

Schedule of Audit Findings and Responses

**City of Grandview
Yakima County
January 1, 2013 through December 31, 2013**

1. The City's internal controls are inadequate to ensure federal expenditures are accurately reported on the Schedule of Expenditures of Federal Awards.

Background

Entity management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and reports to make decisions. City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. The control system must ensure that financial data is reliably authorized, processed and reported.

We identified a significant deficiency in controls that adversely affects the City's ability to produce a reliable Schedule of Expenditures of Federal Awards (SEFA), which is supplemental information required to be included in the City's financial statements and is part of the audit report required by the federal government. This Schedule is to include all federal program expenditures by the City for each fiscal year.

Description of Condition

Our audit determined internal controls were inadequate to ensure the SEFA accurately reported all federal expenditures. We identified the following internal control deficiencies:

- City staff responsible for preparation and review was unaware of the correct reporting requirements for expenditures of federal loans. The City did not report federal loans on the SEFA.
- The City's process included a second, independent review of the SEFA. However, the review was not effective in detecting all errors.

Cause of Condition

The City did not follow the *Budgeting, Accounting and Reporting System (BARS)* manual requirements when preparing the SEFA. This guidance requires new loans to be reported on the SEFA while excluding previously received loan proceeds that do not have continuing compliance requirements. The City misinterpreted this to mean that all federal proceeds should be excluded.

Effect of Condition

The City did not report \$1,104,213 in federal loan expenditures on the SEFA, which is used for audit planning and grantor oversight. Because of this error, we were required to perform additional procedures and audit this loan to complete the federal audit. Had our audit not identified this error, the City would not have received the audit coverage required under the Single Audit Act. An inaccurate SEFA can affect the amount of audit coverage required, delay an audit beyond the required nine-month reporting deadline and cause unnecessary audit costs.

In addition, should omissions or other errors be made and not identified in a timely manner, the City could miss its federal reporting deadline, jeopardize future federal funding and report its financial information inaccurately to citizens and other governments.

Recommendation

We recommend the City ensure:

- Staff review and understand reporting requirements as outlined in the *Budgeting, Accounting and Reporting System* (BARS) manual to ensure the correct reporting of federal loan expenditures.
- A knowledgeable person, other than the preparer, review the SEFA in sufficient detail to ensure completeness and accuracy in accordance with reporting requirements.

City's Response

In 2013 the expenditures of \$1,104,213 were funds received from a U.S. Bank Loan. The City of Grandview omitted this amount from the SEFA since the funds were not received from a federal agency. The project was to be completed in 2014 and the load paid off by the United State Department of Agriculture (USDA). The City was then planning to include all expenditure amounts in the SEFA on the 2014 annual report.

Auditor's Remarks

The United States Department of Agriculture (USDA) loan allows the City to obtain interim financing to pay for expenditures through the construction process, which will later be repaid through the federal program. Expenditures paid through interim financing are considered federal awards expended and required to be reported on the SEFA. We thank the City for their cooperation on this issue and will review the condition in 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:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (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.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310

RCW 43.09.200 Local government accounting--Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System Manual - Supplemental Schedules, Schedule 16 – Expenditures of Federal Awards and State/Local Financial Assistance, states in part:

The schedule of expenditures of federal awards and state/local financial assistance is an essential document for planning and conducting the audit of your organization. It also serves to provide assurance to those agencies that award financial assistance that their programs or grants were included in the audit. It is important to prepare this schedule carefully to ensure that it is accurate and complete. Any program or grant omitted from this schedule will be considered unaudited.

Valuation of Federal Loans:

Use the following guidelines to calculate the value of federal awards expended under loan programs:

- (1) Amount of new loans made or received during the fiscal year, plus
- (2) Balance of loans from previous years for which the federal government imposes continuing compliance requirements, plus
- (3) Any interest subsidy, cash, or administrative cost allowance received.

Reimbursement Basis: Most loans are funded on a reimbursement basis where the borrower incurs program-related costs and then makes a request to the lender for the loan proceeds. In this case, report the amount expended during the year for which the government will seek loan funding.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies as follows:

- a. Significant deficiency: A significant deficiency is 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