

**SCHEDULE OF FEDERAL AUDIT FINDINGS AND
QUESTIONED COSTS**

**North Yakima Conservation District
Yakima County
January 1, 2013 through December 31, 2013**

2013-001 North Yakima Conservation District’s internal controls were inadequate to ensure compliance with federal requirements of its Yakima Tributary Access and Habitat Program.

CFDA Number and Title:	11.438 Pacific Coast Salmon Recovery
Federal Grantor Name:	U.S. Department of Commerce
Federal Award/Contract Number:	NA
Pass-through Entity Name:	South Central Washington Resource Conservation and Development
Pass-through Award/Contract Number:	10-1753R, 09-1590R, 12-1329R and 10-1764R
Questioned Cost Amount:	\$15,488

Description of Condition

The Pacific Coast Salmon Recovery Program is a cooperative program that assists the states in salmon restoration and in fulfilling responsibilities under the Pacific Salmon Treaty by providing administrative management.

We found the District did not have internal controls in place to ensure compliance with the following grant requirements:

Cost Principles

North Yakima Conservation District contracts with another conservation district for engineering services. These services are for multiple projects but are billed on one invoice. The District allocates the appropriate amount to be reimbursed from each relative program. We found two instances in which costs were not properly charged. One payment of \$2,422 was reimbursed from the wrong project and another payment of \$13,066 was reimbursed from two separate programs. As a result, \$15,488 was reimbursed through the grant that did not relate to the specific project within the Pacific Coast Salmon Recovery grant.

Procurement and Davis Bacon

The District paid a contractor \$136,601 for construction work on the Herke Screen Project. Of this, \$105,201 was paid through the Pacific Coast Salmon Recovery Program.

Procurement - The Federal Common Rule requires that construction projects exceeding \$100,000 be procured by sealed bids with formal advertising. The District was not aware that this project required formal bidding and instead mailed requests for proposals to 19 different contractors.

David Bacon - For federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. Grant recipients must include a provision stating the contractor and subcontractors must comply with the Davis-Bacon Act in construction contracts. The provision requires the contractor and subcontractors to submit a weekly copy of payroll and a statement of compliance (certified payrolls) to the grantee.

The District did not obtain weekly copies of certified payrolls to ensure contractors were paying federally prescribed prevailing wages to laborers.

Suspension and Debarment

Recipients of federal grants are prohibited from contracting with or making subawards to parties that are suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. This can be accomplished by obtaining a written certification from the vendor or subrecipient stating that its organization has not been suspended or debarred. Alternatively, the District may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement must be met prior to making the first payment to the vendors and subrecipients.

In 2013, the District paid \$133,844 to two vendors and did not verify that the vendors were not suspended or debarred. In addition, the grantee must inform the primary contractor or subrecipient of the requirement to check the suspension and debarment status of any covered transactions they enter into with subcontractors or subrecipients. The District did not communicate this requirement to one vendor.

Cause of Condition

Cost Principles

The District lacked adequate training and knowledge to administer the grant in accordance with federal requirements. Additionally, the District did not provide knowledgeable oversight of the grant designed to catch errors or potential non-compliance. We consider this control deficiency to be a significant deficiency.

Procurement and Davis Bacon

Procurement – The District was unaware that federal construction contracts require formal sealed bids over \$100,000.

Davis Bacon - The District was aware of Davis Bacon requirements. However, procedures were not put in place to ensure contractors paid prevailing wages.

We consider these control deficiencies to be material weaknesses.

Suspension and Debarment

The District was unaware that suspension and debarment requirements applied to all contracts paid over \$25,000, but believed that the requirement only applied to the main contractor. In addition, the District did not know it needed to communicate to its vendors that they needed to check the suspension and debarment status for its subcontractors or subrecipients. We consider this control deficiency to be a material weakness.

Effect of Condition and Questioned Costs

Cost Principles

Deficiencies in internal controls led to noncompliance with grant requirements that could result in repayment of grant funding or loss of eligibility for future federal awards. We are questioning \$15,488 in expenditures related to this program. The granting agency could seek repayment of questioned amounts.

