

Schedule of Federal Audit Findings and Questioned Costs

**South King County Fire & Rescue
King County
January 1, 2013 through December 31, 2013**

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

CFDA Number and Title:	97.044 Assistance to Firefighters Grant
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	EMW-2012-FO-02860
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The purpose of the Assistance to Firefighters Program is to protect health and safety of the public and firefighting personnel against fire and fire-related hazards. The District spent \$432,559 through its Assistance to Firefighters grant in 2013.

Federal grant regulations prohibit recipients from contracting with parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more, the District must ensure the vendor is not suspended or debarred.

To meet this requirement, the vendor can certify in writing that it has not been suspended or debarred. Alternatively, the District can check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Service Administration. The District must also inform the primary contractor to check the status of any covered transactions they enter into at the next lower level. The District must meet these requirements prior to entering into contracts with vendors.

The District paid \$393,986 of its grant funding to one vendor to purchase automated external defibrillators and related attachments and service agreements. The District did not have procedures in place to ensure the vendor was not debarred or suspended prior to contracting with the vendor.

Cause of Condition

The District staff responsible for this grant was not aware of the suspension and debarment requirements for federally funded contracts. We consider this control deficiency to be a material weakness.

Effect of Condition and Questioned Costs

Without proper controls, the District increases the risk of expending funds with vendors that are suspended or debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Failure to comply with federal requirements may jeopardize the District's eligibility for future federal assistance.

We were able to verify that the vendor was not suspended or debarred; therefore, we will not question these costs.

Recommendation

We recommend the District develop appropriate internal controls to ensure it complies with federal suspension and debarment requirements.

District's Response

The District thanks the auditor for bringing this requirement to our attention and has undertaken corrective measures to ensure that tests for contractor debarment will be incorporated into all transactions that involve the expenditure of federal funds. We will require all contractors and vendors to certify that they have not been debarred from participation in federally funded procurements and we shall independently verify such certifications.

The District is focusing its management of grants in the office of the Chief Financial Officer. We are establishing an internal control process to effectively manage the flow of documents pertaining to federal grants and expenditure of federal funds.

Documentation will include a grant-flow checklist that assigns responsibility for accomplishment of each grant requirement and will also include a checklist assigning responsibility for each step of the procurement process for identifying qualified contractors/vendors, pre-award screening before a procurement is placed, determination of the appropriate procurement method, and documentation of the basis for each decision made in the procurement process.

We believe our corrective actions will ensure that all federal grant requirements are satisfied. The District plans to have the corrective measures in place by October 17, 2014.

Auditor's Remarks

We appreciate the District's commitment to resolving 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.

Title 2, Code of Federal Regulations, Section 180.220 states in part, Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a non-procurement transaction that is covered under §180.210 and the amount of the contract is expected to equal or exceed \$25,000 . . .

(c) A subcontract also is a covered transaction if

(1) It is awarded by a participant in a procurement transaction under a nonprocurement transaction of a Federal agency that extends the coverage of paragraph (b)(1) of this section to additional tiers of contracts (see the diagram in the appendix to this part showing that optional lower tier coverage); and

(2) The value of the subcontract is expected to equal or exceed \$25,000.

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; or
- (c) Adding a clause or condition to the covered transaction with that person.

Title 2 Code of Federal Regulations, Section 180.330 – What requirements must I pass down to persons at lower tiers with whom I intend to do business?

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to—

- (a) Comply with this subpart as a condition of participation in the transaction. You may do so using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.
- (b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

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.