

Schedule of Federal Audit Findings and Questioned Costs

**King County
January 1, 2011 through December 31, 2011**

- 1. The County lacks controls over the HIV Emergency Relief Project Grants program, it could not identify the specific costs that were billed and could not demonstrate compliance with program requirements.**

CFDA Number and Title:	93.914
Federal Grantor Name:	HIV Emergency Relief Project Grants
Federal Award/Contract Number:	6 H89HA00022-18-02 6 H89HA00022-19-05
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$6,796,090

Description of Condition

The objective of the HIV Emergency Relief Project grant is to improve access to medical and support services for those affected by the Human Immunodeficiency Virus (HIV)/Acquired Immune Deficiency Syndrome (AIDS).

In 2011, the County charged \$6,796,090 to this grant.

Federal grant rules require the County to have appropriate internal controls to ensure it complies with grant requirements and that expenditures are proper. Auditors must determine if material weaknesses are present when an agency's internal controls do not prevent, or detect and correct noncompliance. During our audit, we noted the following material weaknesses in the County's internal controls:

- The County was unable to provide a list of expenditures billed to the program. Therefore, we are unable to determine which compliance requirements we must audit to. For example, without a list of expenditures, we do not know if/which contracts would be subject to grant requirements regarding suspension and debarment from receiving federal dollars.
- The Fiscal Coordinator was responsible for determining allowable costs and activities; completing reimbursement requests; maintaining documentation to demonstrate compliance with maintaining a required level of expenditures; monitoring and maintaining documentation to demonstrate compliance with percentage requirements for specified expenditure types. The Fiscal Coordinator retired during the audit and the County was unable to demonstrate that its internal control system over grant billings provided adequate support for amounts charged to the grant. The County did not have a back-up person to perform these duties. It was unaware of the methods used by the Fiscal Coordinator to prepare the grant billings and to ensure the expenditures were allowable.

The following compliance requirements apply to the program.

Allowable costs and activities

Federal regulations require grantees to maintain adequate documentation to demonstrate they spent federal dollars only for allowed activities and on allowable costs. Grant recipients must accurately record direct costs paid with federal funds in an accounting system and use cost allocation plans for indirect costs, consistent with federal requirements to support costs charged to grants.

Cash management

Regulations require grantees to maintain adequate documentation to demonstrate they incur and pay for expenditures prior to seeking reimbursement of federal dollars and that the expenditures are for allowable costs and activities.

Eligibility

The grantee may make funds available to public or private non-profit entities, or to private for-profit entities only if the latter are the only available providers of quality HIV care in the area.

Level of effort

Each grantee is required to maintain its level of expenditures for HIV-related core medical and support services at a level equal to expenditures for the preceding fiscal year. Grantees may not use funds received under the HIV grants to maintain a required level of HIV-related services. The funds must be in addition to what a grantee already is spending.

Earmarking

Each grantee is to use:

- Not less than 75 percent of the amount remaining after reserving amounts administration and a clinical quality management program to provide core medical services.
- Not more than 10 percent of the amounts awarded for administration, accounting, reporting, program oversight and planning council activities. Indirect costs are considered administrative.

Procurement

Federal regulations require the County to seek bids for purchases of more than \$100,000. Further, it is to properly publish and distribute notices of criteria and solicitations of proposals; properly evaluate submissions of qualifications to achieve open competition; and ensure all potential contractors receive the same solicitation, information and bid package.

Suspension and Debarment

When a grantee uses federal funds to pay for goods and services, it must ensure the vendors that payments to exceed \$25,000 and subrecipients are not suspended or debarred from participating in federal programs.

Subrecipient monitoring

Federal regulations require the County to monitor the activities of subrecipients to provide reasonable assurance that they administer federal awards in compliance with federal requirements. The County also is responsible for ensuring subrecipients who spend \$500,000 or more in federal money in a fiscal year have an audit conducted in accordance with federal Office of Management and Budget (OMB) Circular A-133 and ensuring subrecipients take prompt corrective action on audit findings.

Reporting

The County is responsible for submitting a financial report to the Health Resources and Services Administration quarterly as well as meeting other reporting requirements for this program.

Cause of Condition

The County did not monitor the activities of the Fiscal Coordinator and County staff was unable to provide documentation to demonstrate the processes that had been used to ensure compliance with federal requirements and a list of expenditures charged to the program.

Effect of Condition and Questioned Costs

The County was not able to provide sufficient evidence for our Office to audit in order to form an opinion on its compliance with program requirements. Therefore, we are not able to provide an opinion on compliance. Further, we question all of the \$6,796,090 in costs charged to the program.

Recommendation

We recommend the County establish and follow processes to ensure it:

- Monitors compliance with program requirements.
- Can support charges to the program to meet federal requirements.
- Maintains documentation to demonstrate processes in place to ensure compliance with federal grant requirements.
- Maintains documentation to demonstrate compliance with program requirements.

We further recommend the County consult with the grantor to determine if any grant funds will have to be repaid.

County's Response

The County appreciates the work of the auditor and understands why the auditor chose to issue the finding, but we want to make it clear that Public Health Seattle-King County (PHSKC) has already mitigated the impact of the finding based on thorough reconciliation work completed in September 2012. PHSKC acknowledges the Fiscal Coordinator for this program retired as described; this retirement led to a regrettable delay in providing this program's reconciled expenditure information to the auditor. While preparing the reconciliation, PHSKC detected that labor costs for PHSKC staff in this program had been prepared using reports from the County's payroll system instead of the general ledger. This resulted in minor month-to-month timing differences between the general ledger and our manually prepared billing records. Although late in the audit, PHSKC provided the auditor a general ledger transaction dataset which exactly reconciled to the Schedule of Expenditures of Federal Awards (SEFA).

We look forward to demonstrating our fully compliant management of program funds to the grantor.

PHSKC also concurs with the recommendations and will continue to ensure that program requirements are monitored, expenditures are compliant with federal requirements and documented, and documentation is maintained.

Auditor's Remarks

We reaffirm our finding. We look forward to reviewing the County's corrective action 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*, states in part:

Section 105: definitions.

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Section 300: 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.

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

Attachment A, Subpart A:

2. Policy guides.

a. The application of these principles is based on the fundamental premises that:

- (1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.
- (2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.
- (3) Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

45 Code of Federal Regulations, part 92 – Uniform Administrative Requirements for grants and cooperative agreements to state, local, and tribal governments, states in part:

Subpart C, Section 92.90:

- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
 - (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
 - (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(4) *Budget control.* Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

(5) *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

(7) *Cash management.* Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter of- credit or electronic transfer of funds methods, the grantee must make draw downs as close as possible to the time of making disbursements. Grantees must monitor cash draw downs by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2011 through December 31, 2011

2. King County does not have adequate controls over paid time off, furlough replacement time and executive leave time charged to grants operated by the Public Health Department.

CFDA Number and Title:	10.557 Special Supplemental Nutrition Program for Women, Infants and Children (WIC) 93.061 Innovations in Applied Public Health Research 93.069 Public Health Emergency Preparedness Grant 93.135 Centers for Research and Demonstration for Health Promotion and Disease Prevention 93.268 Immunization Grants 93.279 Drug Abuse and Addiction Research Programs 93.283 Centers for Disease Control and Prevention Investigations and Technical Assistance 93.307 Minority Health and Health Disparities Research 93.703 ARRA – Grants to Health Center Programs 93.712 ARRA - Immunization 93.724 ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) 93.778 Medical Assistance Program 93.837 Cardiovascular Diseases Research 93.847 Diabetes, Digestive, and Kidney Diseases Extramural Research 93.855 Allergy, Immunology and Transplantation Research 93.914 HIV Emergency Relief Project Grants 93.944 Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS)
Federal Grantor Name:	U.S. Department of Agriculture Department of Health and Human Services
Federal Award/Contract Number:	1H8BCS11886-01-00, 4C81CS13768-01-08, 5U58DP001058-04, 1U58DP002423-01, 1R03DA031072-01A1, 5R18EH000537-02, 5R18EH000537-03, 1U58DP002422-01, 6 H89HA00022-18-02, 6 H89HA00022-19-05, 1R18DK088072-01 , 5R18DK088072-02

Pass-through Entity Name: Washington State Department of Health, Washington State Department of Social and Health Services, State of Washington Health Care Authority, University of Washington, Neighborhood House, Denver Health and Hospital Authority, National Association of County and City Health Officials

