

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

**City of Spokane
January 1, 2017 through December 31, 2017**

2017-001 The City did not have adequate internal controls in place to ensure compliance with federal suspension and debarment requirements.

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:	Washington State Department of Transportation
Pass-through Award/Contract Number:	Various
Questioned Cost Amount:	\$0

Description of Condition

During fiscal year 2017, the City spent \$7,327,319 in federal grant funds for 21 projects funded through the Washington State Department of Transportation.

Federal regulations prohibit grant recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. The City must verify that all contractors receiving \$25,000 or more in federal funds have not been suspended or debarred or otherwise excluded. This verification may be accomplished by obtaining a written certification from the contractor or inserting a clause into the contract where the contractor states it is not suspended or debarred. Alternatively, the City may review the federal Excluded Parties List System (EPLS) issued by the U.S. General Services Administration. This requirement must be met before entering into the contract.

The City is responsible for determining the suspension and debarment status for primary contractors. A primary contractor is required to check the status of any covered transactions it enters into with a subcontractor. The City is required to inform primary contractors of this responsibility.

The City’s controls were not effective to ensure it complied with federal suspension and debarment requirements for all contracts of \$25,000 or more. Additionally, the

City did not include language in its contracts informing the primary contractor of its responsibility to check the status of subcontractors.

We consider this control deficiency to be a material weakness.

This issue was reported as a finding in the prior audit as finding 2016-002.

Cause of Condition

After receiving the finding in the prior audit, the City began implementing changes to its control processes and reviewed the EPLS for all contracts paid with federal funds. However, the EPLS reviews were not performed before the first payment to the contractor and thus did not comply with federal regulations.

Effect of Condition and Questioned Costs

Of the six contracts of \$25,000 or more that the City awarded, it did not obtain a written certification, insert a clause into the contract or review EPLS to verify the contractors were not suspended or debarred before entering into one of the contracts. The City paid the one contractor \$97,005 with federal program funds during 2017.

Without adequate internal controls over suspension and debarment, the City cannot ensure federal funds are paid to contractors that are eligible to participate in federal programs. Any payment of program funds to a contractor or subcontractor that has been suspended or debarred would be unallowable and subject to recovery by the funding agency.

The City subsequently verified that the contractor was not suspended or debarred. Therefore, we are not questioning these payments.

Recommendation

We recommend the City ensure staff follow established internal controls so that all contractors paid \$25,000 or more using federal funds are not suspended or debarred from participating in federal programs before entering into contracts.

City's Response

The City did not contract with any parties who were debarred or suspended from doing business with the federal government, and understands the importance of verifying it is not contracting with or making subawards to debarred or suspended parties. During the audited period, the City implemented a robust process to verify and document its contractors and consultants were neither debarred nor suspended. This process included adding required certification language to all City contracts, as well as a review of open contracts in order to document compliance. Unfortunately, several of these open contracts had been executed in prior periods or prior to the implementation of this process. While these contracts were reviewed and the compliant status of providers was verified and documented during the audit period, this documentation failed to meet the requirement prior to first payment.

The City extends our appreciation to the State Auditor's Office for assisting in identifying deficiencies in our procedures. We are dedicated to executing contracts that are compliant with federal requirements and are confident that the implemented process will ensure compliance with suspension and debarment certification requirements.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue and thank the City for its communication, cooperation and assistance during the audit. We will review the condition during our next audit.

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 200, Uniform Guidance, section 516 Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 180, OMB *Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

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

**City of Spokane
January 1, 2017 through December 31, 2017**

2017-002 The City did not have adequate internal controls in place to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	66.458 – Capitalization Grants for Clean Water State Revolving Funds
Federal Grantor Name:	Environmental Protection Agency
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington State Department of Ecology
Pass-through Award/Contract Number:	WQC-2017-Spokane-00018, WQC-2017-Spokane-00020, WQC-2018-Spokane-00016, WQC-Spokane-00123
Questioned Cost Amount:	\$0

Description of Condition

During fiscal year 2017, the City spent \$17,728,240 of federal loan funds in its Clean Water State Revolving Fund program. This program is intended to construct waste water treatment facilities that meet the Clean Water Act requirements, protect estuaries and provide continuing financing sources to maintain water quality. The City was awarded the funds through four loans for its clean water projects.

Federal regulations prohibit grant recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. The City must verify that all contractors receiving \$25,000 or more in federal funds have not been suspended or debarred or otherwise excluded. This verification may be accomplished by obtaining a written certification from the contractor or inserting a clause into the contract where the contractor states it is not suspended or debarred. Alternatively, the City may review the federal Excluded Parties List System (EPLS) issued by the U.S. General Services Administration. This requirement must be met before entering into the contract.

The City is responsible for determining the suspension and debarment status for primary contractors. A primary contractor is required to check the status of any

covered transactions it enters into with a subcontractor. The City must inform primary contractors of this responsibility.

The City's controls were not effective to ensure it complied with federal suspension and debarment requirements for all contracts of \$25,000 or more. Additionally, the City did not include language in its contracts informing the primary contractor of its responsibility to check the status of subcontractors.

We consider this control deficiency to be a material weakness.

This issue was reported as a finding in the prior audit as finding 2016-003.

Cause of Condition

After receiving the finding in the prior audit, the City began implementing changes to its control processes and reviewed the EPLS for all contracts paid with federal funds. However, the EPLS reviews were not performed before the first payment to the contractor and thus did not comply with federal regulations.

Effect of Condition and Questioned Costs

Of the 15 contracts of \$25,000 or more that the City awarded, it did not obtain a written certification, insert a clause into the contract or review EPLS to verify the contractors were not suspended or debarred before entering into 10 of the contracts. The City paid the 10 contractors a combined \$186,470 with federal program funds during 2017.

Without adequate internal controls over suspension and debarment, the City cannot ensure federal funds are paid to contractors that are eligible to participate in federal programs. Any payment of program funds to a contractor or subcontractor that has been suspended or debarred would be unallowable and subject to recovery by the funding agency.

The City subsequently verified the contractors were not suspended or debarred. Therefore, we are not questioning these payments.

Recommendation

We recommend the City ensure staff follow established internal controls so that all contractors paid \$25,000 or more using federal funds are not suspended or debarred from participating in federal programs before entering into contracts.

City's Response

The City did not contract with any parties who were debarred or suspended from doing business with the federal government, and understands the importance of

verifying it is not contracting with or making subawards to debarred or suspended parties. During the audited period, the City implemented a robust process to verify and document its contractors and consultants were neither debarred nor suspended. This process included adding required certification language to all City contracts, as well as a review of open contracts in order to document compliance. Unfortunately, several of these open contracts had been executed in prior periods or prior to the implementation of this process. While these contracts were reviewed and the compliant status of providers was verified and documented during the audit period, this documentation failed to meet the requirement prior to first payment.

The City extends our appreciation to the State Auditor's Office for assisting in identifying deficiencies in our procedures. We are dedicated to executing contracts that are compliant with federal requirements and are confident that the implemented process will ensure compliance with suspension and debarment certification requirements.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue and thank the City for its communication, cooperation and assistance during the audit. We will review the condition during our next audit.

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