

**Washington State Auditor's Office**  
**Federal Single Audit Report**

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**King County**

Audit Period  
**January 1, 2010 through December 31, 2010**

**Report No. 1007131**

Issue Date  
**January 30, 2012**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

January 30, 2012

Council and Executive  
King County  
Seattle, Washington

***Report on Federal Single Audit***

Please find attached our report on King County's compliance with federal laws and regulations.

Sincerely,

**BRIAN SONNTAG, CGFM  
STATE AUDITOR**

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# **Executive Summary**

## **King County January 1, 2010 through December 31, 2010**

King County received \$195,016,516 in federal grants in fiscal year 2010. In the attached Single Audit report, we are reporting 14 audit findings related to these grants.

We audited \$128,629,834 in federal money spent by the County and questioned costs of \$10,056,169. We are issuing qualified opinions on six of the 15 programs audited, which means we found one or more specific instances of non-compliance that have a direct and material effect on a major program as outlined in the accompanying Schedule of Federal Findings and Questioned Costs.

Because the County does not have standard processes regarding grant-specific internal controls for all departments and divisions, compliance with federal program requirements is inconsistent. It does not require training for employees working on federal programs.

U.S. Office of Management and Budget Circular A-133 requires grantees that spend \$500,000 or more in federal awards in a year to have a single audit of their compliance with grant requirements and to have an audit report issued within nine-months of year-end. Although we began planning this audit in April 2011, it was not finished prior to the September 30 federal deadline. The delay directly resulted from the County's failure to respond to audit requests completely and in a timely manner. By not meeting the deadline, the County puts future federal funding in jeopardy.

Our current audit reports numerous instances in which the County has not put in place adequate monitoring of, or effective communication with, program staff to ensure it promptly and completely responds to our requests for information needed for the audit. We brought this issue to the attention of Executive Management during this audit and previous audits.

This condition also pertains to finding responses, which we wish to include as part of our official audit reports. When we note audit issues, we discuss them with program staff and department liaisons to determine if they have any information that would affect the results. We also communicate the issues to County management weekly, again to give the County the opportunity to provide additional information.

As we do with all entities we audit when we provide findings, we request the response within seven business days. Responses within seven business days allow for the efficient and timely completion of the audit. We also ask that the County, as we do with all entities we audit, notify us immediately if it believes we have made an error in a finding or has additional information that might affect the finding.

During the current and previous audits, the County consistently has not provided responses within seven business days. In some cases, the response was not provided for more than 30 days. We also found instances in which the County had additional information but included it in its response rather than providing it during our audit work.

In some cases, after we reviewed that information, additional audit work was required to ensure our work was complete and the findings were correct. This delayed completion of the audit and added to audit costs paid by the County. This could have been avoided had the County provided all pertinent information upon request or when it knew additional information was available. Throughout the audit we worked with six departments and experienced significant difficulties with three: Transportation, Public Health, and Community and Human Services. In addition, the Countywide Single Audit Liaison from the Executive Finance Department failed to direct our office to appropriate County staff in a timely manner. The liaison was unsuccessful in interacting with departments to facilitate the timely completion of the audit.

We would like to acknowledge the following departments for working effectively with our office in completing this audit: the Prosecuting Attorney's Office, the Department of Judicial Administration and the Office of Emergency Management.

# Federal Summary

King County  
January 1, 2010 through December 31, 2010

The results of our audit of King County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

## **FINANCIAL STATEMENTS**

An unqualified opinion was issued on the financial statements.

### **Internal Control Over Financial Reporting:**

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

## **FEDERAL AWARDS**

### **Internal Control Over Major Programs:**

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the County's compliance with requirements applicable to each of its major federal programs, with the exception of the Shelter Plus Care Program, HOME Investment Partnerships Program, Federal Transit Capital Investment Grants, Federal Transit Formula Grants Program, ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG), Immunization Grants Program, ARRA - Immunization Grant Program and Child Support Enforcement Program on which we issued a qualified opinion on compliance with applicable requirements.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