Pass-through Award/Contract Number: W100347, W500347, 1H75TP000369-01, 5U90TP01710-10, 2U90TP017010-11, 5H231P022549-09, 3H231P022548-0753, 1163-27311, 0963-68039, 1163-33969, 0963-53331, 1163-35245, 0563-75892-02, 0563-75892-03, 1U1BPS003250-01, 5U62PS001017-04, 5U62PS001593-03, 5P01TP000297-03, 5-U48DP001911-02, 5-U48DP001911-03, 1R24MD002768, 1-R01HL088456-01, 5U54AI057141-01, 5U54AI057141-08, 5R01AI068107-02, 1R01AI090831-01, 5H231P022548-09, 5H75TP000309-03, 5U58DP000793-04, 5U58DP000793-05, N18060, C14961

Known Questioned Cost Amount: \$ 453,959

Likely Questioned Cost Amount: \$ 1,007,798

The questioned costs were charged to the following programs:

10.557 Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
93.061 Innovations in Applied Public Health Research
93.069 Public Health Emergency Preparedness Grant
93.135 Centers for Research and Demonstration for Health Promotion and Disease Prevention
93.268 Immunization Grants
93.279 Drug Abuse and Addiction Research Programs
93.283 Centers for Disease Control and Prevention Investigations and Technical Assistance
93.307 Minority Health and Health Disparities Research
93.703 ARRA – Grants to Health Center Programs
93.712 ARRA - Immunization
93.724 ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)
93.778 Medical Assistance Program
93.837 Cardiovascular Diseases Research
93.847 Diabetes, Digestive, and Kidney Diseases Extramural Research

93.855 Allergy, Immunology and Transplantation
Research
93.914 HIV Emergency Relief Project Grants – See
finding 1 for questioned costs
93.944 Human Immunodeficiency Virus
(HIV)/Acquired Immunodeficiency Disease Syndrome
(AIDS)

Description of Condition

Federal regulations require recipients of federal grants to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of grant requirements and monitoring of program activities.

We audited the programs administered by the King County Department of Public Health identified above. The County charged a total of \$52,037,563 to these programs in 2011.

We first identified the material weaknesses in the Department's internal controls for paid time off in our 2009 audit. In 2010 and 2011 we found the issue continued. This is the first year we have identified the issue with furlough replacement time and exchange time.

Paid time off

The County charges paid time off for its employees, such as vacation, sick leave, holidays and jury duty, to its grant programs. At the end of the year the County allocates employee paid time off based on actual hours worked by project on a percentage basis. For example, if an employee works a total of 2,000 hours, spending 1,000 on project A, 800 on project B and 200 on project C; the paid time off for the year charged to each project would be 50 percent, 40 percent and 10 percent respectively.

During the audit, we found the County is excluding furlough replacement time and executive leave time from the calculation. Charges for these time categories are being handled as discussed below. Employees received five additional days of paid leave (furlough replacement time) in 2010 and 2011, similar to annual leave, in conjunction with the 2009 furloughs. Executive leave time is additional leave, similar to annual leave, for employees that are overtime exempt and work an average of 45 hours a week or more.

The County was unable to provide an explanation as to how it determined this was appropriate and complied with federal regulations. Further, prior to September 2011, the County did not periodically ensure its automated calculation was working correctly. The County stated it reviewed the process and the calculation based on two reports produced from the general ledger. It was unable to provide evidence of such review. However, since the reports come from the same source, the results should match and it was not a process that would have identified errors.

Ultimately, the County was not able to provide a reasonable basis for the formula used for the allocation of paid time off that would enable us to audit the charges made to each program to ascertain they are fair and equitable and meet federal requirements. Additionally, the County was not able to provide us with actual paid time off costs

charged to each program. It was only able to provide us with an estimate of the costs charged.

Furlough Replacement Time and Executive Leave Time

The County charged the cost of the furlough replacement time and executive leave time directly to individual grants, rather including them as part of paid time off allocation. The County was unable to provide the logic for this treatment. Therefore, we determined that this method is not reasonable.

Cause of Condition

The County did not retain adequate support to demonstrate its allocation was accurate and allowable. In addition, the County determined it has previously dedicated sufficient resources to this area and has not made changes to its control processes based on our prior findings.

Effect of Condition and Questioned Costs

If the system of allocating costs is not reviewed or monitored, the County cannot ensure costs charged to multiple programs are adequately supported. This could jeopardize future funds under these grants. We are questioning actual costs of \$453,959 charged to the grant for furlough replacement time and executive leave time costs. The grantor could seek repayment of actual questioned amounts. We also identified likely costs of \$1,007,798 for unsupported paid time off.

Recommendation

We recommend the County establish and follow internal controls to ensure paid time off and payroll charges to grants are accurate, allowable and adequately supported. Additionally, we recommend the County provide information associated with the allocations in a manner that allows the information to be audited to ensure compliance.

County's Response

Public Health - Seattle & King County (PHSKC) participated in the Countywide implementation of a new financial system which entered production service on January 3, 2012. These new systems change our paid time off (PTO) methodology and implementation to match all other King County departments. PHSKC agrees with the auditor's recommendations, and believes the implementation of the new systems and alignment of our business processes with other County departments demonstrates our commitment to the principles of transparency, auditability, and allowability of costs charged to grants and contracts.

Furlough Replacement and Executive Leave Time

Public Health – Seattle and King County (PHSKC) concurs with this aspect of the finding. Executive Leave and Furlough Replacement should have been processed through the automated paid time off distribution process used for other types of paid time off (vacation, sick leave, etc.). The County's automated processing of paid time off did not include these leave types, which created a risk that manual allocations performed by staff did not fully conform to the employee's distribution of effort. This risk only impacts

employees who work on multiple cost objectives. Single cost objective employees would have had 100% of their furlough replacement / executive leave time allocated to their single cost objective under the methodology used for PTO allocation. PHSKC will review the furlough and executive leave charges and make adjustments, as needed, for any over or under billings.

Paid Time Off (excluding Furlough Replacement and Executive Leave)

Public Health – Seattle and King County (PHSKC) does not fully concur with this aspect of the finding as the result of actions taken after the 2010 audit. Following receipt of the 2010 A-133 audit report and as described in our response thereto, PHSKC engaged a programmer with expertise in the PTO processes to make a report available which brought transparency to the PTO calculation. The report allowed monitoring of the PTO calculations as recommended by the auditor in their 2010 report. PHSKC is confident that the report will demonstrate to federal grant agencies that PTO costs are properly allocated to grant projects using the automated process. The auditor notes the risk of not monitoring prior to September, 2011 (before the new report became available). This risk was mitigated by the year-to-date nature of the PTO allocation process. The monitoring and proper functioning of the automated process in the December 2010 fiscal period assured correct allocations for the entirety of 2011.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities, 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 Part 225), states in part:

Appendix B, Section 8(d) Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable

and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

Appendix B, Section 8(h) Support of Salaries and Wages

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

Schedule of Federal Audit Findings and Questioned Costs

**King County
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- 3. The County's internal controls were inadequate to ensure compliance with subrecipient monitoring and procurement requirements for the Prevention and Wellness – Communities Putting Prevention to Work program.**

CFDA Number and Title:	93.724 American Recovery and Reinvestment Act Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement
Federal Grantor Name:	Department of Health and Human Services
Federal Award/Contract Number:	1U58DP0024223 and 1U58DP0024222
Pass-through Entity Name:	State Department of Health
Pass-through Award/Contract Number:	C14961
Questioned Cost Amount:	\$0

Description of Condition

The objective of the Prevention and Wellness grant is to assist local governments in reducing chronic disease, promoting wellness and in better managing chronic conditions. Recipients are to use program funds to increase physical activity, improve nutrition and decrease smoking.

The County spent \$14,909,619 in federal funding on the program during 2011.

Subrecipient Monitoring

Federal regulations require the County to monitor the activities of subrecipients to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements. The County also is responsible for ensuring subrecipients who spend \$500,000 or more in federal money in a fiscal year have an audit conducted in accordance with federal Office of Management and Budget (OMB) Circular A-133 and ensuring subrecipients take prompt corrective action on audit findings.

The County provided Prevention and Wellness grant funding to the City of Seattle's Office of Economic Development to lead a project to increase access to healthy food in King County. The Office is a subrecipient for the Prevention and Wellness grant. We determined the County did not adequately monitor the activities of the Office because:

1. The County's subrecipient monitoring file indicated the Office did not use Prevention and Wellness funds to purchase equipment, which would be an

unallowable cost. However, the Office did use grant funds to purchase equipment.

2. The Office paid for construction work for local grocery stores without signing contracts with the stores' owners to ensure the equipment and construction work would be used to meet program objectives. The subrecipient monitoring file did not indicate this had occurred.

Therefore, the County's grant monitoring process was not sufficient to ensure subrecipient compliance with the grant documents or federal requirements.

In addition, the County provided Prevention and Wellness grant funding to two agencies to map safe bicycle routes to schools and to provide smoking-prevention services. The agencies use the federal funding to carry out the Prevention and Wellness Program of the County and are responsible for adherence to applicable Federal program compliance requirements. Based on the form of the arrangement, these agencies are subrecipients for the Prevention and Wellness Program.

