

# Schedule of Federal Audit Findings and Questioned Costs

**City of Kent  
King County  
January 1, 2013 through December 31, 2013**

**1. The City did not have internal controls in place to ensure compliance with Federal subrecipient monitoring requirements.**

<b>CFDA Number and Title:</b>	97.042 Emergency Management Performance Grant
<b>Federal Grantor Name:</b>	Department of Homeland Security
<b>Federal Award/Contract Number:</b>	EMW-2012-APP-00071
<b>Pass-through Entity Name:</b>	Military Department
<b>Pass-through Award/Contract Number:</b>	E12-322
<b>Questioned Cost Amount:</b>	\$0

## **Description of Condition**

The Emergency Management Performance Grant (EMPG) program provides resources to assist governments in preparing for all hazards, as authorized by Section 662 of the Post Katrina Emergency Management Reform Act and the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The federal government, through the EMPG program, provides necessary direction, coordination, and guidance, and provides necessary assistance, as authorized to support a comprehensive all hazards emergency preparedness system.

The City received \$104,471 in EMPG funds from the Military Department, which it passed through to the Kent Fire Department Regional Fire Authority (RFA), a separate legal entity, for costs related to the program. The RFA was not eligible to apply for these funds directly. The City has an inter-local agreement with the Kent Regional Fire Authority to provide emergency management services on the City's behalf.

Federal regulations require the City to monitor the RFA to ensure federal funds are used for authorized purposes.

Our audit found the City did not perform subrecipient monitoring as required. We consider this to be an internal control deficiency that is a material weakness.

## **Cause of Condition**

City management considered the grant agreement with the Military Department a three-party grant agreement between the City of Kent, Kent Fire Department Regional Fire Authority, and the State agency and does not consider the City's participation in the agreement to have established its responsibility for subrecipient monitoring requirements.

## **Effect of Condition and Questioned Costs**

The City did not have internal controls in place, nor did it perform subrecipient monitoring activities over the program as required. By not performing the required activities, the City cannot ensure the RFA used program funds in accordance with the grant agreement and federal compliance requirements.

## **Recommendation**

We recommend the City:

- Provide training to personnel to ensure they have an adequate understanding of federal subrecipient monitoring requirements.
- Establish and implement adequate controls to ensure subrecipient monitoring requirements are being met.

## **City's Response**

*The City of Kent concurs that it did not have adequate internal controls in place to ensure compliance with federal subrecipient monitoring requirements with respect to the Kent Fire Department Regional Fire Authority's administration of the Emergency Management Performance (EMPG) award.*

*However, as outlined below, the City does not believe this represents a material weakness. In addition, the City does not concur with certain statements and characterizations included in the audit finding.*

*The City of Kent respectfully requests that the State Auditor's Office confer with the Military Department to authorize its award of these grants directly to Washington regional fire authorities and fire protection districts. A direct award by the Military Department to the Kent Fire Department Regional Fire Authority (RFA) would have prevented this issue in the first place. Further, such action addresses the OMB Circular A-133 requirement that grant recipients and employees performing key grant administrative and financial tasks fully understand the terms and conditions of the award.*

### *State Auditor's Office Material Weakness Determination:*

*The City believes this condition at most qualifies as a significant deficiency, but not as a material weakness. This assessment is based on the relationship between the Grantor*

*Agency (Military Department), the Grantee (the City) and the Sub-grantee (Kent Fire Department RFA), and the extensive monitoring work performed by the Grantor Agency.*

*Key considerations:*

- 1. The Inter-local Agreement effective July 1, 2010 between the City and the Kent Fire Department RFA includes a provision requiring the RFA to, “apply for and manage all disaster recovery grants, Emergency Performance Grants, and other public assistance grants.”*
- 2. The Homeland Security Grant Agreement is a three-party agreement between the Military Department, the City of Kent, and the Kent Fire Department Regional Fire Authority. Typically, there are two separate agreements for sub-grant situations: Grantor Agency and Grantee, and the Grantee and Sub-grantee.*

*In an e-mail dated September 4, 2014 to the Kent Fire Department RFA, the Military Department advised that EMPG awards are for counties, cities and tribes with emergency management programs and, as such, the Military Department only contracts with those entities. Further, the Military Department confirmed that it was aware that the Kent Fire Department RFA was a separate organization (and not a department of the City).*

*Therefore, one of the reasons this was a three-party agreement was because the Military Department was precluded from awarding this grant directly to the Kent Fire Department RFA. Unfortunately, the City was put in the position of having to monitor a federal award the requirements of which it does not have the prerequisite knowledge or experience.*

- 3. The Homeland Security Grant Agreement included the following key provisions speaking to the direct relationship between the Grantee Agency and the Sub-grantee:*
  - Article I Key Personnel defines the sub-grantee as the Kent RFA not the City of Kent and, further, only lists Kent RFA and Military Department personnel.*
  - Article VIII Sub-Grantee Monitoring states, in part, “The Department will monitor the activities of the Sub-grantee from award to close-out.” Further, it states, in part, “Monitoring activities may include, observation and documentation of Grant Agreement related activities, such as exercises, training, funded events and equipment demonstrations.”*
- 4. The Military Department Emergency Management Division conducted a comprehensive monitoring visit at the Kent Fire Department RFA. The City of*

*Kent was not involved in this monitoring visit. The Monitoring Report dated January 2, 2014 included the following key sections:*

- *Monitoring Report Checklist*
- *Authority to Monitor*
- *Monitoring Guidelines*
- *Monitoring General Information, including “Back-up Documentation Requested”*
- *Homeland Security Grant Agreement Face Sheet*
- *Special Terms and Conditions, including identification of key personnel and sub-grantee monitoring*
- *Monitoring Summary and Feedback*

*The following key definitions were included in this report:*

- *“Department” means the Washington State Military Department*
- *“Grantee” means the City of Kent (“government to which a grant is awarded”)*
- *“Subgrantee” means the Kent Fire Department RFA (“government to which a sub-grant is awarded and which is accountable to the Grantee for the use of the funds provided under the Grant Agreement”)*

*The Authority to Monitor section stated, in part, “The State of Washington Military Department Emergency Management Division (EMD), as the federal and state grantee, is charged with the fiduciary responsibility to monitor the activities of sub-grantees from award to close-out, and for the life of any equipment purchased with grant match funds.”*

*The Monitoring Summary and Feedback section stated, in part:*

*There were no major areas of concern for the sub-grantee. Clarifying conversations were had in reference to EHP requirements and equipment requests. We also discussed how submitting reimbursement requests more frequently will provide a better opportunity to monitor their budget and allow for more time to make any budget modifications. This will minimize variance issues at the end of performance period.*

*In summary, while it is correct that the City of Kent has a subrecipient monitoring responsibility with respect to the administration of this grant, the likelihood of non-compliance with any of the remaining 13 areas of federal grant compliance, e.g.*

*reporting, is remote given the Military Department's extensive monitoring of this award. Therefore, the adverse impact of this audit concern is minimal. In fact, as reported by the grantor agency (Military Department) in its Monitoring Report dated January 2, 2014, "There were no major areas of concern for the sub-grantee."*

*Other Observations:*

*The City does not concur with certain statements and characterizations included in the audit finding. Specifically:*

- 1. The report incorrectly states that the Interlocal Agreement only includes emergency management services. Under the terms and conditions of the ILA, the Kent RFA also provides for the City fire prevention and fire investigation services. The ILA also provides that the City provides various services for the Kent RFA, including Civil Service Examiner services.*
- 2. The report incorrectly states the cause of the condition. The underlying cause of this condition was requirement to include the City as a party to the three-party agreement given the extensive involvement of the Military Department in performing subrecipient monitoring activities.*

*In accordance with OBM Circular A-133 requirements, individuals performing key functions with respect to the administration of federal awards must be aware of the federal requirements associated with their duties in administering federal programs. City of Kent personnel do not possess such prerequisite understanding which one of the reasons why the Kent Fire Department RFA administered this program. For example, a Kent Fire Department RFA employee rather than a City employee prepared the grant reimbursement invoices and related support on behalf of the City of Kent.*

- 3. The comment, "City management considered the grant a three-party agreement", is not correct. As outlined above, including as acknowledged in writing by the Military Department, this is in fact a three-party agreement.*

*The City looks forward to continuing to work in partnership with the State Auditor's Office in ensuring that it complies with all requirements governing the administration of federal programs.*

## **Auditor's Remarks**

The State Auditor's Office is committed to working in partnership with the City to ensure the accountability for the use of public funds. During our audit we have considered the information provided by the City and have had communications with the Washington State Military Department. However, the information did not absolve the City of its responsibility to comply with the subrecipient monitoring requirements.