**Identification of Major Programs:**

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.557	ARRA - Special Supplemental Nutrition Program for Women, Infants, and Children (Recovery Act)
10.557	Special Supplemental Nutrition Program For Women, Infants and Children
14.218	Community Development Block Grant - Entitlement Grants
14.238	Shelter Plus Care
14.239	HOME Investment Partnerships Program
14.253	ARRA - Community Development Block Grant Cluster - Entitlement Grants (Recovery Act)
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)
16.803	ARRA - Recovery Act Edward Byrne Memorial Justice Assistance Grants to States & Territories (Recovery Act)
20.500	Transit Cluster - Federal Transit Capital Investment Grants
20.507	Transit Cluster - Federal Transit Formula Grants
81.128	ARRA Energy Efficiency and Conservation Block Grant Program (EECBG) (Recovery Act)
93.069	Public Health Emergency Preparedness
93.268	Immunization Grants
93.563	Child Support Enforcement
93.703	ARRA – Grants to Health Center Programs (Recovery Act)
93.712	ARRA - Immunization Grants (Recovery Act)
93.724	ARRA Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement
93.778	Medical Assistance Program (Medicaid)
97.067	Homeland Security Grant Program
97.074	Law Enforcement Terrorism Prevention Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$3,000,000.

The County did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Federal Audit Findings and Questioned Costs

King County  
January 1, 2010 through December 31, 2010

1. **King County's internal controls were inadequate to ensure compliance with federal requirements of its Federal Transit grant programs.**

**CFDA Number and Title:** 20.500 Federal Transit - Capital Investment Grants  
20.507 Federal Transit - Formula Grants (Urbanized Area Formula Program)

**Federal Grantor Name:** U.S. Department of Transportation

**Federal Award/Contract Number:** WA-03-0135, WA-05-0047, WA-03-0236, WA-04-0009, WA-04-0032, WA-04-0014, WA-04-0021, WA-03-0243, WA-05-0051; WA-90-X194, WA-90-X209, WA-90-X219, WA-90-X254, WA-90-X256, WA-90-X321, WA-90-X323, WA-90-X363, WA-90-X377, WA-90-X380, WA-90-X381, WA-90-X405, WA-90-X409, WA-90-X443, WA-90-X455, WA-90-X005, WA-90-X018, WA-90-X027

**Pass Through Agency:** NA

**Questioned Cost Amount:** \$1,478,958 known questioned costs for bus parts and employee payroll;  
\$1,691,527 projected questioned costs for employee payroll.

## Description of Condition

The federal government's transit programs are designed to foster development and revitalization of public transportation systems to maximize safe, secure and efficient mobility to minimize environmental effects and fuel consumption.

The County receives federal awards from Federal Transit Administration (FTA) programs for preventative vehicle maintenance, bus purchases and construction of transit facilities. In 2010, the County spent \$65,174,314 in FTA grant money.

We reviewed six of the 27 contracts with the FTA, which accounted for 89 percent of program expenditures.

## Allowable Costs

Regulations require grantees to maintain adequate documentation to demonstrate they spend federal dollars only for allowed activities and on allowable costs. Recipients must accurately record costs paid with federal funds in an accounting system and use cost

allocation plans consistent with federal requirements to support costs charged to the grants. Auditors must report control deficiencies when an agency's internal controls are not likely to prevent or detect noncompliance.

### Bus Parts

The County charged \$13,079,310 for bus parts, \$1,458,438 of which was sales tax, to its vehicle maintenance grant.

The County does not include the sales tax in the cost of the part when it adds it to its inventory system. It expenses sales tax and charges it to the grant when paid, regardless of whether the part has been used. Federal regulations require that the part must be used on a federal activity before the County can seek reimbursement. Moreover, the County's accounting treatment of immediately expensing the sales tax is not in accordance with Generally Accepted Accounting Principles (GAAP). Therefore, the County's controls are not designed to comply with federal requirements.

### Salaries and Wages

We reviewed payroll to determine whether employee salaries charged to the grant were supported by required time and effort documentation. In 2010 the County charged at least \$39,704,684 in wages to the grant. The County does not have adequate processes to ensure compliance with time and effort requirements.

We found timesheets for employees who entered time into the on-line payroll system were not printed and signed. Although the County lacks a policy requiring on-line timesheets to be printed and signed; signature lines are on the timesheet when printed. Timesheets generated by the system do not identify the users entering information or the approvers. Federal regulations require approval signatures. County management stated some divisions rely on the electronic log-in and password as a signature for the timesheet. The County did not provide a control that allows it to demonstrate only the employee logs in and enters information in the system and that only the appropriate supervisor approves the timesheets.