The County identified these agencies as vendors rather than subrecipients and did not adequately monitor their activities to ensure they received the required audit and took prompt action on audit findings.

Procurement

Federal regulations require the County to seek bids for purchases of goods and service of more than \$100,000. Further, it is to properly publish and distribute notices of criteria and solicitations of proposals; properly evaluate submissions of qualifications to achieve open competition; and ensure all potential contractors receive the same solicitation, information and bid package.

The County entered into three agreements with vendors to provide prevention and wellness services. The total amount of these agreements was approximately \$3.9 million. The County waived each of these agreements from standard procurement procedures due to single source availability. The County's rationale for single source availability was that these vendors were named in its approved grant application. Naming vendors in a grant application does not make them the only source of services. The County should have competitively procured these agreements.

Cause of Condition

Subrecipient Monitoring

The County's Public Health Department was not knowledgeable of the differences between a vendor and a subrecipient for purposes of administering federal grants.

Procurement

The County was not knowledgeable of allowable reasons for waiving standard procurement procedures.

Effect of Condition

Subrecipient Monitoring

Without proper controls over subrecipient monitoring, the County cannot ensure subrecipients activities are in accordance with grant requirements. As stated above, Office of Economic Development activities did not comply with grant requirements.

Procurement

The County did not allow other vendors to submit proposals to provide services and did not ensure it received the best price.

Recommendation

Subrecipient Monitoring

We recommend the County:

- Improve its internal control processes to more closely monitor subrecipients to ensure compliance with federal regulations.
- Provide training to staff to ensure that grant-related contracts are correctly classified between subrecipients and vendors.

Procurement

We recommend the County:

- Improve its internal control processes to ensure it competitively procures services that can be provided by more than one vendor.
- Provide training to staff to ensure they are knowledgeable of allowable reasons for waiving standard procurement procedures.

County's Response

Public Health – Seattle & King County (PHSKC) concurs with the finding with one exception noted below regarding a subrecipient monitoring determination for two subcontractors. PHSKC has internal control processes and procedures to ensure subrecipients are identified and monitored for compliance with grants. PHSKC, together with Procurement and Contract Services will review current waiver procedures, including documentation, and modify as necessary. In the interim, waivers will be expanded to include more discussion and documentation. PHSKC believes underlying reasons for waivers are appropriate. Below, PHSKC offers additional information on each aspect of the finding.

Subrecipient Monitoring

PHSKC acknowledges that it did not include equipment purchases as a specific line item in its CDC-approved project budget; however, the purchase of equipment was included in our grant application, was transparent to all parties, and was often discussed with the program's CDC project officer. Meeting minutes provided by the CDC acknowledge their

awareness of equipment purchases on at least five (5) different occasions during 2011. However, PHSKC will immediately file a budget amendment to formalize the purchase of equipment with this program's funds.

PHSKC respectfully disagrees with the auditor's determination that the form of the contract arrangement leads to the conclusion that the subcontractors used for mapping bicycle routes and smoking prevention services make them subrecipients instead of vendors. In both cases, PHSKC staff analyzed the subrecipient and vendor criterion and determined that the two subcontractors are vendors because:

- They had their performance measured on the basis of service units provided, not on the basis of grant objectives achieved or costs incurred.
- They were engaged for services offered to multiple buyers in a commercial marketplace. The smoking prevention vendor had over 600 clients purchasing the same service and the bicycle route mapping vendor had 25 clients purchasing the same service.
- They had no involvement in program development or execution; all programmatic decision-making remained in PHSKC, and the subcontractors were engaged for a specific service.

Procurement

PHSKC acknowledges that more precise descriptions and complete documentation should have been submitted in support of the requests for waiver of competitive procurement procedures. However, PHSKC believes that the underlying reasons for the waivers remain appropriate. Future waiver requests will specifically include a discussion of the analysis conducted to determine whether the firms, agencies and professionals that are named in the grant application process, meet the requirements to waive the competitive process.

The Evaluation contractor has unique expertise in evaluating community-based health initiatives that include community action plans, community coalitions, and policy change components. Their unique experience includes conducting evaluations of national multi-site community-level interventions with an emphasis on implementation and outcomes. This contractor has pioneered many of the standard evaluation techniques of community-based interventions, such as the logic model, the case study method, and innovative approaches to measuring the community landscape. No other firm possessed these unique attributes which were necessary to implement program elements required by the funder.

For the Communications contractor, the firm has unique qualifications developing public awareness, policy change and social marketing campaigns in the areas of tobacco, nutrition and physical activity - principle areas of emphasis required by the funder. As a result of their unique and extensive experience on the national, state and local levels (State of Washington Department of Health's Tobacco Prevention and Control Program, The Bill and Melinda Gates Foundation, The California State Endowment's Healthy Eating, Active Communities Initiative, the Blue Cross/Blue Shield Associations Walking Works Campaign, and the Public Health's Communications and Coalition Building Programs), the firm had the unique capacity to meet the immediate and sophisticated requirements of the ARRA grant and meet funder-required deliverables and timelines. No other firms possessed these unique attributes which were necessary to implement program elements required by the funder.

For the Healthy food retail technical assistance provider, the sole-sourced organization has unique expertise in local food systems including co-founding a local food policy council, being a founding member of King County Food and Fitness Initiative, and conducted precedent-setting assessments of regional food systems. The firm also had unique experience with healthy food communities and urban planning, and economic development, specifically to improve access to healthy food in diverse, underserved communities. No other local firms possessed these unique attributes which were necessary to implement program elements required by the funder.

Auditor's Remarks

We reaffirm our finding. We look forward to reviewing the County's corrective action during our next audit.

Applicable Laws and Regulations

Title 45, Code of Federal Regulations, Part 92 states in part:

§ 92.40 Monitoring and reporting program performance.

(a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

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

Section .210 states:

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

- (1) Determines who is eligible to receive what Federal financial assistance;
- (2) Has its performance measured against whether the objectives of the Federal program are met;
- (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable Federal program compliance requirements; and
- (5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

Section .300

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.

Section .400

A pass-through entity shall perform the following . . .

1. Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year . . . and name of Federal agency . . .
2. Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contract 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 \$500,000 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.

Title 2, Code of Federal Regulations, Part 215 states in part:

§ 215.43 Competition.

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specification, requirements, statements of work, invitations for bids and/or requests for proposals shall be excluded from competing for such procurements. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by

the recipient. Any and all bids or offers may be rejected when it is the recipient's interest to do so.

§ 215.46 Procurement records.

Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:

- (a) Basis for contractor selection;
- (b) Justification for lack of competition when competitive bids or offers are not obtained; and
- (c) Basis for award cost or price.

Title 45, Code of Federal Regulations, Part 92.36 states in part:

(e)(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. If this method is used, the following requirements apply:

- (i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;
- (ii) Proposals will be solicited from an adequate number of qualified sources;
- (iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;
- (iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and
- (v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

(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.
 - (ii) Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.
 - (iii) Grantees and subgrantees may be required to submit the proposed procurement to the awarding agency for pre-award review in accordance with paragraph (g) of this section.

Schedule of Federal Audit Findings and Questioned Costs

**King County
January 1, 2011 through December 31, 2011**

4. The County did not monitor subrecipients paid through the Medical Assistance Program.

CFDA Number and Title:	93.778 Medical Assistance Program
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	
Pass-through Entity Name:	Department of Social and Health Services Washington State Health Care Authority
Pass-through Award/Contract Number:	1163-33969, 0963-53331, 0563-75892-02
Questioned Cost Amount:	\$0

Description of Condition

The Medical Assistance program pays twenty six agencies to provide medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

The County charged \$10,664,225 to the Medical Assistance Program in 2011.

Federal regulations require the County to monitor activities of subrecipients to provide reasonable assurance they administer federal awards in compliance with federal requirements. The County is also responsible for ensuring subrecipients who spend \$500,000 or more in federal money in a fiscal year have an audit conducted in accordance with federal Office of Management and Budget (OMB) Circular A-133 and take prompt corrective action on audit findings.

Under their contracts with the County, the performance of agencies is to be measured to determine if they are meeting the program goals and complying with federal requirements. These agencies are subrecipients for the Medical Assistance Program.

The County identified these agencies as vendors rather than subrecipients and did not adequately monitor their activities to ensure they received the required audit and took prompt action on audit findings. This represents a material weakness in the County's controls and resulted in material non-compliance with the monitoring requirement.

Cause of Condition

The County's Public Health Department was not knowledgeable of the differences between a vendor and a subrecipient for the purposes of administering federal grants.

Effect of Condition

Without proper controls over subrecipient monitoring, the County cannot ensure subrecipient's activities are adequately monitored, OMB Circular A-133 audits are performed and prompt action is taken on audit findings.