Procurement and Davis Bacon

The District cannot ensure it obtained the best services at the most competitive prices. Therefore, it is possible other contractors were not provided the opportunity to compete for the contract, which can affect contract prices and the quality of services provided.

Also, the District cannot ensure contractors and subcontractors paid proper prevailing wages to their employees in compliance with federal regulations. This could result in underpayment of wages to laborers working on District projects.

Suspension and Debarment

Without adequate internal controls in place over suspension and debarment, the District cannot ensure that parties receiving grant funding are not suspended or debarred from participating in federal programs. This could result in a request from the granting agency for repayment of federal funds and could jeopardize future federal funding.

We verified the vendors and subrecipients were not suspended or debarred. Therefore, we are not questioning any costs.

Recommendation

We recommend the District establish adequate internal controls to ensure compliance with federal grant requirements and provide training to employees who are responsible for the use of the funds to ensure they have adequate knowledge of grant requirements. We further recommend the District:

- Ensure charges to the grant are supported and allowable.
- Follow federal procurement requirements when selecting contractors paid through federal grants.
- Obtains all required weekly certified payrolls for work performed on federally funded projects.
- Check the suspension and debarment status for vendors and subrecipients.

District's Response

Cost Principals: NYCD has and will require that any invoice submitted to NYCD by a third party will only have billing (s) for one project per invoice. NYCD accounting staff will be responsible to review all submitted invoices for accuracy and adhering to the new accounting policy (policy is already in place and being exercised). Project level staffs are aware of the new policy and no longer have "invoicing responsibility" thus minimizing risk in this cost principal. NYCD has worked with the YTAHP and RCO staff and have corrected ALL billings (no repayments were necessary due to the fact NYCD had additional invoices where YTAHP and RCO were able to withhold reimbursement(s) to correct over payments). YTAHP and RCO are satisfied with the corrections.

Procurement and Davis-Bacon: At this time NYCD staffs responsible for contracting have taken training courses (summer and fall 2014) on procurement and contracting and are aware of the current federal requirements in this regard. In addition, training included the required elements of the Davis-Bacon Act with emphasis on reporting issues / needs.

Suspension and Debarment: NYCD has implemented a policy that ALL vendors and sub-recipients will be checked for suspension and debarment regardless of level of payment (prior to payment). In addition NYCD has developed appropriate language to be included in any sub-contract (sub-recipient) requiring the same level of review of the suspension and debarment requirement.

Additional: NYCD administrative, accounting and project level staff will review the included “applicable laws and regulations” information submitted here by the SAO staff.

Auditor’s Remarks

We thank the District for its cooperation and assistance during the audit. We will review the status of these issues 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.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR 225), Appendix A, Section C, states in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

(b) Be allocable to Federal awards under the provisions of this Part.

(j) Be adequately documented.

Title 29, Code of Federal Regulations, Section 3.3, states in part:

Weekly statement with respect to payment of wages.

(b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or

building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period.

This statement shall be executed by the contractor or subcontractor or by unauthorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH348, "Statement of Compliance", or on an identical form on the back of WH347, "Payroll (For Contractors Optional Use)" or on any form with identical wording...

(c) The requirements of this section shall not apply to any contract of \$2,000 or less.

Title 15, Code of Federal Regulations, Section 24.36 – Procurement, states in part:

b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41U.S.C. 403(11) (currently set at \$100,000) . . .

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, confirming with all the material terms and conditions of the invitation for bids, is the lowest in price

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

A covered transaction is a nonprocurement 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 180.970 - Nonprocurement transaction, states:

- (a) Nonprocurement transaction means any transaction, regardless of type (except procurement contracts), including, but not limited to the following:
 - (1) Grants.
 - (2) Cooperative agreements.
 - (3) Scholarships.
 - (4) Fellowships.
 - (5) Contracts of assistance.
 - (6) Loans.
 - (7) Loan guarantees.
 - (8) Subsidies.
 - (9) Insurances.
 - (10) Payments for specified uses.
 - (11) Donation agreements.
- (b) A nonprocurement transaction at any tier does not require the transfer of Federal funds.

