

Schedule of Federal Audit Findings and Questioned Costs

Spokane County January 1, 2013 through December 31, 2013

1. The County's Community Development Department lacks internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	14.239 HOME Investment Partnerships Program
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	M09-UC-53-0203 M11-UC-53-0203
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The Community Development Department spent \$1,439,707 under the HOME Investments Partnerships Program in 2013. The funds were used for administration and planning, tenant-based rental assistance, and interest-bearing loans for the construction of low-income housing.

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

If a vendor certifies in writing that its organization has not been suspended or debarred, the grantee may rely on that certification. Alternatively, the grantee may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. Additionally, recipients are required to inform subrecipients and vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into. These requirements should be met prior to entering into a contract with the subrecipient or vendor.

During 2013, the Department made loans for the construction of low-income housing of \$1,339,302 to two developers. The Department did not verify the federal suspension and debarment status of these developers. In addition, developers were not informed of their responsibility to check the suspension and debarment status for any covered transactions they enter into with subcontractors.

Cause of Condition

District staff responsible for this program was not aware that suspension and debarment requirements applied to loans for construction of low-income housing.

Effect of Condition

Inadequate internal controls over the suspension and debarment requirement increases the risk of awarding funds to parties who are suspended or debarred from federal projects. If a party is suspended or debarred, any payment to them is unallowable and subject to repayment. The control deficiency resulted in noncompliance that affected more than 90 percent of program funding, therefore we consider this a material weakness.

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

Recommendation

We recommend the Community Development Department develop internal controls to ensure developers are:

- Not suspended or debarred prior to entering into a contract, and
- Informed of their responsibility to check the suspension and debarment status for any covered transactions they enter into with subcontractors.

County's Response

1. As part of the Department's Affordable Housing Program Application, the Department will include a Suspended and Debarred Certification that provides Spokane County a signed, dated acknowledgment as to the effect that the individual, agency, or organization, have not been suspended or debarred prior to entering a HOME Agreement with Spokane County.

2. As part of the Departments Affordable Housing Program HOME Agreement, language shall be included informing the individual, agency, or organization of their responsibility to check the suspension and debarment status for any covered transactions they enter into with subcontractors.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue 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.

Title 2, Code of Federal Regulations, Section 180.200 - What is a covered transaction?

A covered transaction is a non-procurement or procurement transaction that is subject to the prohibitions of this part. It may be a transaction at –

(a) The primary tier, between a Federal agency and a person (see appendix to this part); or

(b) A lower tier, between a participant in a covered transaction and another 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.

Schedule of Federal Audit Findings and Questioned Costs

Spokane County January 1, 2013 through December 31, 2013

2. The Public Works Department lacked internal controls to ensure compliance with allowable cost requirements for its Highway Planning and Construction grant.

CFDA Number and Title:	20.205 Highway Planning and Construction
Federal Grantor Name:	U.S. Department of Transportation
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Transportation
Pass-through Award/Contract Number:	LA 7345
Questioned Cost Amount:	\$206,990.46

Background

During 2013, the County spent \$6,038,731 in federal Highway Planning and Construction grant funds for work on roads and bridges.

Several projects were funded by this grant and each project had specific grant guidelines. We judgmentally selected five projects for audit, of which four had no issues. This finding addresses the Little Spokane River Bridge project. The Department received grant funds on a reimbursement basis for this project.

Description of Condition

Grant recipients must have internal controls in place to ensure compliance with grant award and federal requirements.

The project award document states the Department must comply with the Local Agency Guidelines manual (LAG). According to this manual, reimbursements for bridge approach costs are limited to 15 percent of the total allowable bridge costs. When Public Works Department personnel prepared the reimbursement requests this requirement was not considered. In addition, the review performed by the County's Office of Financial Assistance was not sufficient to identify this error.

Cause of Condition

The Public Works and Office of Financial Assistance departments have experienced significant turnover in personnel which resulted in this LAG manual requirement being

overlooked. Public Works Department staff identified the unallowable costs and brought the overpayment to our attention during the audit. We consider this internal control deficiency a control weakness. The control weakness is not considered a significant deficiency.

Effect of Condition and Questioned Costs

The County was reimbursed for bridge approach costs in excess of the 15 percent limitation of \$32,857.03 in 2012 and \$174,133.43 in 2013, for a total of questioned costs of \$206,990.46. The County repaid the Washington State Department of Transportation (WSDOT) \$206,990.46 on June 24, 2014.

Recommendation

We recommend the County's Public Works Department and Office of Financial Assistance strengthen internal controls to ensure compliance with allowable cost requirements. In addition, we recommend the County continue to work with WSDOT to ensure the matter of these questioned costs is fully resolved.

County's Response

Spokane County failed to restrict billings to 15% of bridge approach costs for the Little Spokane River Bridge project. This percentage restriction is detailed in the Local Agency Guidelines manual (LAG) requirements. This oversight resulted in an overpayment to the County from Washington State Department of Transportation (WSDOT). Prior to the review of this grant by the State Auditor's Office, a County staff member discovered the overpayment and brought to the attention of the Spokane County Finance Director.

Due to staff turnover newer employees were unaware of the requirements related to LA 7345. To improve internal controls and prevent this oversight from re-occurring, County staff has received training in how to review and follow grant requirements, including allowable grant costs, both direct and indirect. This training also included grant monitoring procedures and requirements of grant closeout. In addition, billings are prepared by the Public Works staff who reviews for allowable costs before submitting to the grants management office, for additional review of allowable direct and indirect costs. Every effort is being made to train new staff in grant requirements.

The County has submitted to WSDOT on June 24, 2014, the amount of \$206,990.46, which reimbursed the State for the overpayment.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulation

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.

Washington State Department of Transportation Local Agency Guidelines, M 36-63.25, Chapter 34, page 7 – 8, states in part:

13. Mobilization – Prorated by costs of bridge and approach work.

Approach costs will be limited to 15 percent of the above items.