Recommendation

We recommend the County:

- Train staff to ensure that grant-related contracts are correctly classified between subrecipients and vendors.
- Establish internal controls to monitor subrecipient activities to ensure federal awards are used for authorized purposes.
- Establish internal controls to ensure subrecipients who spend \$500,000 or more in federal money during a fiscal year obtain the required audits and take appropriate corrective action on audit findings.

County's Response

Public Health – Seattle & King County (PHSKC) concurs with changing most subcontractor relationships in this program from vendor to subrecipient. The exception to our concurrence relates to contracts for interpretation services; this service is commercially available, the contracts are competitively bid, and PHSKC believes these relationships remain appropriately classified as vendors. The State Auditor's Office did not test these contracts as part of their audit work.

PHSKC does not have unilateral control over the treatment of subcontractors as either vendors or subrecipients in this program. The Washington State Health Care Authority (HCA), as the prime recipient, has imposed a requirement upon PHSKC requiring HCA approval of all contracting activity including all contractual terms, conditions, and documents between PHSKC and our community partners. HCA did not require PHSKC to incorporate federal compliance requirements on these contracts. To remedy the condition noted here, the contracts for this program must be amended to pass compliance requirements through to those subcontractors which will become subrecipients. PHSKC will immediately engage with HCA to obtain their approval for new contractual terms, conditions, and documents.

PHSKC staff is aware of the difference between a vendor and a subrecipient for the purposes of administering federal grants. Staffs, both at the program level and in the central finance team, regularly attend seminars and workshops to stay informed about current compliance requirements, including the vendor/subrecipient determinations noted in this finding. These efforts will continue. Additionally, PHSKC added content around vendor/subrecipient determinations to our procurement training for program staff in 2012.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the next audit.

Applicable laws and Regulations

U.S Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart B, Section .210 states:

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

- (6) Determines who is eligible to receive what Federal financial assistance;
- (7) Has its performance measured against whether the objectives of the Federal program are met;
- (8) Has responsibility for programmatic decision making;
- (9) Has responsibility for adherence to applicable Federal program compliance requirements; and
- (10) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

The Code of Federal Regulations states the following in 2 CFR, Section 215:

§ 215.51 Monitoring and reporting program performance.

(a) Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in § 215.26.

OMB Circular A-133, Subpart C, 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.

OMB Circular A-133, Subpart D, 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 the 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 contract 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 performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 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.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

Schedule of Federal Audit Findings and Questioned Costs

King County
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5. **The County's Public Health Department does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements for the Research and Development Cluster.**

CFDA Number and Title:	20.514 Public Transportation Research 93.061 Innovations in Applied Public Health Research 93.135 Centers for Research and Demonstration for Health Promotion and Disease Prevention 93.279 Drug Abuse and Addiction Research Programs 93.307 Minority Health Disparities Research 93.837 Cardiovascular Diseases Research 93.847 Diabetes, Digestive, and Kidney Diseases Extramural Research 93.855 Allergy Immunology and Transplantation Research
Federal Grantor Name:	Department of Transportation Department of Health and Human Services
Federal Award/Contract Number:	WA-26-7008, WA-26-0020, 5R18EH000537-02, 5R18EH000537-03, 5P01TP 000297-03, 5P01TP000297-03, 5P01TP000297-03, 5-U48DP001911-02, 5-U48DP001911-02, 5-U48DP001911-03, 5U58DP002057-02, 5758DP002057-03, 1R03DA031072-01A1, 1R24MD002768, 1-R01HL088456-01, 1R18DK088072-01, 5R18DK088072-02, 5U54AI057141-07, 5 U54 AI057141-08, 5R01AI068107-02, 1R01AI090831-01
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

Recipients of federal grants are prohibited from contracting with parties that are suspended or debarred from doing business with the federal government. If the subcontractor 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. Additionally, recipients are required to inform prime vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into. Grantees must meet these requirements prior to entering into contracts with vendors and subrecipients.

The Technical Services contract boilerplate language does not inform prime vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into. If a Technical Services contract is procured through standard procedures, the Procurement and Contract Services Section has internal controls to inform prime vendors of their responsibility in this area. If the contract is waived from standard procedures, this responsibility falls on the Department executing the contract.

The Public Health Department's internal controls were not adequate to ensure compliance with the federal suspension and debarment requirement in situations in which standard procurement procedures are waived.

We noted that in 2011, the Public Health Department entered into a \$70,000 contract with a vendor to use its research management system. The contract was not approved through the County's standard procedures. The County paid this vendor \$45,725 from the Diabetes, Digestive, and Kidney Diseases Extramural Research grant (a program in the Research and Development Cluster). The Department did not inform this vendor of its responsibility to check the suspension and debarment status.

Cause of Condition

The Public Health Department assumed the language informing prime vendors of their responsibility to check the suspension and debarment status for all covered transactions was included in the Technical Service contract boilerplate.

Effect of Condition

Inadequate internal controls over the suspension and debarment requirement increases the risk of awarding funds to parties who are suspended or debarred from federal projects. If a party is suspended or debarred, any payment to them is unallowable and subject to repayment.

Recommendation

We recommend the County establish internal controls over federal suspension and debarment requirements to ensure prime vendors are informed of their responsibility to check the suspension and debarment status.

County's Response

Public Health – Seattle and King County (PHSKC) appreciates the work of the auditor and concurs with the finding, while also noting that mitigating controls severely reduced or eliminated any Federal risk associated with the single instance of non-compliance noted.

PHSKC's Contracts, Procurement, and Real Estate Services (CPRES) division detected the County's removal of Suspension and Debarment language from the countywide Technical Consulting Boilerplate in June of 2011. CPRES immediately worked with King County Procurement and Contract Services (PCSS) to have the Suspension and Debarment language placed back into the PHSKC copy of the boilerplate. Further, PCSS will reinstate the federal debarment and suspension clause in the terms and conditions of Goods, Services, and Technical Consulting contracts in September 2012.

Throughout 2011, PHSKC had mitigating controls in place to reduce the impact of the missing contractual verbiage. The technical consulting boilerplate contains a requirement that the County approve the use of any subcontractor in writing. In addition to this language, PHSKC conducted Excluded Parties List System (EPLS) checks on all primary contractors. Specific to the contractor noted in this finding, the EPLS check indicated the vendor was not suspended or debarred. PHSKC believes the process of conducting our own EPLS checks, and prohibiting the contractor from further contracting work without obtaining our written approval severely limited, if not eliminated, the debarment risk on the contracts that were issued without this language present.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the 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.

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 180.330 - What requirements must I pass down to persons at lower tiers with whom I intend to do business?

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to –

- (a) Comply with this subpart as a condition of participation in the transaction. You may do so using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.
- (b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

Schedule of Federal Audit Findings and Questioned Costs

King County
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6. The County's internal controls were inadequate to ensure charges to the Federal Transit grant programs complied with federal requirements.

CFDA Number and Title:	20.500 Federal Transit – Capital Investment Grants 20.507 Federal Transit – Formula Grants (Urbanized Area Formula Grant)
Federal Grantor Name:	U.S. Department of Transportation WA-03-0135, WA-03-0236, WA-03-0243 WA-03-0245, WA-04-0014, WA-04-0021 WA-04-0032, WA-04-0061, WA-04-0065 WA-05-0053, WA-90-X256, WA-90-X174 WA-90-X209, WA-90-X219, WA-90-X254 Federal Award/Contract Number: WA-90-X321, WA-90-X323, WA-90-X363 WA-90-X377, WA-90-X405, WA-90-X455 WA-90-X475, WA-90-X483, WA-95-X005 WA-95-X027, WA-95-X043, WA-66-X002 WA-96-X005
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$292,601

Background

The federal government's transit programs are designed to foster development and revitalization of safe, secure and efficient public transportation systems that minimize environmental effects and fuel consumption.

The County receives federal awards from Federal Transit Administration (FTA) programs for preventative vehicle maintenance, bus purchases and construction of transit facilities. In 2011, the County spent \$181,076,427 in FTA grant money.

We reviewed seven of the 28 contracts with the FTA, which accounted for 91 percent of program expenditures.

Description of Condition

Regulations require grantees to maintain adequate documentation to demonstrate they spend federal dollars only for allowed activities and on allowable costs. Recipients must accurately record costs paid with federal funds in an accounting system and use cost

allocation plans consistent with federal requirements to support costs charged to grants. Auditors must report control deficiencies when an agency's internal controls are not likely to prevent or detect noncompliance.

We first identified the significant deficiencies listed below in our 2010 audit. In our audit of 2011 grant expenditures, we found they continued.

Bus Parts

The County charged \$16,171,691 for bus parts, \$292,601 of which was sales tax, to its vehicle maintenance grant.