Title 2, Code of Federal Regulations, Section 180.220 - 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 nonprocurement transaction that is covered under Sec. 180.210, and the amount of the contract 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 if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person

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

North Yakima Conservation District Yakima County January 1, 2013 through December 31, 2013

2013-002 North Yakima Conservation District's internal controls were inadequate to ensure compliance with federal requirements of its Yakima Tributary Access and Habitat Program.

CFDA Number and Title:	81.398 Yakima Tributary Access and Habitat Program
Federal Grantor Name:	U.S. Department of Energy
Federal Award/Contract Number:	297-398-00
Pass-through Entity Name:	South Central Washington Resource Conservation and Development
Pass-through Award/Contract Number:	2007-398-00
Questioned Cost Amount:	\$49,674

Description of Condition

The Yakima Tributary Access and Habitat Program works to restore anadromous salmon fish runs in the Yakima River Basin. In 2013, the District spent \$322,987 in funding from this program.

We found the District did not have internal controls in place to ensure compliance with the following grant requirements:

Cost Principles

The North Yakima Conservation District contracts with a Washington Conservation Corps work crew on projects throughout the year. In 2013 the District charged the grant \$49,674 for work that was not adequately supported by documentation demonstrating the amount paid was for actual time spent on the grant.

We reported a finding over this same issue in our last audit, which was performed over fiscal year 2010.

Cash Management

Federal regulations stipulate that cash advances should pay only for immediate funding needs. If the District requests federal funds prior to paying the expenses, it must track any interest earned and remit it to the federal agency.

The District requested three reimbursements of expenses before paying the invoices. These expenses, totaling \$28,105, were paid between 27 and 69 days after receiving reimbursement, which is an unreasonable amount of time to cover immediate funding needs.

Procurement and Davis Bacon

The District paid a contractor \$136,601 for construction work on the Herke Screen Project. Of this, \$31,400 was paid through the Yakima Tributary Access and Habitat Program.

Procurement - The Federal Common Rule requires that construction projects exceeding \$100,000 be procured by sealed bids with formal advertising. The District was not aware that this project required formal bidding and instead mailed requests for proposals to 19 different contractors.

Davis Bacon - For federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. Grant recipients must include a provision stating the contractor and subcontractors must comply with the Davis-Bacon Act in construction contracts. The provision requires the contractor and subcontractors to submit a weekly copy of payroll and a statement of compliance (certified payrolls) to the grantee.

The District did not obtain weekly copies of certified payrolls to ensure contractors were paying federally prescribed prevailing wages to laborers.

Suspension and Debarment

Recipients of federal grants are prohibited from contracting with or making subawards to parties that are suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. This can be accomplished by obtaining a written certification from the vendor or subrecipient stating that its organization has not been suspended or debarred. Alternatively, the District may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement must be met prior to making the first payment to the vendors and subrecipients.

In 2013, the District paid \$33,590 of program funding to a vendor for engineering services and awarded \$38,310 to one subrecipient. The District did not verify the vendor or subrecipient were not suspended or debarred.

We reported a finding over this same issue in our last audit, which was performed over fiscal year 2010.

Subrecipient Monitoring

Federal guidelines require pass-through entities to notify subrecipients of pertinent grant requirements and monitor the activities of subrecipients to ensure funds are used for allowable purposes. The District was not aware of the difference between a vendor and a subrecipient. As a result the District did not meet all of the disclosure requirements or adequately monitor its subrecipient. The District did not notify the subrecipients of federal grant titles or CFDA numbers and did not have language in the agreement that discussed the federal grant requirements they were to follow. Also, the District did not verify that its subrecipients received a federal audit and did not follow up on federal findings.

Cause of Condition

Cost Principles

The District lacked adequate training and knowledge to administer the grant in accordance with federal requirements. Additionally, the District did not provide knowledgeable oversight of the grant designed to catch errors or potential non-compliance. We consider this control deficiency to be a material weakness in internal controls.

Cash Management

The District's normal process is to pay invoices before requesting reimbursement. These invoices, however, were received by the Grant Manager first, who prepared the reimbursement request. He assumed the invoices were already sent through the bookkeeper for payment processing. We consider this control weakness to be a significant deficiency.

