

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

City of Snohomish Snohomish County January 1, 2014 through December 31, 2014

2014-001 The City does not have adequate internal controls in place to ensure compliance with federal cost principles and reporting requirements.

CFDA Number and Title:	20.205 Highway Planning and Construction
Federal Grantor Name:	U.S. Department of Transportation, Federal Highway Administration
Federal Award/Contract Number:	STPUL-2628(003)
Pass-through Entity Name:	Department of Transportation
Pass-through Award/Contract Number:	LA-7908 and LA-8241
Questioned Cost Amount:	\$125,923

Background

The City reported federal expenditures totaling \$1,282,762 in fiscal year 2014 for five projects paid for by the Highway Planning and Construction Program. Of this amount, \$1,081,782 was spent on construction costs. These funds were provided by the United States Department of Transportation. Our audit focused on the 15th Street & Avenue D Roundabout and 2nd Street Overlay Projects, which accounted for approximately 92 percent of the total amount expended.

Program requirements require that federal funds can only be used to reimburse project costs incurred, and such costs must be eligible for Federal participation and directly attributable to the program. In addition, reported costs must be accurate, complete, and adequately supported.

Description of Condition

Our audit focused on the City's internal controls to ensure only eligible and allocable costs were requested for federal reimbursement, and that controls ensured only accurate, complete, and adequately supported costs were reported. Under the grant agreement, the federal share of incurred costs was 86.5 percent

and the City’s share was 13.5 percent. To cover its share of the project costs, the City used State Transportation Improvement Board (TIB) funds as its matching contribution, which is allowable to the grant. Our audit noted the following:

- The Engineering Division did not monitor reimbursement requests submitted to both the federal grantor and the State TIB to ensure amounts requested were in alignment with the grant agreement. Further, they did not ensure expenditures requested for federal reimbursement were not previously requested and reimbursed through the State TIB.
- The Engineering Division does not have an effective review process for the Federal Aid Progress Billings (reimbursement requests) to ensure requests are accurate, complete, adequately supported, and in compliance with OMB Circular A-87 Cost Principles.

We consider these deficiencies in internal controls to be material weaknesses.

Cause of Condition

The City’s Engineering Division relied on the review performed by the Washington State Department of Transportation’s Northwest Region Local Program’s Engineer to determine if federal reimbursement requests were accurate.

Further, the City’s Engineering Division did not dedicate enough time and resources to adequately research all applicable requirements of the program.

Effect of Condition and Questioned Costs

Failure to comply with federal requirements may jeopardize the City’s eligibility for future federal assistance. As the City’s Engineering Division did not properly research applicable grant reporting requirements and review reimbursement requests, it over-claimed federal expenditures requested for reimbursement and received \$125,923 which was previously reimbursed through State TIB funds. This amount was determined through the following calculation:

Construction Costs Reimbursed (from both federal grants and State TIB)	\$1,207,705
Less: Total Construction Costs Incurred	\$1,081,782
Amount Over-Claimed	\$125,923

The amount over-claimed was not eligible to be reimbursed by the federal program and as a result, we are questioning these costs.

Recommendation

We recommend the City:

- Ensure federal reimbursement requests are for project costs incurred and for allowable costs per OMB Circular A-87. Further, the City should ensure amounts requested for reimbursement do not include amounts previously reimbursed through other programs.
- Ensure reimbursement requests are accurate, complete, and adequately supported through a standardized review process.

City's Response

The City of Snohomish does not concur with the 2014 audit finding reference number 2014-001. Following is an explanation for the non-concurrence.

Finding reference number 2014-001 states, "The City does not have adequate internal controls in place to ensure compliance with federal cost principles and reporting requirements." This finding was due to a review of the 2014 grant expenditures and reimbursements requested from both federal and state grant programs amounting to \$125,923 that the auditor concluded was an over-claimed amount.