We reaffirm our finding and will review the City's correction action 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*, states in part:

Section .300-Auditee responsibilities.

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.

Section .400, states in part:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

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) General. 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.



## Schedule of Federal Audit Findings and Questioned Costs

**City of Kent  
King County  
January 1, 2013 through December 31, 2013**

- 2. The City's internal controls were not adequate to ensure compliance with Community Development Block Grant Federal Funding Accountability and Transparency Act of 2006 (FFATA) reporting requirements.**

<b>CFDA Number and Title:</b>	14.218 Community Development Block Grant
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Human Services
<b>Federal Award/Contract Number:</b>	B-13-MC-53-0017
<b>Pass-through Entity Name:</b>	None
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

During 2013, the City received \$807,439 of Community Development Block Grant (CDBG) funding provided by the U.S. Department of Housing and Urban Development. The City passed through \$162,175 in grant funds to subrecipients. Grant funding may be used to benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet community development needs having a particular urgency.

The Federal Funding Accountability and Transparency Act of 2006 (FFATA) 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 City did not have sufficient internal controls in place to ensure the fiscal year 2013 Accountability Act reports were filed. The City did not report the two subawards made during the audit period.

### **Cause of Condition**

City staff did not understand the requirement to report subawards over \$25,000 under the accountability act was an on-going requirement. We consider this control deficiency to be a material weakness in internal controls.



## 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 City:

- Provide training to personnel to ensure they have an adequate understanding of federal requirements.
- Ensure required reports are accurately compiled, reviewed and submitted in a timely manner.

## City's Response

*The City of Kent acknowledges that internal controls were not adequate to ensure that data entry into the Federal Funding Accountability and Transparency Act Sub Award Reporting System (FSRS) was completed in a timely manner in accordance with federal requirements.*

*However, as outlined below, the City does not believe this represents a material weakness.*

*The City administers a significant number of new and reoccurring federal programs including those with multiple reporting requirements. The City historically has not had audit concerns in this area.*

*In this case, the City filed the FSRS report for 2011, but not 2012 or 2013. There was one change from the 2011 report: The City funded a second activity for a sub-grantee increasing its grant to \$25,000 for 2013. The City submitted all other HUD required reports associated with the administration of the CDBG program properly and timely.*

*On September 19, 2014 appropriate City personnel attempted to create the FSRS report on the FSRS reporting website. Unfortunately, the system would only allow staff to copy a previous report rather than report new information. City personnel immediately requested assistance from the website's technical assistance team and was told HUD had not entered the required data. The City maintained copies of the technical assistance emails and correspondence with the city's HUD representative as evidence of its attempts to resolve this issue.*

*On September 25, 2014 the City filed the FSRS report.*

State Auditor's Office Material Weakness Determination:

*The City believes this condition at most qualifies as a significant deficiency, but not as a material weakness. This assessment is based on the fact this was one of four reports that are required annually. Specifically:*

- *SF-425 Federal Financial Report.*
- *Integrated Disbursements and Information (IDIS), including the Activity Summary Report and CDBG Financial Summary report.*
- *Consolidated Annual Performance and Evaluation Report (CAPER).*
- *Subaward Reporting under the Transparency Act (FFATA report).*

*The City fully complied with the federal reporting requirements governing all of these reports except the FFATA report. Specifically, all other reports were, and continue to be, submitted in a timely manner. Further, the FFATA report is a duplication of information provided to HUD through the Integrated Disbursement Information System (IDIS). Therefore, the failure to submit this report is not indicative of "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."*

*The City looks forward to continuing to work in partnership with the State Auditor's Office in ensuring that it complies with all requirements governing the administration of federal programs.*

## **Auditor's Remarks**

The State Auditor's Office is committed to working in partnership with the City to ensure the accountability for the use of public funds. The activity subject to the FFATA reporting requirement represents 20 percent of the City's federal expenditures. As a result, in accordance with auditing standards, the identified deficiency represents a material weakness..

We look forward to reviewing the City's corrective action 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 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.

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

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

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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:

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**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.)