

Schedule of Federal Audit Findings and Questioned Costs

**City of Chelan
Chelan 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:	14.228 Community Development Block Grants/State's Program
Federal Grantor Name:	U.S. Department of Housing and Urban Development, Office of Community Planning and Development
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Commerce
Pass-through Award/Contract Numbers:	12-65400-020
Questioned Cost Amount:	\$0

Description of Condition

The City spent \$490,000 in federal grant funds during 2013 on building renovations.

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 controls and compliance with regulations over its Community Development Block grant. The City did not have internal controls to ensure compliance with the suspension and debarment requirements.

Cause of Condition

The City staff responsible for the grant was unaware that suspension and debarment requirements applied to all vendors receiving \$25,000 or more in federal funds.

Effect of Condition and Questioned Costs

The City paid one vendor \$57,805 for architectural and planning services. The City did not verify whether the vendor was suspended or debarred. This material weakness in

internal controls increases the risk the City 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 cause the City 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 for the payments.

Recommendation

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

City's Response

The City has already begun and will continue to modify and update Professional Service Agreement form to include Service Provider requirements to acknowledge Federal Suspension and Disbarment requirements as a term of the contract in addition to all other Federal requirements.

It should be noted the Federal Excluded Parties List (EPLS) is no longer an available source for reviewing Federal suspension and disbarment of vendors. The City of Chelan did use the new Federal SAM system to check for suspension and disbarment of all other vendors on the CDBG Project of issue, except for the Architect.

Auditor's Remarks

We appreciate the steps the City 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.

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, 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.