Procurement and Davis Bacon

Procurement – The District was unaware that federal construction contracts require formal sealed bids over \$100,000.

Davis Bacon - The District was aware of Davis Bacon requirements. However, procedures were not put in place to ensure contractors paid prevailing wages.

We consider these control deficiencies to be a material weakness in internal controls.

Suspension and Debarment

The District was unaware that suspension and debarment requirements applied to all contracts paid over \$25,000 and all subrecipients. We consider this control deficiency to be a material weakness in internal controls.

Subrecipient Monitoring

The District was not fully aware of all requirements related to subrecipient monitoring or the criteria for determining whether a vendor is considered a subrecipient. We consider this control deficiency to be a material weakness in internal controls.

Effect of Condition and Questioned Costs

Cost Principles

Deficiencies in internal controls led to noncompliance with grant requirements that could result in repayment of grant funding or loss of eligibility for future federal awards. We are questioning \$49,674 in expenditures related to this program. The granting agency could seek repayment of questioned amounts.

Cash Management

The District requested reimbursement for grant expenditures without paying the associated vouchers. As a result, the District had excess cash on hand from March 29, 2013 through June 6, 2013.

Procurement and Davis Bacon

The District cannot ensure it obtained the best services at the most competitive prices. Therefore, it is possible other contractors were not provided the opportunity to compete for the contract, which can affect contract prices and the quality of services provided.

Also, the District cannot ensure contractors and subcontractors paid proper prevailing wages to its employees in compliance with federal regulations. This could result in underpayment of wages to laborers working on District projects.

Suspension and Debarment

Without adequate internal controls in place over suspension and debarment, the District cannot ensure that parties receiving grant funding are not suspended or debarred from participating in federal programs. This could result in a request from the granting agency for repayment of federal funds and could jeopardize future federal funding.

We verified the vendors and subrecipients were not suspended or debarred. Therefore, we are not questioning any costs.

Subrecipient Monitoring

Without adequate internal controls over subrecipients the District cannot ensure subrecipients are following federal requirements for the use and reporting of program funds.

Recommendation

We recommend the District establish adequate internal controls to ensure compliance with federal grant requirements and provide training to employees who are responsible for the use of the funds to ensure they have adequate knowledge of grant requirements.

We further recommend the District:

- Maintain appropriate documentation to support charges against the grant for use of the Washington Conservation Corps work crew; including approved detail of specific hours or days in which the crew was used to work on projects specifically authorized by the grant.
- Pay expenditures before requesting reimbursement and ensure cash advances are not held for an unreasonable amount of time.
- Follow federal procurement requirements when selecting contractors paid through federal grants.
- Obtains all required weekly certified payrolls for work performed on federally funded projects.
- Check the suspension and debarment status for vendors and subrecipients.
- Ensure all applicable information and requirements are communicated to subrecipients and ensure the District adequately monitors those subrecipients.

District's Response

Cost Principals: The NYCD has begun (starting November 2014) to charge specific days to all funding sources to adhere to the "cost principals" rather than use the monthly grant identified amount. This will be consistent across all funding sources and will be consistent with monthly schedule worksheets.

Cash Management: NYCD accounting staff will be responsible to review all submitted invoices for accuracy and will submit them for invoicing and timely

payment. Project level staff are aware of the new policy and will no longer have that responsibility. All third party entities are aware of the proper staff contact at NYCD and are submitting invoices appropriately.

Procurement and Davis-Bacon: At this time NYCD staffs responsible for contracting have taken training courses (summer and fall 2014) on procurement and contracting and are aware of the current federal requirements in this regard. In addition, training included the required elements of the Davis-Bacon Act with emphasis on reporting issues / needs.

Suspension and Debarment: NYCD has implemented a policy that ALL vendors and sub-recipients will be checked for suspension and debarment regardless of level of payment (prior to payment). NYCD has developed appropriate language to be included in any sub-contract (sub-recipient) requiring the same level of review of the suspension and debarment requirement with follow-up support of such action with NYCD (monitoring). In addition, NYCD has included specific information to inform the sub recipient of federal requirements and identify funding source.

