

Schedule of Federal Audit Findings and Questioned Costs

**City of Prosser
Benton County
January 1, 2013 through December 31, 2013**

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

CFDA Number and Title:	10.770 Water and Waste Disposal Loans and Grants 66.468 Capitalization Grants for Drinking Water State Revolving Fund
Federal Grantor Name:	U.S. Department of Agriculture, Environmental Protection Agency
Federal Award/Contract Number:	NA DM 11-592-030
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The City spent \$837,336 in federal grant funds during 2013 on three projects using two grant programs. It spent \$223,128 in the Water and Waste Disposal Loans and Grants program and \$606,172 in the Capitalization Grants for Drinking Water State Revolving Funds program.

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 City is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The City 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 City 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.

We reviewed the City's internal control and compliance with the requirements of these programs. The City did not have a process in place to ensure compliance with suspension and debarment requirements with its engineering contracts.

Cause of Condition

The City relied on its engineer to ensure compliance with federal requirements, including suspension and debarment. It was unaware that the required certifications or verifications were required for, and had not been obtained for, its engineer. It became aware of this requirement when the engineer procured a public works contractor and performed the required suspension and debarment checks on EPLS.

Effect of Condition

The City did not obtain verifications or certifications that engineering vendors who were paid \$25,000 or more were not suspended or debarred from doing business with the federal government prior to entering into and paying the engineer. The City later checked the EPLS on July 31, 2013.

- In 2013 the City paid its contracted engineer \$106,771, or 48 percent of total program costs, in Water and Waste Disposal Loans and Grants program. We consider this control deficiency a material weakness.
- In 2013 the City paid its contracted engineer \$137,033, or 23 percent of total program costs, in Capitalization Grants for Drinking Water State Revolving Fund program. We consider this control deficiency a material weakness.

We were able to verify the engineer was not suspended or debarred and, therefore, we are not questioning costs for the payments.

Recommendation

We recommend the City establish and follow internal controls to verify suspension and debarment status of all vendors paid with federal funds prior to entering into a contract.

City's Response

The City of Prosser became aware of this deficiency in July 2013. Accordingly, the City has since added procedures that verify the suspension and debarment status of vendors who are paid with federal funding.

Auditor's Remarks

We appreciate the City's commitment to resolve the finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during the 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 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.