The County does not include the sales tax in the cost of the part when it adds it to its inventory system. It expenses sales tax and charges to the grant when paid, regardless of whether the part has been used. Federal regulations require that the part must be used on a federal activity before the County can seek reimbursement. Moreover, the County's accounting treatment of immediately expensing the sales tax is not in accordance with Generally Accepted Accounting Principles (GAAP). Therefore, the County's controls are not designed to comply with federal requirements. Further, the County did not demonstrate it used the parts associated with the sales tax on a federal program in 2011.

Salaries

We reviewed payroll to determine whether employee salaries charged to the grant were supported by required time and effort documentation. In 2011, the County charged salaries of approximately \$53 million to the grant. The County had inadequate internal controls to ensure compliance with time and effort requirements for the first six months in 2011. We found salaried employees working on only one program relied on semi-annual certifications signed by the Manager of Vehicle Maintenance. This blanket certification did not identify individual employees. This does not meet federal grant requirements.

Cause of Condition

The County acknowledges that expensing the sales tax immediately when paid is not allowable. This practice has been in place since 1995, and due to system limitations, the County was unable to establish corrective measures in time for this audit. The County has stated the new financial accounting system that went into effect in 2012 will address this issue.

As a result of last year's finding, the County took corrective measures by identifying the individuals charging wages to vehicle maintenance. However, it did not correct the semi-annual certifications for the first six months in 2011.

Effect of Condition and Questioned Costs

Bus parts – The County inappropriately charged sales tax to the grant. We are questioning costs of \$292,601 relating to bus parts sales tax. Additionally, noncompliance could jeopardize future federal funding and result in the need for the County to return money to the grantor.

Salaries – Without appropriate time and effort certifications, the County cannot ensure salaries charged are allowable.

Recommendation

We recommend the County:

- Include sales tax associated with the purchase of bus parts in inventory and expense it when the part is removed from inventory and used on a federal activity.
- Continue to ensure semi-annual certifications are completed for salaried employees working only on one federal grant program.

County's Response

Sales Tax for Bus Parts

The County agrees that immediately expensing sales tax is not in accordance with generally accepted accounting principles and stopped this past practice in 2011. As explained in the County's response for the 2010 audit, the past practice was necessary due to system limitations. The system limitations are now resolved with the County's newly implemented financial system in January 2012.

It is important to point out that the amount of actual sales tax charged to the grant in 2011 was \$292,601, which is far less than the allowable amount that could have been charged. Bus parts charged to the grant, net of sales tax, were \$15,879,090. The sales tax rate during 2011 applied by Transit was 9.5 percent, which results in a \$1,508,513 estimate of taxes paid ($\$15,879,090 \times 9.5\%$) on parts consumed. Therefore, although approximately \$1.5 million in sales tax could have been charged against the grant in 2011, the \$292,601 amount of sales tax actually charged was far less.

Salaries Documentation

Effective, July 1, 2012, the County now includes a list of names on the semi-annual certification, though we believe there is no requirement to do so based on confirmation from the Federal Transit Administration Region X Office during the 2010 audit. We recognize, however, that the Auditor was looking for a higher level of confirmation within the FTA.

The County is compliant with federal regulations, as well as County policies and practices regarding time and effort reporting. Notwithstanding the County's respectful disagreement with the Auditor's interpretation of the federal regulations, the County will continue to supply a list of names with its semi-annual certifications for Preventive Maintenance in the future.

Auditor's Remarks

We reaffirm our finding. It should be noted the \$15,879,090 in bus parts consumed, the majority were not purchased in 2011, but rather they were purchased in prior years for which the County has already charged the sales tax to the grant. The County's analysis does not take this into account.

Applicable laws and Regulations

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

Appendix A, Section C(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 Circular . . .
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- j. Be adequately documented.

Appendix B, section 8

...

- h. Support of salaries and wages.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where

employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.

Appendix B, section 26, *Materials and supplies costs*

a. Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable.

b. Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies cost.

c. Only materials and supplies actually used for the performance of a Federal award may be charged as direct costs.

d. Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.

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

Section 105: definitions.

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

(1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;

(2) Where the costs, at the time of the audit, are not supported by adequate documentation; or

(3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Schedule of Federal Audit Findings and Questioned Costs

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- 7. The County does not have adequate internal controls and did not comply with allowable cost requirements for its Clean Fuels Program.**

CFDA Number and Title:	20.519 Clean Fuels Program
Federal Grantor Name:	Department of Transportation
Federal Award/Contract Number:	WA 58-0001-01
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$3,785,574

Description of Condition

During 2011, the County spent \$5,451,842 in federal funds for the Clean Fuels Program. The objectives of this program are to assist in financing the acquisition of clean fuel vehicles and related facilities providing public transportation. According to the grant agreement with the U.S. Department of Transportation, Federal Transit Administration (FTA) the County is to use the grant funding to cover the incremental cost difference for 39 hybrid electric-diesel buses funded under a separate agreement with the FTA. Incremental costs are the difference between a regular diesel bus and a hybrid electric-diesel bus.

The County charged the Clean Fuels Program for the total cost of 12 hybrid electric-diesel buses rather than the incremental costs of 39 hybrid electric/diesel costs. The difference between the total costs charged to the grant and the incremental costs of the 12 buses was \$3,785,574.

The County did not have adequate internal controls to ensure compliance with allowable costs. The control deficiencies represent material weaknesses in controls which resulted in material non-compliance.

Cause of Condition

The Grant Administrator responsible for preparing the reimbursement requests did not have adequate knowledge of the allowable costs for the Clean Fuels Program.

Effect of Condition and Questioned Costs

The County's Clean Fuels Program was reimbursed for \$3,785,574 in costs that were unallowable per the grant agreement. Noncompliance could jeopardize future federal funding and require the County to return money to the grantor.

Recommendation

We recommend the County ensure all costs charged to federal programs are allowable and in accordance with approved grant agreements.

County's Response

The County identified and corrected the error using current review processes. This is an isolated incident. Departmental staff also provided documentation to the auditors as evidence that these buses were not tagged or counted against other federal grant awards.

Upon initial delivery of 12 40-foot hybrid diesel electric buses in 2011, the Department mistakenly charged the full cost of the 12 buses to the Clean Fuels grant and assigned FTA grant number WA-58-0001 to those buses. After the grant funds were drawn down, Department staff discovered the error and initiated a correction in early June 2012 after the remaining 27 buses were delivered. The correction assigned the FTA grant number to the 39 buses noted in the grant award.

Subsequently, Department Vehicle Maintenance staff submitted paperwork to the County's Central Fixed Assets group to accurately reflect the correct information in the Fixed Asset records.

To mitigate against a similar incident in the future, Grants staff will carefully review the specific terms of the grant and the bus delivery documentation prior to drawing down funds from an FTA grant for bus acquisition.

The Department's Grants Administration team has a collective 45 years of experience with FTA, FHWA, DHS, and DOE grants. Members are certified in grant administration, and regularly attend seminars to maintain their knowledge and expertise.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the next audit.

Applicable laws and Regulations

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.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

OMB Circular A-87 Attachment A, Part C Basic guidelines

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

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

Schedule of Federal Audit Findings and Questioned Costs

King County
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8. The County does not have controls in place to ensure compliance with requirements of its Energy Efficiency and Conservation Block Grant Program.

CFDA Number and Title:	81.128 American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program
Federal Grantor Name:	U.S. Department of Energy
Federal Award/Contract Number:	DE-EE0000854
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The Energy Efficiency and Conservation Block Grant Program is designed to help local governments with strategies to reduce fossil fuel emissions, energy use and to improve energy efficiency. The program was funded by the American Recovery and Reinvestment Act of 2009. The County spent \$2,905,961 of these grant funds in 2011.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure program requirements are followed. We found the County did not have adequate internal controls in place to ensure compliance with Davis-Bacon (prevailing wage) Act, reporting and Recovery Act accountability requirements. The control deficiencies represent material weaknesses, which resulted in material noncompliance with the requirements.

Davis-Bacon Act

The Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers for federally-funded construction projects that exceed \$2,000. Grant recipients must include in construction contracts a provision requiring contractors and subcontractors to comply with the Act. Grant recipients must obtain weekly statements of compliance or certified payrolls. We found the County did not collect certified payroll reports weekly from construction contractors or subcontractors.

The County did not have adequate internal controls to ensure it received weekly certified payrolls from contractors and subcontractors it paid with this grant money. Program staff stated contractors are to submit the certified payroll within 10 days of the payroll date. Further, program staff stated the County does not release payment to a contractor until it receives all payroll certifications. However, we noted:

- Of the 67 payroll certifications reviewed, the average period between the payroll date and the County's review was 40 days. One certification was not reviewed for 109 days.
- Four instances in which the County accepted, and signed off as reviewed, payroll certifications that the contractor had not signed as required.
- Twenty-seven percent of the time, the County released payment to the contractor prior to the payroll certification review by program staff.

