

Schedule of Federal Audit Findings and Questioned Costs

Chelan County January 1, 2013 through December 31, 2013

1. The County did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	10.923 Emergency Watershed Protection Program
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Natural Resources Conservation Service
Pass-through Award/Contract Number:	68-0546-13-002 and 68-0546-13-006
Questioned Cost Amount:	\$0

Background

The County spent \$532,855 in federal grant funds during 2013 on two projects to prevent danger of disastrous flooding in two areas of the County.

Federal requirements prohibit grant recipients from contracting with or making subawards to vendors who have been suspended or debarred from doing business with the federal government. The County is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The County can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the County may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

Description of Condition

We reviewed the County's internal controls and compliance with regulations over its Emergency Watershed Protection Program. The County did not have internal controls to ensure compliance with the suspension and debarment requirements.

Cause of Condition

Typically, the natural resources department awards contracts for federally funded projects through the competitive bid process and ensures the contracts include clauses covering suspension and debarment requirements. However, one of the Emergency Watershed Protection Program projects (contract#68-0546-13-006) was declared an emergency in accordance with state procurement laws, allowing the County to waive competitive bid requirements. Since the project was not awarded through the competitive bid process,

the department did not include the necessary clauses in the contract or take other measures to ensure federal suspension and debarment requirements were met prior to entering into contracts.

Effect of Condition and Questioned Costs

The County paid one vendor \$88,363 for aerial seeding services and another vendor \$52,206 for construction services. The County did not verify whether the vendors were suspended or debarred. This material weakness in internal controls increases the risk the County will enter into contracts with vendors who are suspended or debarred from receiving federal funds. Payments on contracts to suspended or debarred vendors would be unallowable and cause the County to repay the funding to the grantor.

We were able to verify the vendors had not been suspended or debarred and, therefore, we are not questioning costs for the payments.

Recommendation

We recommend the County establish internal controls to verify suspension and debarment status of all vendors paid with federal funds prior to entering into contracts, including contracts for projects declared emergencies.

County's Response

We would like to thank the State Auditor's Office for their review of our federal grant programs. As always, we appreciate their partnership and professionalism. Although we recognize that two contracts were entered without checking the Excluded Parties List, neither contractor was on this list. Due to the nature of those on the federal Excluded Parties List, the risk of Chelan County contracting with a vendor on this list is extremely low. We understand that the State Auditor's Office is required to report areas of non-compliance in accordance with federal grant rules, but we do not feel that the issue constitutes this level of reporting. Chelan County will continue to promote internal controls over federal grants.

Auditor's Remarks

We appreciate the steps the County is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.