

Schedule of Federal Audit Findings and Questioned Costs

Whitman County Rural Library District Whitman County January 1, 2011 through December 31, 2011

- 1. The District did not have adequate internal controls to ensure compliance with requirements for its Rural Development Loan Grant.**

CFDA Number and Title:	10.766 – American Recovery and Reinvestment Act (ARRA) Rural Development Loan Grant
Federal Grantor Name:	United State Department of Agriculture
Federal Award/Contract Number:	56038911742940
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

In fiscal year 2011 the District received \$550,000 in American Recovery and Reinvestment Act (ARRA) Rural Development Loans from the United States Department of Agriculture (USDA). Funding was used to renovate the District's main library branch in Colfax, Washington.

Our audit noted three deficiencies in internal controls that, when taken together, are considered to be material weaknesses:

Suspension and Debarment

Federal requirements prohibit grant recipients from contracting with or making subawards to vendors who have been suspended or debarred from doing business with the federal government. The District is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The District can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

The District hired a consultant to administer the project. The consultant had adequate controls to ensure construction vendors were not suspended or debarred; however the District paid the consultant more than \$80,000 for services and failed to comply with suspension and debarment requirements.

Recovery Act Award Accountability

Federal regulations required recipients of ARRA funds to maintain an accounting system that separately tracks the receipt, expenditure and reporting of these funds. The recipient must also separately identify ARRA funds on the Schedule of Expenditure of Federal Awards. The District did not have controls in place to ensure compliance with these requirements.

Single Audit Requirements

Federal regulations require local governments to arrange for a single audit when they expend \$500,000 or more in federal funds in a fiscal year. The audit must be complete and the report submitted to the federal clearinghouse within nine months of the government's year end. The District did not notify our Office that it had a federal audit requirement for the year ending December 31, 2011.

Cause of Condition

The District generally spends less than \$500,000 in federal grant money and is not required to obtain a Single or financial statement audit. The District used an architect to assist with the administration of the federal project; however, District staff did not have the technical knowledge and experience to monitor the architect's activities to ensure compliance with federal laws and regulations.

Effect of Condition and Questioned Costs

Suspension and Debarment

This material weakness in internal controls increases the risk the District will enter into contracts with vendors who are suspended or debarred from receiving federal funds. Payments on contracts to suspended or debarred vendors would be unallowable and could require the District to repay the funding to the grantor. We were able to verify the vendor had not been suspended or debarred and, therefore, we are not questioning costs.

Recovery Act Award Accountability

The District's control system did not provide the information necessary to meet the additional transparency requirements for ARRA funding. The federal awarding agency was denied the information necessary to properly monitor the use of these federal funds.

Single Audit Requirements

The District's federal single audit deadline was not met. Without an audit, grantors have less assurance that grant funds are being used for authorized purposes and in compliance with federal regulations. In addition, future federal awards could be reduced or lost when audits are not completed as required.

Recommendation

The District should establish internal controls that ensure:

- Suspension and debarment status of vendors is verified prior to entering into contracts.
- ARRA transparency requirements are met.
- Timely notification to the State Auditor's Office when a federal single audit is required.

District's Response

Having never participated in a large federally funded project, the Library District mistakenly depended upon USDA officials and the project's architect to guide us through some of the steps and reporting requirements. We now regret this decision and have gained a new knowledge of what is required of us and will implement new procedures should federal funds be obtained in the future.

Auditor's Remarks

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

Applicable Laws and Regulations

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit 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.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §____.310.
- (e) Ensure that the audits required by this part are properly performed and submitted when due.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart B - Audits, Section 200, Audit requirements, states in part:

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

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart B - Audits, Section 320, Report submission, states in part:

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

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

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions? [states in part]

- (a) Covered transactions under this part—
- (b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:
 - (1) The contract is awarded by a participant in a nonprocurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed \$25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that 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 enter into covered transaction at the next lower tier.

OMB Circular A-133 Compliance Supplement 2012, Part 3 – Compliance Requirements, states the following on page 3-N-2:

The financial management system must permit the preparation of required reports and tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs.

As provided in 2 CFR section 176.210 Federal agencies must require recipients to (1) agree to maintain records that identify adequately the

source and application of ARRA awards; (2) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII.

Title 2 Code of Federal Regulations, Section 176.210 - Award term—Recovery Act transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients, states:

The award term described in this section shall be used by agencies to clarify recipient responsibilities regarding tracking and documenting Recovery Act expenditures:

- (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. OMB Circular A-102 is available at <http://www.whitehouse.gov/omb/circulars/a102/a102.html>.
- (b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. OMB Circular A-133 is available at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>. This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.
- (c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.
- (d) Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar

to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office.

Schedule of Audit Findings and Responses

Whitman County Rural Library District January 1, 2011 through December 31, 2011

- 2. The District's internal controls are inadequate to ensure its financial statements and schedules are complete and accurate.**

Background

It is the District management's responsibility to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a significant deficiency in controls that adversely affect the District's ability to produce complete and accurate financial statements and schedules.

Description of Condition

District personnel responsible for compiling and reviewing financial information did not have adequate experience to determine if the financial statements, notes and required supplemental information were accurate and conformed to *Budgeting, Accounting and Reporting System Manual* (BARS) requirements. This internal control deficiency represents a significant deficiency in internal controls over financial reporting.

Cause of Condition

The District is a small, rural, cash basis Library District and typically does not prepare financial statements and schedules required to meet Single audit requirements. For the year ending December 31, 2011, the District received \$550,000 of federal awards that created additional financial and federal reporting requirements. The District did not assign adequate resources to financial statement preparation or the development of internal control policies and procedures to meet these additional reporting requirements.

Effect of Condition

The District did not include \$550,000 of federal expenditures in the financial report submitted to our Office. Therefore, the Statement of Resources and Uses Arising from Cash Transactions generated from this information did not capture all the District's expenditures. This error created an understatement of expenditures, which in turn, resulted in a material overstatement of the District's year-end cash and investment balance.

Recommendation

The District should devote adequate resources to its financial reporting process including establishing internal controls that ensure complete and accurate financial reports in accordance with BARS requirements.

District's Response

While we understood that we had to account for the \$550,000 payment, we regret that a simple oversight caused this to occur. For future report submissions, the library will take steps to ensure that the correct files are attached/uploaded.

Auditor's Remarks

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

Applicable Laws and Regulations

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 2. Internal Control states in part:

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section

Statement on Auditing Standards (SAS) 115 states in part:

For all financial audits, auditor should report the following deficiencies in internal control:

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

b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.