Recovery Act Accountability

Federal regulations require recipients of American Recovery and Reinvestment Act money to establish and follow internal controls to maintain records that adequately identify the source and use of the money.

Our 2010 audit of this program reported a finding regarding noncompliance and lack of internal controls related to this requirement.

During 2011, the County had 22 active projects in this program. For 19 of the projects, the County did not comply to specifically identify the uses of Recovery Act money in its financial records. The County uses two general ledger systems (IBIS and ARMS). The County accounted for the projects funded by this grant in both systems, depending on which department was managing the project. It accounted for nine projects in the IBIS system and 13 projects in the ARMS system.

Our audit found the County did not comply with this requirement when it coded Recovery Act expenditures to generic project accounts. The County records all costs for a project to a single project code and, as a result, commingled these expenditures with non-Recovery Act expenditures. The expenditures charged to the Recovery Act grant are identifiable only through a review of reimbursement requests and supporting documentation attached in the paper files. This documentation enabled us to determine the costs are allowable and, as such, we did not question the costs; however, this does not meet the federal government's expectation.

Reporting

Our 2010 audit of this program reported a finding regarding noncompliance and lack of internal controls related to reporting requirements.

The County is responsible for submitting a quarterly SF-425 financial report to the U.S. Department of Energy. It also must submit expenditure and jobs information to the federal government quarterly, as required the Recovery Act. We verified the County filed the required reports before each deadline, but found the reports were not accurate, complete or supported by accounting records. Further, no one performs a review of the financial reports and Section 1512 reports to ensure the information is complete, accurate and presented in accordance with program requirements.

Our review of the four financial reports for 2011 found errors in reporting expenditures, ranging from 1 percent to 31 percent, with the total expenditures underreported by 4 percent, or \$126,084, as compared to the amount shown on the Schedule of Expenditures of Federal Awards. The amounts should be the same.

Cause of Condition

Davis-Bacon Act

The County accepted the submission of certified payrolls in batches. In addition, employees responsible for monitoring compliance with the requirement did not always check for a certifying signature on the submitted payrolls. The County did not adequately monitor program staff to ensure the review process was completed timely and accurately.

Recovery Act Accountability

County management did not ensure proper processes were in place to ensure it tracked Recovery Act expenditures separately as required.

Reporting

County personnel were not adequately monitored to ensure the financial status and the Recovery Act reports were prepared accurately. The financial reports and Recovery Act reports were not independently reviewed for accuracy prior to submittal.

Effect of Condition

Davis-Bacon Act

The County cannot ensure contractors and subcontractors pay prevailing wages. This could result in an underpayment of wages to laborers working on the project. The County did not specifically review for signature on the payroll certification. Payments on uncertified payrolls limit the County's recourse over inaccurate wage rates.

Recovery Act Accountability

The County did not comply with program requirements. This could jeopardize future funding from these grants.

Reporting

Failure to accurately report the required information could cause the Department of Energy to inaccurately measure the progress of these projects.

Recommendation

We recommend the County establish internal controls to ensure:

- It receives and reviews the payroll certifications timely and program staff completes the review prior to release of payment to the contractor.
- It tracks Recovery Act expenditures separately in the general ledger.
- Financial and Recovery Act reports are complete, accurate, and presented in accordance with program requirements.

County's Response

A. Davis-Bacon Act – The County agrees with the auditor's finding. It should be noted that the County paid prevailing wages. The County notes that there is no enforcement mechanism within the Act to compel contractors to submit their paperwork on a weekly basis, making it difficult for public entities like the County to meet the time requirement of the Act. The County will review its existing procedures, and revise as necessary to ensure that certified payrolls with appropriate signatures are collected, and reviewed in a timely manner.

B. Recovery Act Accountability - The County respectfully disagrees with the auditor's finding. The detailed accounting transaction records supporting ARRA reimbursement requests enable the County to easily identify ARRA funded project expenditures. All ARRA revenues received were accounted for in unique ARRA revenue accounts.

The County had 22 active projects during 2011, eight in IBIS and fourteen in ARMS. All IBIS projects are coded with a project number and a unique three digit grant identification number established solely to record EECBG grant expenditures and revenues. Only expenditures coded with both the project number and unique grant number are used as the basis for draw-downs against the EECBG grant. ARRA revenue for this grant is coded to the unique ARRA revenue account number, and is identified with the project and grant in IBIS. All but two ARMS projects used unique project numbers and/or accounting code strings to track ARRA project expenditures and revenues. For the remaining two ARMS projects, the ARRA expenditures and revenues were easily identifiable and documented. In addition to the electronic records, detailed paper billing files were maintained for each draw-down of funds against the EECBG grant.

It is common for projects to incur more grant eligible expenditures than can be supported by grant awards. This practice does not create a problem as the granting agency can only be billed for eligible costs incurred up to the maximum grant award for the project. This overmatch of expenditures is a common grant management practice and can be a useful technique in the event that additional grant funds become available. This overmatching situation should not be considered as commingling.

In January 2012, the County replaced its two legacy financial systems with a new system that has a specific grant accounting component. The new financial system is expected to further enhance the County's capability to track grant revenues and expenditures.

C. Reporting – The County agrees, in part, with the auditor's finding. The County acknowledges the incomplete nature of the SF-425 reports, which primarily was due to an interface issue with the US Department of Energy's on-line reporting system. In addition, the County was instructed by the USDOE project officer to report expenditures and actual cash received for a given quarter. Actual cash received during a quarter did not match the expenditures because of the lag in the accounting close period for each month. This closure period created a one to two month lag from the time expenditures were recorded against a grant funded project and when they were billed to the grant, which also meant that 2010 revenues were reported in the first quarter 2011 SF-425 report, and 2011 revenues were reported in the first quarter 2012 SF-425 report.

At the end of the second quarter of 2012, the original USDOE project officer left the USDOE. The new USDOE project officer provided the County with different SF-425 reporting instructions. The County will comply with these instructions on a go-forward basis.

For 2012, the County will create more complete reporting records, and for the remaining reports, will have a second person review them prior to submission. Documentation of this review will be retained.

Auditor's Remarks

It is the responsibility of the County to demonstrate compliance with federal requirements, which it did not. We reaffirm our finding. We look forward to reviewing the County's corrective action during our next audit.

Applicable laws and Regulations

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

Subpart C, *Auditees*; Section .300 *Auditee Responsibilities*.

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..

Title 29, Code of Federal Regulations Section 3.3, *Weekly statement with respect to payment of wages*, states in part:

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 an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH 348, "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.

Title 29 Code of Federal Regulations, Section 3.11, *Regulations part of contract.*

All contracts made with respect to 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 covered by the regulations in this part shall expressly bind the contractor or subcontractor to comply with such of the regulations in this part as may be applicable. In this regard, see §5.5(a) of this subtitle.

Title 29 Code of Federal Regulations, Section 5.5, *Contract provisions and related matters*, states in part:

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, *Provided*, That such modifications are first approved by the Department of Labor):

(1) *Minimum wages.* (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

(3)(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency) . . .

(B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract

Title 2, Code of Federal Regulations, Section 176.210, states:

(a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111–5) (Recovery Act) as required by Congress and in accordance with

2 CFR 215.21 “Uniform Administrative Requirements for Grants and Agreements” and OMB Circular A–102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.

Title 29 Code of Federal Regulations, Section 97.20, *Standards for financial management systems*, states in part:

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) Accounting records. Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Schedule of Federal Audit Findings and Questioned Costs

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- 9. The County did not have adequate internal controls over subrecipient monitoring requirements for the Shelter Plus Care Grant.**

CFDA Number and Title:	14.238 Shelter Plus Care
Federal Grantor Name:	U.S. Department of Housing and Urban Development (HUD)
Federal Award/Contract Number:	WA0033C0T000802, WA0033C0T001003, WA0034C0T000802, WA0034C0T001003, WA01C500001, WA0223C0T001001
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The Shelter Plus Care program provides rental assistance to homeless persons with disabilities and their eligible family members. The County charged \$5,766,314 in rental assistance and \$282,950 in administrative costs to the program in 2011. The County paid the funds to a non-profit subrecipient that provides the services.

Federal regulations require the County to monitor subrecipients using federal funds. As a pass-through agency, the County is required to monitor the subrecipient's activities to provide reasonable assurance the subrecipient administers federal awards in compliance with federal requirements.

Shelter Plus Care grants may be used to pay rental assistance and administrative costs. This grant money may not be used for rental assistance or operating costs that are also paid through any other U.S. Department of Housing and Urban Development (HUD) rental assistance program. In our prior audit, we notified the County of this requirement and reported a material weakness in internal controls because it was not monitoring the subrecipient's activities in this area.