Additional: NYCD administrative, accounting and project level staff will review the included “applicable laws and regulations” information submitted here by the SAO staff.

Auditor’s Remarks

We thank the District for its cooperation and assistance during the audit. We will review the status of these issues 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.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR 225), Appendix A, Section C, states in part:

2. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

(b) Be allocable to Federal awards under the provisions of this Part.

(j) Be adequately documented.

Title 34, Code of Federal Regulations, Section 80.21 – Payment, states in part:

(a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

(b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205

Title 29, Code of Federal Regulations, Section 3.3 states in part:

Weekly statement with respect to payment of wages.

(b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or

building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period.

This statement shall be executed by the contractor or subcontractor or by unauthorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH348, "Statement of Compliance", or on an identical form on the back of WH347, "Payroll (For Contractors Optional Use)" or on any form with identical wording.

(c) The requirements of this section shall not apply to any contract of \$2,000 or less.

Title 10, Code of Federal Regulations, Section 600.236 – Procurement, states in part:

b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41U.S.C. 403(11) (currently set at \$100,000) . . .

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, confirming with all the material terms and conditions of the invitation for bids, is the lowest in price

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

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

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

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

Title 2, Code of Federal Regulations, Section 180.970 - Nonprocurement transaction, states:

(c) Nonprocurement transaction means any transaction, regardless of type (except procurement contracts), including, but not limited to the following:

- (1) Grants.
- (2) Cooperative agreements.
- (3) Scholarships.
- (4) Fellowships.
- (5) Contracts of assistance.
- (6) Loans.
- (7) Loan guarantees.
- (8) Subsidies.
- (9) Insurances.
- (10) Payments for specified uses.
- (11) Donation agreements.

(d) A nonprocurement transaction at any tier does not require the transfer of Federal funds.

Title 2, Code of Federal Regulations, Section 180.220 - 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:

- (2) The contract is awarded by a participant in a nonprocurement transaction that is covered under Sec. 180.210, and the amount of the contract 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 if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400, states in part:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

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

(b) 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 AUDIT FINDINGS AND RESPONSES

**North Yakima Conservation District
Yakima County
January 1, 2013 through December 31, 2013**

2013-003 The District's internal controls were inadequate to ensure the District met federal single audit reporting requirements.

Background

District management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and supplemental schedules to make decisions. It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls over financial reporting that could affect the District's ability to meet federal reporting requirements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The District spent more than \$500,000 in federal money during 2013 and was required to obtain and submit a federal single audit report to the Federal Clearinghouse by September 30, 2014, which did not occur.

Cause of Condition

The District's process for understanding single audit requirements was inadequate. District management believed the threshold for a federal single audit was \$750,000. As a result they did not request the necessary audit.

Effect of Condition

The District did not request a federal single audit when it was required and did not meet its federal reporting deadline. This could cause the District to lose future funding and the District will be considered high risk for future audits.

Recommendation

We recommend the District staff obtain additional training to ensure they are aware of federal grant reporting requirements. We further recommend the District establish controls to ensure a single audit is requested when required.

District's Response

As noted in the "Cause of the Condition" human error is the culprit for the mistake. To overcome the mistake NYCD staff at the management level will be responsible to research available resources such as the SAO website/help line and/or review the criteria within the detail of grant contracts to ensure single audits are conducted as appropriate. This will be done in conjunction with finalizing NYCD's annual audit report to the SAO (150 days max.).

Auditor's Remarks

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

Applicable Laws and Regulations

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, states in part:

Section 200, Audit requirements,

(a) Audit required. Non-Federal entities that expend \$300,000(\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in §__.205.

(b) Single audit. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with §__.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

Section 205, Basis for determining Federal awards expended, states in part:

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs . . .

(b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:

(1) Value 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

(2) Any interest subsidy, cash, or administrative cost allowance received.

Section 300, Auditee responsibilities, states in part:

The auditee shall:

(e) Ensure that the audits required by this part are properly performed and submitted when due.

Section 320, Report Submission, states in part:

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the

end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit