Guiding principles for shared adoption, outlining Seattle's shared values and key considerations in the path forward, such as minimal disruption to services and maintenance of a regional approach to addressing homelessness.

B. Exploration of convening a cross jurisdictional table focused on development of an effective service delivery system.

C. A commitment to collaborative and meaningful engagement with key stakeholders, including homeless service providers and regional partners, around system planning and improving outcomes.

D. Options for how the City should strategically utilize this opportunity to evaluate and adapt City investments in homeless services, which have not undergone significant changes since 2017, ensure greater system to system connections to address upstream issues that lead to homelessness, and ensure alignment with other City approaches to homelessness.

E. An update on potential approaches to the Continuum of Care (CoC) responsibilities that: assume dissolution of KCRHA would occur after 2026, so as not to create risk to Fiscal Year 2025 CoC contracts that are subject to renewal in 2026; take into account the Fiscal Year 2026 Notice of Funding Opportunity for CoC funding, which is expected to be published by the Department of Housing and Urban Development in the summer of 2026; and consider how CoC requirements such as conducting the Point-in-Time Count, managing Coordinated Entry and administering the Homeless Management Information System (HMIS) will be maintained.

F. Ensuring HSD has sufficient capacity and staffing to directly administer homeless service contracts again, including strong accounting and financial systems, internal controls, and oversight.

G. Options for how Seattle and King County will continue to maintain a regional approach to addressing homelessness, including coordination of cross-jurisdictional

severe weather sheltering efforts, and considerations around administration and shared expectations regarding program and system outcomes.

H. Options for what organization or entity will take on KCRHA's existing Right of Way contracts for master leased apartments with services.

I. Opportunities to continue and strengthen the work of the Ombuds Office, which is currently housed in KCRHA, to provide critical programmatic oversight.

J. An estimated timeframe budget for increased City costs related to dissolving or restructuring KCRHA and the fund source for those costs.

Section 4. Following submittal of the information requested in Section 3 of this resolution, the Mayor or designee should continue to report monthly to the Chair of the Human Services, Labor, and Economic Development Committee on the potential dissolution or restructure of KCRHA.

Adopted by the City Council and signed in open session in authentication of its
adoption on June 2, 2026.



President _____ of the City Council

Signed in concurrence on June 4, 2026.



Katie B. Wilson, Mayor

Attested on June 4, 2026.



Scheereen Dedman, City Clerk

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