In our current audit, we followed up to see if the weakness had been resolved. We found controls still are not adequate to ensure no other HUD programs provided rental assistance to the units receiving Shelter Plus Care rent support. The County began using additional internal controls to monitor its subrecipient in 2012 as a result of our prior audit and we have not audited those additional controls. However, these internal controls were not in place in 2011.

Cause of Condition

The County relied on its subrecipient to ensure compliance with this grant.

Effect of Condition

Without proper controls over subrecipient monitoring, the County cannot ensure no other HUD programs provided rental assistance to the units receiving Shelter Plus Care rent support.

Recommendation

We recommend the County continue to monitor its subrecipient's activities to ensure rental assistance is provided only to units that receive no other HUD rent support.

County's Response

The County concurs with the finding and recommendation. As indicated in the Description of Condition above, the County implemented additional internal controls in 2012 to more actively monitor its Shelter Plus Care rent assistance recipients. These additional controls will provide reasonable assurance that no other HUD programs provide rental assistance to the units receiving Shelter Plus Care rent support.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, Subpart C, section 300 – Auditee responsibilities 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

OMB Circular A-133, Part 3, Section M, states in part:

A pass-through entity is responsible for:

During-the-Award Monitoring - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions

of contracts or grant agreements and that performance goals are achieved . . .

Title 24 Code of Federal Regulations, Section 582.105 - Rental assistance amounts and payments, states in part:

(a) Eligible activity. S+C grants may be used for providing rental assistance for housing occupied by participants in the program and administrative costs as provided for in paragraph (e) of this section, except that the housing may not be currently receiving Federal funding for rental assistance or operating costs under other HUD programs. Recipients may design a housing program that includes a range of housing types with differing levels of supportive services. Rental assistance may include security deposits on units in an amount up to one month's rent.

Schedule of Federal Audit Findings and Questioned Costs

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- 10. The County does not have adequate internal controls to ensure compliance with eligibility requirements for its HOME Investment Partnerships Program.**

CFDA Number and Title: 14.239 HOME Investment Partnerships Program
Federal Grantor Name: U.S Department of Housing and Urban Development
Federal Award/Contract Number: M07-DC-53-0200, M08-DC-53-0200, M09-DC-53-0200, M10-DC-53-0200, M11-DC 53-0200
Pass-through Entity Name: NA
Pass-through Award/Contract Number: NA
Questioned Cost Amount: \$0

Description of Condition

During 2011, the County spent \$7,160,222 in federal funds for the HOME Investment Partnerships Program. The objectives of the program are to expand housing opportunities for low- and very low-income individuals and to assist state and local governments and the private sector in that effort.

Rental housing projects funded with HOME Partnerships Program funds must be occupied by households that are eligible as low-income families and must limit the rent that can be charged. The County must perform on-site inspections to verify the income and rent information submitted by the project owners are accurate based on the following on-site inspection schedule:

On-site Monitoring Visits Upon Project Completion	Frequency
Rental Projects with 1-4 total units in the project	Every 3 years
Rental Projects with 5-25 total units in the project	Every 2 years
Rental Projects with 26 or more total units in the project	Annually

In 2011, 36 HOME-assisted rental projects were subject to on-site monitoring. Our audit found the County does not have adequate internal controls to ensure eligibility requirements are met. The County performed on-site monitoring at 27 HOME-assisted housing projects and relied on its partnering agency to visit the remaining nine projects. For the 27 on-site visits performed by the County, it was unable to demonstrate that three met income and rent eligibility requirements. For the nine projects the County did not conduct on-site monitoring, it could not demonstrate eligibility requirements were reviewed.

Cause of Condition

The County's internal controls lack adequate monitoring and review elements to ensure federal eligibility requirements are met. Additionally, the County relied on its partner agency to perform on-site visits for eligibility requirements and the partner agency was not performing the on-site review as required.

Effect of Condition

Without adequate monitoring controls, the County cannot ensure HOME-assisted rental housing projects are available to low-income families and rent charges are within the federal grantor's guidelines.

Recommendation

The County should establish internal controls to ensure all HOME assisted rental housing projects meet the eligibility requirements. The County should ensure its partner agency is performing on-site visits for eligibility requirements.

County's Response

The County concurs with the finding and recommendation. We will re-assess our internal controls to ensure that documentation of tenant eligibility reviews are retained and readily available for review. When the property inspection is conducted by a partner agency, we will request that tenant files be submitted directly to King County for review within 30 days of the site visit. Our review will verify tenant eligibility against the annual report information submitted by the project owners. We will document our review and resolution of any identified issues and retain the documentation.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the 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 Auditee responsibilities 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.

Title 24 Code of Federal Regulations, Section 92.2 Definitions:

Low-income families

Low-income families means families whose annual incomes do not exceed 80 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 80 percent of the median for the area on the basis of HUD findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes.

Title 24 Code of Federal Regulations, Section 92.203 Income targeting: Income Determinations states in part:

(a) The HOME program has income targeting requirements for the HOME program and for HOME projects. Therefore, the participating jurisdiction must determine each family is income eligible by determining the family's annual income.

(1) For families who are tenants in HOME-assisted housing and not receiving HOME tenant-based rental assistance, the participating jurisdiction must initially determine annual income using the method in paragraph (a)(1)(i) of this section. For subsequent income determinations during the period of affordability, the participating jurisdiction may use any one of the following methods in accordance with §92.252(h):

(i) Examine the source documents evidencing annual income (e.g., wage statement, interest statement, unemployment compensation statement) for the family.

(ii) Obtain from the family a written statement of the amount of the family's annual income and family size, along with a certification that the information is complete and accurate. The certification must state that the family will provide source documents upon request.

(iii) Obtain a written statement from the administrator of a government program under which the family receives benefits and which examines each year the annual income of the family. The statement must indicate the tenant's family size and state the amount of the family's annual income; or alternatively, the statement must indicate the current dollar limit for very low- or low-income families for the family size of the tenant and state that the tenant's annual income does not exceed this limit.

Title 24 Code of Federal Regulations, Section 92.252 Qualification as Affordable Housing: Rental Housing states in part:

The HOME-assisted units in a rental housing project must be occupied only by households that are eligible as low-income families and must meet the following requirements to qualify as affordable housing. The affordability requirements also apply to the HOME-assisted non-owner-occupied units in single-family housing purchased with HOME funds in accordance with §92.254.

(b) Additional Rent limitations. In rental projects with five or more HOME-assisted rental units, twenty (20) percent of the HOME-assisted units must be occupied by very low-income families and meet one of following rent requirements:

(1) The rent does not exceed 30 percent of the annual income of a family whose income equals 50 percent of the median income for the area, as determined by HUD, with adjustments for smaller and larger families. HUD provides the HOME rent limits which include average occupancy per unit and adjusted income assumptions. However, if the rent determined under this paragraph is higher than the applicable rent under paragraph (a) of this section, then the maximum rent for units under this paragraph is that calculated under paragraph (a) of this section.

(2) The rent does not exceed 30 percent of the family's adjusted income. If the unit receives Federal or State project-based rental subsidy and the very low-income family pays as a contribution toward rent not more than 30 percent of the family's adjusted income, then the maximum rent (i.e., tenant contribution plus project-based rental subsidy) is the rent allowable under the Federal or State project-based rental subsidy program.

(h) Tenant income. The income of each tenant must be determined initially in accordance with §92.203(a)(1)(i). In addition, each year during the period of affordability the project owner must re-examine each tenant's annual income in accordance with one of the options in §92.203 selected by the participating jurisdiction. An owner of a multifamily project with an affordability period of 10 years or more who re-examines tenant's annual income through a statement and certification in accordance with §92.203(a)(1)(ii), must examine the income of each tenant, in accordance with §92.203(a)(1)(i), every sixth year of the affordability period. Otherwise, an owner who accepts the tenant's statement and certification in accordance with §92.203(a)(1)(ii) is not required to examine the income of tenants in multifamily or single-family projects unless there is evidence that the tenant's written statement failed to completely and accurately state information about the family's size or income.

Title 24 Code of Federal Regulations, Section 92.504 Participating Jurisdiction Responsibilities; Written Agreements; On-Site Inspections states in part:

(a) Responsibilities. The participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually.

(d) On site inspections—(1) HOME assisted rental housing. During the period of affordability, the participating jurisdiction must perform on-site inspections of HOME-assisted rental housing to determine compliance with

the property standards of §92.251 and to verify the information submitted by the owners in accordance with the requirements of §92.252 no less than: every three years for projects containing 1 to 4 units; every two years for projects containing 5 to 25 units; and every year for projects containing 26 or more units. Inspections must be based on a sufficient sample of units.

