

Schedule of Federal Audit Findings and Questioned Costs

Public Utility District No. 1 of Clallam County January 1, 2013 through December 31, 2013

1. The District does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	66.468 Capitalization Grants for Drinking Water State Revolving Funds
Federal Grantor Name:	U.S. Environmental Protection Agency
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Public Works Board
Pass-through Award/Contract Number:	DM10-952-010
Questioned Cost Amount:	\$0

Background

For the fiscal year ending December 31, 2013, the District spent \$570,541 in federal funds received from a Public Works Board Drinking Water State Revolving Fund loan for the Fairview New Water Supply project.

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 (EPLS) issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

Description of Condition

We reviewed the District's internal controls and compliance with regulations over its Drinking Water State Revolving Fund program. The District did not have internal controls to ensure compliance with the suspension and debarment requirements. We consider this control deficiency a material weakness.

Cause of Condition

The District misunderstood the suspension and debarment requirements and believed they did not apply to professional service contracts.

Effect of Condition and Questioned Costs

The District paid an engineering firm \$538,205 for consulting services and did not verify whether the firm was suspended or debarred. 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.

Recommendation

We recommend the District establish and follow internal controls to verify suspension and debarment status of all vendors prior to entering into a contract.

District's Response

The District has traditionally had a decentralized approach to grant management. It is, however, in the process of developing a centralized oversight plan to monitor all grant compliance requirements including federal suspension and debarment requirements.

Auditor's Remarks

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

Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

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

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-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.