The City followed the required State and Federal grant reimbursement process. Although the Finding shows that for Federal and State progress billing reimbursement #2 more was reimbursed than expended, it is critical to acknowledge that more was not received for the project as a whole. Therefore, the City did not exceed the overall authorized amounts for either the State or Federal grant. Design and construction of the 15th Street/Avenue D Roundabout project spanned three years and was awarded the following grants:

*Authorized State Transportation Improvement Board (TIB) Grant Amount:
\$524,400*

Authorized Federal Grant Amount: \$1,064,000

Proper reimbursement forms and documents were submitted to and accepted by the grant administration agencies. The actual reimbursement schedule for the City's 15th Street/Avenue D Roundabout project is shown below:

<i>Reimbursement #</i>	<i>Submit Date</i>	<i>State Grant</i>	<i>Type</i>	<i>Submit Date</i>	<i>Federal Grant</i>	<i>Type</i>
<i>1</i>	<i>12-17-13</i>	<i>\$26,272.31</i>	<i>Design</i>	<i>12-19-13</i>	<i>\$168,337.43</i>	<i>Design</i>
<i>2</i>	<i>8-21-14</i>	<i>\$4,889.75</i>	<i>Design</i>	<i>9-19-14</i>	<i>\$19,932.57</i>	<i>Design</i>
<i>2</i>	<i>8-21-14</i>	<i>\$336,650.64</i>	<i>Construction</i>	<i>9-19-14</i>	<i>\$871,054.36</i>	<i>Construction</i>
<i>3</i>	<i>6-25-15</i>	<i>\$146,354.00</i>	<i>Construction</i>	<i>N/A</i>	<i>N/A</i>	
	<i>Totals:</i>	<i>\$514,166.69</i>			<i>\$1,059,324.36</i>	

As shown above, the total reimbursement amounts for both the State and Federal grants are less than the total final authorized amounts.

The grant reimbursement percentages are determined by the grant administration agencies independently. The City is not involved in determining the percentages. The City informed each of the agencies of the grants awarded to this project.

The City worked with the Local Programs Office of the Washington State Department of Transportation whom are the Federal grant administrators. The original grant amount was \$1,520,000 with the City's Local match portion being \$456,000 or 30%.

The City subsequently was awarded a State Grant from the Transportation Improvement Board (TIB) for \$456,000 which was the City's Local match portion of 30% for the Federal grant. After TIB awarded the grant, an additional \$68,400 was awarded to the project by TIB for a total of \$524,400. The TIB grant did not require a local match.

WSDOT set up its grant reimbursement worksheets to be based upon a reimbursement percentage of 86.5% with a not to exceed grant amount of \$1,064,000. The grant reimbursement percentage is independent of the grant application where the City requested 70% of the project cost.

The City worked with TIB staff that setup the automated online reimbursement form and established a reimbursement rate of 31.12% with a not to exceed amount of \$524,400. The City understood that based on the 31.12% there would be the possibility that there may be a time when the reimbursement amount may exceed the expenditure amount and discussed this with TIB. TIB explained that their preference was to maintain a constant reimbursement rate throughout the construction of the project. If this process was not utilized, one of two scenarios

would have been inevitable; the City would not have achieved its maximum state grant reimbursement, or TIB would have to change the reimbursement rate once the entire federal grant was expended.

The auditor was informed that this was a multi-year project and the City understands that one of the focuses of the audit was grant reimbursements in year 2014. For multi-year projects, reviewing the entire project as a whole would provide a better understanding of the grant reimbursements.

The City is not a Certified Agency and relies on the expertise of the Granting Agencies for guidance especially pertaining to setting up how funds are to be dispensed.

Auditor's Remarks

We appreciate the cooperation and willingness of City staff to discuss the issue identified with federal grant requirements during the current audit. We provide the following points of clarification to the City's response:

- It is the City management's responsibility to ensure it complies with all federal and state grant requirements.
- Per the Federal Aid Progress Billing worksheets, the City was required to certify that "actual costs claimed (for reimbursement) have been incurred and are eligible for the purposes specified; also, that no other claims have been presented to, or payment made by, the State of Washington for those costs claimed for reimbursement."
- Although the City stated that total project costs would not exceed the grant amount awarded, the audit concern is focused on the City receiving federal reimbursement for \$125,923 in costs previously reimbursed by the State Transportation Improvement Board.

We have concluded this practice is not in agreement with federal grant requirements pertaining to allowable costs and reporting principles.

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 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.

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 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Deficiency in internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively . . .

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal

control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur . . .

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

U.S. Office of Management and Budget (OMB) Circular A-87 Revised – Cost Principles for State, Local, and Indian Tribal Governments; Attachment A – General Principles for Determining Allowable Costs; Part C – Basic Guidelines; Part 3 – Allowable Costs, states in part:

- (a) A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- (b) All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.
- (c) Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.