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- 11. The County's internal controls were inadequate to ensure compliance with federal time and effort and suspension and debarment requirements for its Public Safety Partnership and Community Policing Grants.**

CFDA Number and Title:	16.710 Public Safety Partnership and Community Policing Grants
Federal Grantor Name:	U.S. Department of Justice
Federal Award/Contract Number:	2008CKWX0300, 2009CKWX0386, 2008CKWX0852, 2009CKWX0643
Pass-through Entity Name:	Washington Association of Sheriffs and Police Chiefs
Pass-through Award/Contract Number:	WSMI09104
Questioned Cost Amount:	\$0

Description of Condition

The Public Safety Partnership and Community Policing Grants provide law enforcement agencies with resources to address law enforcement needs with a focus on increasing their community policing capacity. These strategies are focused on three primary elements of community policing: developing community/law enforcement partnerships; developing problem-solving and innovative approaches to crime issues; and organizational change to build and strengthen community policing.

Time and Effort

The County charged \$664,542 to the Public Safety Partnership and Community Policing Grants in 2011. Of this, \$152,749 was salary and benefit costs. When federal grants pay for employee payroll costs, the employees who work on only one grant or cost objective must support salaries and wages with time and effort certifications at least twice a year. Either the employee or the supervisor with firsthand knowledge of the work performed must sign the certifications.

One employee charged \$149,309 in salary and benefits to the Grants, which is 98 percent of payroll costs charged and 22 percent of total program costs. The County did not obtain signed semiannual time and effort certifications for this employee in a timely manner. The certifications for January through June and July through December 2011 were not signed until April 13, 2012. Moreover, the certifications were signed one day after we made inquiries about the program with the Grants Administrator during our audit planning. We determined the salary and benefits costs were for allowable purposes; therefore, we are not questioning these costs.

Suspension and Debarment

Recipients of federal grants are prohibited from contracting with parties that are suspended or debarred from doing business with the federal government. If the subcontractor 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. Additionally, recipients are required to inform vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into. Grantees must meet this requirement prior to making payments to vendors and subrecipients

In 2011, the County entered into a contract with a vendor for \$297,030 for time, attendance, and scheduling software to automate scheduling and the tracking of leave and overtime. The County paid this vendor \$164,250 in Public Safety Partnership and Community Policing Grant funds in 2011. County policy requires the grantee agency, in this case the Sheriff's Office, to ensure goods and services are not obtained from vendors on the federal debarred list. The Sheriff's Office did not perform this confirmation. As a result, the County did not ensure this vendor was eligible to participate in federal programs and did not inform it of the responsibility to check the suspension and debarment status for any covered transactions it enters into.

Cause of Condition

Time and Effort

County management did not monitor program staff to make sure the processes were designed to ensure compliance with federal time and effort requirements. The person responsible did not monitor compliance with this requirement.

Suspension and Debarment

The Sheriff's Office assumed it was the responsibility of the Procurement and Contract Services Section to ensure vendors are not suspended or debarred. However, County policy dictates the Sheriff's Office is responsible for this requirement.

Effect of Condition

Time and Effort

Federal grantors cannot assure salaries and benefits charged to their programs are accurate and valid without adequate time and effort documentation. Noncompliance with grant requirements may require the County to return federal funding and jeopardizes future federal funding.

Suspension and Debarment

Inadequate internal controls over the suspension and debarment requirement increases the risk of awarding funds to parties who are suspended or debarred from federal projects. If a party is suspended or debarred, any payment to them is unallowable and subject to repayment. We verified that the vendor was not suspended or debarred; therefore, we will not question these costs.

Recommendation

We recommend the County:

- Obtain properly authorized semiannual time and effort certifications in a timely manner.
- Follow established policies and procedures to ensure vendors are not suspended or debarred and inform vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into.

County's Response

The King County Sheriff's Office concurs with the findings and recommendations.

Time and Effort

In order to complete the semi-annual certification in a timely manner, the Sheriff's Office Grant Administrator will utilize task management software that will notify supervisors to obtain the semi-annual certifications for all grants-funded employees. The Grant Administrator's manager will also monitor compliance with this requirement through monthly meetings with the Grant Administrator to ensure complete and timely semi-annual certifications.

Suspension and Debarment

The Sheriff's Office will ensure vendors are not suspended or disbarred by creating and utilizing a checklist for all contracts. This checklist will require the Business and Finance Officer to review the federal Excluded Parties List and incorporate the results in the contract file; ensure that all contracts require a vendor to certify, in writing, that it or its organization has not been suspended or debarred; and include language informing vendors of their responsibility to check the suspension and debarment status for any covered transactions they enter into. This was an isolated incident and further steps will be taken to ensure the Business and Finance Officer is included in the contract development phase.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the 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.

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 180.300 – 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-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Appendix B, Section 8(h), states in part:

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the government unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2011 through December 31, 2011

- 12. The County does not have controls to ensure compliance with Davis-Bacon Act (prevailing wage) requirements for grants administered by the Wastewater Treatment Division.**

CFDA Number and Title:	66.418 Construction Grants For Wastewater Treatment Works
Federal Grantor Name:	66.458 Capitalization Grants For Clean Water State Revolving Funds Environmental Protection Agency
Federal Award/Contract Number:	C5305850306, SRF LOAN L1100009, SRF LOAN L0600013, SRF LOAN L0600014, SRF LOAN L0600015
Pass-through Entity Name:	State Department of Ecology Revolving Fund
Pass-through Award/Contract Number:	L1100009, L0600013, L0600014, L0600015
Questioned Cost Amount:	\$0

Description of Condition

The County spent \$6,587,110 in Construction Grants for Wastewater Treatment Works and \$3,351,798 in Capitalization Grants for Clean Water State Revolving Funds in 2011. All of the expenses of these grants were for construction projects.

The Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers for federally funded construction projects that exceed \$2,000. Grant recipients must include in their construction contracts a provision that contractors and subcontractors comply with the Act. Grant recipients must obtain weekly statements of compliance or certified payrolls. We found the County did not collect certified payroll reports weekly from construction contractors or subcontractors.

Cause of Condition

The County's program managers did not understand the Davis-Bacon Act requirements. The program managers obtain certified payrolls when projects are completed rather than weekly and do not review them to ensure prevailing wage rates were paid.

Effect of Condition

The County cannot ensure contractors and subcontractors pay prevailing wages. This could result in an underpayment of wages to laborers working on the project.

Recommendation

We recommend the County establish and follow internal controls to ensure Davis-Bacon Act requirements, including obtaining weekly certified payrolls, are followed.

County's Response

The County concurs with the Description of Condition, and notes that this issue is isolated to a single contract. The Davis-Bacon clause is incorporated into this contract. It should also be noted that all grant dollars spent on this project were supported by sufficient documentation and that the auditor did not question any of the costs paid on this project.

The Wastewater Treatment Division is currently addressing and will implement immediately the following for current and future federally funded construction contracts:

- *The required certified payroll submittals will be requested for the contract currently funded by State Revolving Funds.*
- *An audit and review of future certified payroll submittals compared to prevailing wage rates will be performed to verify the appropriate rates have been paid and any corrections necessary will be enforced.*
- *A process will be implemented to enhance the pay invoice review process that includes confirmation of weekly certified payroll submittals from the prime contractor. The prime contractor submittals will be required to include certified payroll for subcontractors.*
- *Periodic contract file reviews will be performed to include verification that weekly certified payroll submittals are in the contract file and to confirm that prevailing wage rates were reviewed and appropriate rates paid.*
- *Training will be provided to WTD staff responsible for contract administration to ensure appropriate understanding of Davis-Bacon Act construction contract submittal requirements (i.e. deliverables required by the Davis-Bacon act from the prime and subcontractors).*

These improved control processes will bring the Wastewater Treatment Division into compliance with its current contract for Ballard Siphon and future construction contracts applicable to the Davis-Bacon Act.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during the next audit.

Applicable laws and Regulations

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

Subpart C, *Auditees*; Section .300 *Auditee Responsibilities*.

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.

Title 29, Code of Federal Regulations Section 3.3 *Weekly statement with respect to payment of wages*, states in part:

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 an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH 348, "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.

Title 29 Code of Federal Regulations, Section 3.11, *Regulations part of contract*.

All contracts made with respect to 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 covered by the regulations in this part shall expressly bind the contractor or subcontractor to comply with such of the regulations in this part as may be applicable. In this regard, see §5.5(a) of this subtitle.

Title 29 Code of Federal Regulations, Section 5.5, *Contract provisions and related matters*, states in part:

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, *Provided*, That such modifications are first approved by the Department of Labor):

(1) *Minimum wages.* (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account

(except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

(3)(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency) . . .

(B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract