

Schedule of Federal Audit Findings and Questioned Costs

King County January 1, 2013 through December 31, 2013

1. The County's internal controls were not adequate to ensure compliance with Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.

CFDA Number and Title:	20.500 Federal Transit Capital Investment Grants 20.507 Federal Transit Formula Grants – Urbanized Area Formula Program 20.525 State of Good Repair Grants
Federal Grantor Name:	U.S. Department of Transportation
Federal Award/Contract Numbers:	WA-03-0135, WA-90-0256, WA-95-0005, WA-95-0027, WA-95-0043, WA-03-0245, WA-03-0236, WA-03-0243, WA-04-0021, WA-04-0032, WA-04-0061, WA-04-0067, WA-90-0209, WA-90-0219, WA-90-0254, WA-90-0321, WA-90-0323, WA-90-0363, WA-90-0405, WA-90-0455, WA-90-0479, WA-04-0077, WA-04-0078, WA-04-0081, WA-04-0080, WA-90-0513, WA-04-0084, WA-04-0099, WA-54-0002, WA-90-0523, WA-95-0069, WA-54-0006
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

The County spent \$70,242,523 in federal funds provided by the U.S. Department of Transportation (DOT) for the Federal Transit Cluster in 2013. Grant funding may be used for financing the planning, acquisition, construction, preventative maintenance, and improvement of facilities and equipment in public transportation services.

We audited six out of thirty-two transit awards, which represents 80 percent of the funds spent during the year. Two of the awards passed through grants funds in the amount of \$4,800,000 and \$1,400,000 to the city of Shoreline and city of Tukwila, respectively.

Description of Condition

The Federal Funding Accountability and Transparency Act of 2006 requires grantees to report subawards to subrecipients for amounts of \$25,000 or more. They must report each subaward by the end of the month following the month in which it was granted.

During our audit we found the County did not have sufficient internal controls in place to ensure the fiscal year 2013 Accountability Act reports were submitted before the deadline. We consider the control deficiency to be a material weakness.

When it was discovered by our Office that the reports had not been submitted, the County immediately submitted the required reports.

Cause of Condition

County staff did not dedicate the necessary resources to ensure compliance with all applicable grant requirements.

Effect of Condition and Questioned Costs

By not correctly submitting the required Accountability Act reports, the federal government's ability to ensure transparency and accountability of federal spending is diminished.

Recommendation

We recommend the County ensure required reports are reviewed and submitted in a timely manner. We also recommend that the County ensure any subawards to subrecipients for amounts of \$25,000 or more within the twenty-six non audited awards be submitted.

County's Response

The King County Department of Transportation concurs with the Auditor's finding and recommendation.

The County submitted the final sub award information into the FFATA Subaward Reporting System (FSRS) on July 15, 2014. The County strengthened departmental procedures to ensure proper oversight and timely report filing. Effective immediately, a second Grants Administrator will review the report prior to its submission. Staff will take part in County-wide supplemental training in FFATA reporting planned by the Financial Management Section (FMS) of the Finance and Business Operations Division (FBOD) in the second quarter of 2015 to help ensure this oversight does not occur in the future.

Auditor's Remarks

We appreciate the County's commitment to resolving this issue and wish to thank County management and staff for its cooperation and assistance during the audit. We will review the corrective action taken during our next regularly scheduled 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 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-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a 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.

Significant deficiency. 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.

Title 2, Code of Federal Regulations, APPENDIX A TO PART 170 – AWARD TERM, provides, in part:

I. Reporting Subawards and Executive Compensation.

a. Reporting of first-tier subawards.

1. *Applicability.* Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111–5) for a subaward to an entity (see definitions in paragraph e. of this award term).

2. *Where and when to report.*

i. You must report each obligating action described in paragraph a.1. of this award term to *<http://www.fsrs.gov>*.

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

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2. The County advanced \$10,000 to a subrecipient to be used as a revolving fund which is unallowable.

CFDA Number and Title:	14.267 Continuum of Care
Federal Grantor Name:	U.S. Department of Housing and Urban Development (HUD)
Federal Award/Contract Number:	WA0034LOT001205
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$10,000

Background

During the audit period, the County spent \$5,459,934 in federal funds for the Continuum of Care grant. Grant funding may be used to provide rental assistance, medical services, case management and various support services to homeless persons and their eligible family members. The grant period runs from May, 2013 to April, 2014.

The County contracted with a subrecipient to administer the program. The subrecipient contracted with landlords and organizations to provide direct services to eligible participants. Monthly, the subrecipient requested reimbursement from the County for allowable costs to the program.

Federal regulations require direct costs be identifiable with a specific final cost objective. In addition, payment of contingency provisions is unallowable.

Description of Condition

At the beginning of the grant period, the County advanced \$10,000 to the subrecipient to be used as a revolving fund for rental assistance payments made where reimbursement by the County would not be immediately made. The advance was not supported by actual costs of the subrecipient. The County was reimbursed from HUD for the \$10,000.

At the end of the grant period, the subrecipient reduced the final reimbursement request to the County by \$10,000.

Cause of Condition

County staff responsible for administering reimbursement requests of the subrecipient was not familiar enough with requirements for allowable activities, and cost principles applicable to federal grants and followed a long-standing practice to provide the subrecipient an advance at the beginning of the grant period.

Effect of Condition and Questioned Costs

The County was reimbursed for the \$10,000 advance from the grantor, which is not related to a specific cost objective and unallowable. We are questioning this amount.

Recommendation

We recommend the County avoid the practice of providing advances to subrecipients and establish and follow internal controls over the Continuum of Care grant to ensure that subrecipient reimbursement requests are for allowable costs and properly supported.

We further recommend the County work with the federal grantor to determine the amounts to be repaid, if any.

County's Response

The County agrees with this recommendation. As a result, the DCHS Community Services Division has updated our internal controls over Continuum of Care funding to ensure subrecipient expenditures are allowable and properly supported. If future advances are provided to the subrecipient, prior approval from HUD will be secured or advances will be disbursed from non-federal funds.

The advance was reconciled at the end of the grant period and all disbursements were supported by allowable, supported expenditures. Therefore, DCHS does not believe there is any amount to be repaid.

Auditor's Remarks

We appreciate the County's commitment to resolving this issue and wish to thank County management and staff for its cooperation and assistance during the audit. We will review the corrective action taken during our next regularly scheduled audit.

Applicable laws and Regulations

Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR Part 200), Attachment A, states in part:

D. Composition of Cost

1. Total Cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable indirect costs, less applicable credits

E. Direct Costs

1. General. Direct Costs are those that can be identified specifically with a particular final cost objective.

Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR Part 200), Attachment B, states in part:

9. Contingency provisions. Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable.

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

Section .510

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs) not just the questioned costs specifically identified (known questioned costs) The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program