

Schedule of Federal Audit Findings and Questioned Costs

Benton County Emergency Services January 1, 2010 through December 31, 2010

- 1. The Agency's internal controls were inadequate to ensure compliance with procurement and suspension and debarment requirements of its Chemical Stockpile Emergency Preparedness Program grant.**

CFDA Number and Title:	97.040 Chemical Stockpile Emergency Preparedness Program
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington State Military Department
Pass-through Award/Contract Number:	E08-064 E09-060 E09-120 E10-144 E11-083
Questioned Cost Amount:	\$0

Background

Recipients of federal grants are prohibited from contracting with parties that are suspended or debarred from doing business with the federal government. If a subrecipient certifies in writing that it or its organization or business 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. Grantees must meet this requirement prior to making payments to vendors and subrecipients.

Federal regulations require grantees to obtain multiple quotes for goods and services from vendors for purchases of less than \$100,000. For purchases of more than \$100,000, it should advertise and evaluate sealed bids. In addition, the Agency is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred.

Description of Condition

During 2010, the Agency spent \$1,908,921 in federal money for its Chemical Stockpile Emergency Preparedness Program, which assists states and local communities in efforts to improve their capacity to plan for, and respond to, accidents associated with the storage and ultimate disposal of chemical warfare materials. We found it paid \$133,422 for professional services and equipment from vendors without ensuring they were not suspended or debarred from participating in federal programs or that multiple quotes were obtained.

Cause of Condition

The Agency was not aware federal procurement and suspension and debarment requirements applied to these types of purchases.

Effect of Condition and Questioned Costs

When services and purchases are made without a competitive process, the Agency cannot ensure it received the best price. Without adequate internal controls in place over suspension and debarment, the Agency cannot ensure that parties receiving grant funding are not suspended or debarred from participating in federal programs.

Noncompliance with federal grant requirements could result in the grantor requesting repayment of federal funds and could jeopardize future federal funding. We verified the vendors the Agency paid were not suspended or debarred; therefore, we are not questioning any costs.

Recommendation

We recommend the Agency establish and follow internal controls over its Chemical Stockpile Emergency Prepared Program to ensure:

- It obtains quotes from an adequate number of vendors for purchases of less than \$100,000 or documentation is maintained in the event that competition is inadequate.
- It verifies vendors' suspension and debarment status prior to entering into a contract.

Agency's Response

We agree with the State Auditor's finding of lack of awareness of the suspension and debarment requirements, and the lack of documentation of comparative quotes for purchases of less than \$100,000. As recommended, steps will be taken no later than by September 23rd to discuss with Benton County Emergency Services (BCES) and the City of Richland's purchasing staff to ensure a better understanding of the requirements. BCES/Purchasing staff will be trained on the process with written procedures developed no later than by October 31, 2011. Periodic training and monitoring will occur over time.

Auditor's Remarks

We appreciate the steps the Agency is taking to resolve this issue, and will review the condition 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

OMB Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Section 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 . . .

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price . . .

(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 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(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, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price . . .

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids . . .

(4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source;

(B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;

(C) The awarding agency authorizes noncompetitive proposals; or

(D) After solicitation of a number of sources, competition is determined inadequate.

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.

Schedule of Audit Findings and Responses

Benton County Emergency Services Benton County January 1, 2010 through December 31, 2010

2. Benton County Emergency Services internal controls are inadequate to ensure accurate accounting and financial reporting.

Background

Agency management, the state Legislature, state and federal agencies and bondholders rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the Agency management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Controls must ensure that financial data is reliably authorized, processed and reported. Our audit identified material weaknesses in controls that adversely affect the Agency's ability to produce reliable financial statements.

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 Agency contracts with the City of Richland to be its fiscal agent and administrator. We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- The Agency did not ensure preparers of the financial statements had sufficient knowledge of the Budget Accounting and Reporting System (BARS) manual accounting and reporting requirements.
- We found neither Agency management nor its Executive Board received or reviewed the prepared financial statements in whole prior to them being submitted to our Office for audit. In addition, the fiscal agent's review did not identify all errors.

Cause of Condition

The Agency's Executive Board Members did not take an active role in ensuring the Agency's financial information is accurate and complete. Financial statement preparation and monitoring are the responsibility of management. As part of this responsibility, management has an obligation to ensure internal controls and processes are sufficient to record and report accurate and complete financial information.

In addition, the agreement between the Agency and the City is not clear on their roles and responsibilities regarding ensuring financial information is accurate and complete.

Effect of Condition

The Agency did not prepare accurate financial statements for the year ending December 31, 2010. The financial statements contained errors that were not detected by Agency management. The original financial statements and subsequent revisions received for audit were not reviewed by the Agency and contained significant misstatements and errors, which were eventually corrected:

Statement of Revenues and Expenditures

- Capital contributions that did not occur were recorded, which resulted in an overstatement of \$1,196,946.
- Capital asset purchases were reported twice in the financial statements, once as capital assets and again as maintenance and operation expenses creating an overreporting of expenses by \$309,040
- Additional capital asset purchases were reported twice in the financial statements, once as capital assets and again as other non-operating expenses creating an overreporting of expenses by \$758,475.
- Transfers between funds were underreported by \$309,040.
- Prior period adjustments were underreported by \$129,432.
- A reimbursement was reported twice in the financial statements, once as a revenue and again as a reduction of expenses creating an overreporting of revenue by \$148,560.

Statement of Cash Flows

- The Agency incorrectly reported cash activity on the Statement of Cash Flows, including the following errors:\
 - Contributed capital overreported by \$1,758,820.
 - Cash outflows for capital asset purchases reported as an expense and asset resulting in an overreporting of \$758,475.
 - Capital asset purchases overreported by \$8,257,725.
 - Capital asset purchases as a cash inflow overreported by \$6,489,424.
 - Reporting non-cash transfers, totaling \$6,489,424, which should not be included within the statement.

The material weakness in internal controls make it reasonably possible that more serious misstatements could occur and not be prevented or detected by the Agency in the future. Errors noted above were material but in total did not affect the ending net asset balances.

Recommendations

We recommend the Agency establish and follow effective internal controls to ensure:

- Individuals responsible for preparing and reviewing the financial statements are knowledgeable of applicable accounting standards and BARS reporting requirements.

- A detailed review is performed of the Agency's financial statements by someone independent of the preparer and knowledgeable of the reporting requirements. The financial statements accurately reflect transactions, activities and presentation in accordance with prescribed guidance. The Agency may wish to consider the use of a checklist or some other reviewing tool for this purpose.
- Clarify the financial roles and responsibilities in the agreement between the City and Agency.

Agency's Response

We agree with the State Auditor's finding that there were material misstatements on the Statement of Revenues and Expenditures and on the Statement of Cash Flows. We also agree with the Auditor's recommendations regarding the establishment of effective internal controls over financial reporting. Steps have recently been taken with staff in addressing this issue.

As recommended, we are developing a written policy and procedure for the detailed independent review of the financial reports by an accountant other than the preparer, who is knowledgeable of applicable accounting and reporting standards. This policy will be included in the financial policies that will be presented to City Council later this year or early next year. The new process will be set in motion with the preparation of the 2011 CAFR. Additionally, steps will be taken as part of September month end process to ensure BCES management staff are involved in the preparation and review of the monthly Financial Statements to ensure their understanding of the statements.

Auditor's Remarks

We appreciate the steps the Agency is taking to resolve this issue, and will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 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 - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

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 and material weaknesses 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.
- b. Material weakness: A material weakness is a deficiency, or 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.