

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### Housing Kitsap Kitsap County July 1, 2016 through June 30, 2017

#### **2017-001    The Housing Authority did not have adequate internal controls to ensure it met allowable costs/cost principles requirements for its Rural Self-Help Technical Assistance Program.**

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|--|---|
| <b>CFDA Number and Title:</b>                  | 10.420 Rural Self-Help Housing<br>Technical Assistance  |
| <b>Federal Grantor Name:</b>                   | US Department of Agriculture –<br>Rural Housing Service |
| <b>Federal Award/Contract Number:</b>          | N/A   |
| <b>Pass-through Entity Name:</b>               | N/A   |
| <b>Pass-through Award/Contract<br/>Number:</b> | N/A   |
| <b>Questioned Cost Amount:</b>                 | \$34,714  |

#### ***Description of Condition***

The Housing Authority spent \$1,204,013 in Rural Self-Help Technical Assistance funds in fiscal year 2017. The objective of this program is to help low- and very-low-income individuals and their families to build homes in rural areas by the self-help method.

The Housing Authority's program expenditures consist of both direct and indirect costs. The program was reimbursed \$514,282 (43 percent of program expenses) for indirect costs. Indirect costs charged are based on an indirect cost allocation plan, including several different allocations of administrative payroll, building, vehicle, equipment and training costs.

The Housing Authority did not have adequate internal controls to ensure indirect cost allocations met federal grant requirements for allowable costs.

We consider this deficiency in internal controls to be a material weakness.

This issue was not reported as a finding in the prior audit.

### *Cause of Condition*

Although current staff were not involved with the creation of the Authority's indirect cost allocation plan, staff did not update the plan in accordance with Uniform Guidance. Additionally, Authority management did not adequately monitor and review the plan to ensure it still fit the Housing Authority's changing circumstances.

### *Effect of Condition and Questioned Costs*

The Housing Authority's lack of internal controls resulted in noncompliance with federal allowable cost requirements for indirect costs. We noted the following:

- The Housing Authority's Agency-Wide Indirect Overhead cost pool, the largest of the Authority's indirect cost allocation pools, did not allocate indirect costs equitably to all programs. We identified seven programs that did not have indirect costs from this pool allocated to them. However, indirect costs related to these programs were not removed from the pool, they were simply allocated to other programs.
- Executive Director salary and benefits were included in the amount allocated, which is unallowable. This resulted in known questioned costs of \$34,714.
- Indirect costs allocated from the Agency-Wide Indirect Overhead cost pool over allocated actual costs.
- Employee leave was charged directly to the grant rather than equitably allocated to all areas worked.
- An allocation was made that was not included in the indirect cost allocation plan which is therefore unallowable. This resulted in estimated questioned costs of \$33,497.

Based on the above control deficiencies and noncompliance, we identified total known questioned costs of \$34,714 and total estimated questioned costs of \$33,497. However, because of the complexity of the indirect cost allocation plan and the other deficiencies noted above, additional questioned costs likely exist that have not been identified.

### *Recommendation*

We recommend the Housing Authority strengthen internal controls to ensure costs charged to its federal program meet allowable cost requirements. Specifically, the Housing Authority should:

- Provide training and other resources to its staff members to ensure they understand federal regulations

- Modify how employee payroll and benefits are charged to federal programs to meet federal requirements
- Improve documentation, methodology and support for allocation of indirect costs and re-evaluate these allocations annually

Additionally, the Housing Authority should contact the United States Department of Agriculture Rural Development to determine a reasonable basis for allocating indirect costs and identify and resolve any additional questioned costs.

### ***Housing Authority's Response***

*Housing Kitsap recognizes the importance of correctly accounting for and distributing indirect overhead cost pool allocations and appreciates the hard work performed by the State Auditor's Office. Prior to the audit, our office had identified the indirect overhead cost pool and allocation process as problematic. Corrective action was taken which includes the following:*

- *Worked with Rural Community Assistance Corporation (RCAC) as directed by the United State Department of Agriculture – Rural Development (RD), to identify and analyze solutions that meet USDA and 523 Technical Assistance (TA) grant requirements.*
- *Determined that the agency meets the conditions of 200.414 (f) for a 10% De Minimis indirect cost rate by:*
  - *Never having received a negotiated indirect cost rate;*
  - *State or local governmental department agency that receives less than \$35 million in direct federal funding;*
  - *A Cost Allocation Plan is not required by the Department of Housing and Urban Development (HUD);*
- *Documented the process and elected to use the 10% De Minimis indirect cost rate as allowed by 200.415 (f) to pay for overhead costs that are not directly charged to federal awards. Per 2 CFR Section 200.403 costs will be consistently charged as either direct or indirect costs.*
- *Eliminated the indirect overhead cost pool and cost allocation process.*

*We do not concur that the Executive Director's salary and benefits are unallowable. Per RCAC, the RD's designated technical and compliance advisor, the salary and benefits of an Executive Directors are allowable and are used by most, if not all other 523 TA grant recipients, referencing Uniform Guidance of Parts 400, 415, 416, 418 and 422 to Title 2 of the CFR.*

### ***Auditor's Remarks***

We thank the Authority for its cooperation and assistance throughout the audit, and the steps it is taking to address these issues. Federal law states that salaries and expenses of the chief executive of a local government are not allowed to be charged to the grant. The Executive Director is the chief executive of the Housing Authority. Therefore, under Uniform Guidance, his salary must not be charged. We confirmed this with the awarding agency, USDA.

The Housing Authority cited parts 400, 415, 416, 418 and 422 of Title 2 in their response. While these CFR parts may be applicable to Housing Kitsap's Rural Self-Help Technical Assistance Grant, they do not apply to our audit work and resulting finding, which is grounded in Title 2 part 200 section 444. We reaffirm our audit finding and will review the status of the Authority's corrective action during our next audit.

### ***Applicable Laws and Regulations***

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 303, Internal Controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 444, General Costs of Government, establishes unallowable general costs of a government.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 408, Limitation on Allowance of Costs, establishes guidance on conforming to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 405, Allowable Costs, establishes guidance for which costs are allocable.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 404, Reasonable Costs, establishes guidance on reasonableness of costs.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 403, Factors Affecting Allowability of Costs, establishes guidance on cost principles that affect the allowability of costs.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Rural Development Part 1944 -Housing, Subpart I – Self-Help Technical Assistance Grants, Section 1944.406 *Prohibited Use of Grant Funds*, provides guidance on prohibited uses of grant funds.

Rural Development Part 1944 –Housing, Subpart I – Self Help Technical Assistance Grants, Section 1944.405 *Authorized Use of Grant Funds*, provides guidance on authorized use of grant funds.

Rural Development Part 194 – Housing, Subpart I – Self-Help Technical Assistance Grants, Section 1944-410, *Processing pre-applications, applications, and competing grant dockets*, provides guidance on information required for grant pre-application, application and grant docket including an indirect or direct cost policy and proposed indirect cost rate developed in accordance with 7 CFR Part 3015 and Part 3016.