Further, employees working on only one program objective relied on semi-annual certifications signed by a division manager. The blanket certification did not identify individual employees or which cost objective applied. The certification also references timesheets that covered the time and effort of employees. We determined employees who work on a single cost objective do not complete timesheets. The timesheets only report leave taken. We reviewed transactions totaling \$20,519 for salary and benefit costs for which time and effort records did not meet federal standards. Based on the results of our sample, we project additional costs of \$1,691,527 for which documentation does not meet federal standards.

### **Procurement**

Federal regulations require the County to seek bids for purchases of more than \$100,000. Further, it is to properly publish and distribute notices of criteria and solicitations of proposals; properly evaluate submissions of qualifications to achieve open competition; and ensure all potential contractors receive the same solicitation, information and bid package. The U.S. Department of Transportation programs are subject to provisions of Buy America, which requires all iron, steel and manufactured

goods used in the project to be produced in the United States. The FTA Administrator may grant case-by-case waivers under specific circumstances.

We found in March 2010 the County awarded a one-year, \$1,377,615 contract for bus engine parts, tools and engines. It allowed for four one-year extensions. The winning contractor was not the lowest bidder. The County rejected lower bids from two other bidders even though they had certified compliance with Buy America requirements. The County then sought and received a waiver of the Buy America requirements from the FTA. Once the County received the waiver, it did not re-bid the contract with the changed provision, but awarded the contract to the contractor that had not certified compliance with the requirement, who was also the previous contractor for these parts.

In April 2010 the FTA reviewed the County's procurement processes and reported that the County rejected the other bids without sound business reason.

Although the County has provided documentation regarding changes to the bidding processes related to the Buy America certifications, the documentation does not demonstrate how the County will ensure the appropriate awardees will be selected for contracts in which a Buy America Waiver is sought.

#### **Davis-Bacon Act (Prevailing wage)**

The Swedish Medical Center parking lot construction project was subject to the Davis-Bacon Act, which requires contractors to pay workers federal prevailing wages for projects paid for with public dollars. The County must include clauses regarding this requirement in contracts and collect weekly certified payroll from contractors and sub-contractors. We examined project records and found these clauses were not included in contracts. We reviewed the weekly payroll certifications for June and July and found instances in which the certified payrolls were not collected, were collected monthly instead of weekly, and contractors that submitted statements of no labor performed four and five months after the fact.

#### **Equipment**

Federal regulations require grant recipients to establish and maintain records for equipment purchases exceeding \$5,000 per unit. The records must describe the property; show its serial or other identification number; the source of property; who holds title; the acquisition date; the cost of the property; the amount of federal money used to pay for it; and the location. Regulations also require a physical inventory of equipment acquired with federal grant funds every two years.

The County has controls designed to ensure compliance with physical inventory and property records requirements once the asset is recorded in the fixed asset system. It does not have processes to ensure assets acquired, but not in use, are inventoried and recorded. The County does not create property records with the required elements until the assets are recorded in the fixed asset system. Although the County lacks a policy that would provide guidance to departments on the timing of recording assets in the fixed asset system, the County Department of Transportation's expectation is this will occur within three months of the asset being placed in use. The inventory is performed based on assets recorded in the system. We found instances in which assets were recorded two years after acquisition. This does not meet federal requirements. Real property and equipment subject to federal requirements must be tracked with necessary records when

the County acquires the asset up to the disposition date. Although the County asserted buses are inventoried every two weeks using the Vehicle Maintenance system report, we noted the reports listed the bus number but are not signed to demonstrate review and do not contain information as to whether the bus is active, in maintenance, surplus or missing.

Specifically, we found the County acquired:

- Ten buses in 2008. Property records were not generated until November 2010.
- Thirteen buses in 2009. Property records were not generated until November 2010.
- Thirteen buses in January 2010. Property records were not generated until November 2010.

During our audit we encountered significant difficulties that prevented us from auditing the program efficiently and effectively:

- We requested a list of equipment valued at greater than \$5,000 and subject to equipment requirements. The information initially provided excluded buses, which the County refers to as rolling stock. The value of this equipment is material to the program.
- We discovered a \$6 million reimbursement for buses that was misreported on the 2008 Schedule of Expenditures of Federal Awards (SEFA). This amount should have been reported on the 2010 SEFA.
- The County defines "acquisition date" as the date equipment is put into service, instead of the date it took control of the asset. The County was unable to provide a list of equipment purchases in 2010.
- The County was unable to provide a list of assets by program. Therefore, we were unable to determine if it could account for all assets that are FTA-funded.

## **Cause of Condition**

### **Allowable Costs**

County management believes expensing the sales tax when paid is allowable, regardless of when the bus part is used for the federal program. The County cited GAAP criteria that permits this accounting treatment because these are "rare and unusual" transactions, but this is not a proper interpretation of GAAP.

The County does not have an adequate understanding of payroll time and effort requirements for grants. Although its on-line payroll system was set up to print and sign timesheets, staff did not believe it was necessary to do so. County staff believed the blanket statement for its semi-annual certifications complied with federal requirements.

## **Procurement**

The County does not have an adequate understanding of federal regulations regarding full and open competition requirements for procurement.

Also, it disagreed with the FTA's finding related to the Buy America requirement waivers and related procurement processes.

## **Davis-Bacon**

The County relied on its vendor, which had inadequate controls to ensure compliance with Davis-Bacon requirements. The County did not adequately review the vendor's processes to identify the inadequacies and address them.

## **Equipment**

County staff did not have adequate understanding of federal requirements for property records. Therefore, they did not design adequate controls and maintain timely property records.

In addition, County personnel were not adequately trained to prepare the SEFA and report only expenditures of actual federal awards for bus purchases.

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

The County's inability to provide reliable information and reports for the audit resulted in additional time to plan and conduct the audit. This caused the County to miss its federal single audit deadline of September 30, 2011.

Misstatements in the SEFA affect the auditor's planning and may affect whether coverage of expenditures under audit were adequate to meet standards under federal Office of Management and Budget Circular A-133. Non-compliance with Single Audit Act requirements further jeopardizes the County's ability to receive future federal funds.

Without proper controls over federal requirements, the County cannot ensure compliance.

## **Allowable Costs**

We are questioning costs of \$3.17 million relating to bus parts and employee payroll. This represents 5 percent of total FTA awards. Noncompliance could jeopardize future federal funding and require the County to return money to the grantor.

## **Procurement**

Non-compliance with procurement requirements increases risks that the best value for contracts will not be obtained. Furthermore, the County cannot ensure that all-vendors were given the opportunity and equal access to bid.

## **Davis-Bacon Act**

Non-compliance with the Davis-Bacon Act increases the risk that prevailing wages may not be paid to laborers working on construction projects. This increases risk of liability from claims against the County, contractor liens placed against project assets, and jeopardizes future awards of federal funds.

## **Equipment**

Without adequate asset records, accountability for the federally funded equipment is compromised; grantors may not receive proper notification upon disposal of assets, assets may not be included in required inventories, equipment may be used for purposes not allowed by the grant, or located where needed.

## **Recommendation**

We recommend the County train staff to ensure it understands federal requirements. We further recommend that County establish and follow processes to ensure it:

- Identifies and monitors compliance with FTA program requirements.
- Can support that charges to the program meet federal requirements.
- Receives and reviews certified payroll reports weekly as required for construction projects subject to the Davis Bacon Act.
- Develops and follows corrective action to address findings from audits and program reviews by the grantor.
- Consults with the grantor to determine if any grant funds will have to be repaid.

## **County's Response**

*The County respectfully disagrees with certain elements of this finding, specifically the amount of questioned costs associated with sales tax for bus parts; the requirements for payroll time and effort documentation; and the circumstances surrounding the procurement finding. We agree with the bus parts finding; and partially agree with the equipment finding. Please refer to the following responses by section.*

### *Sales Tax for Bus Parts*

*The County agrees that immediately expensing sales tax is not in accordance with generally accepted accounting principles. Sales tax has been expensed consistently since 1995, due to system limitations. This issue will be resolved with the newly implemented financial system in January 2012. The Auditor's analysis should consider the amount of tax paid on the parts consumed. Bus parts charged to the grant, net of sales tax, were \$11,620,872. The tax rate during 2010 applied by Transit was 9.5 percent, which results in a \$1,103,983 estimate of tax paid ( $\$11,620,872 * 9.5\%$ ). The amount of sales tax actually charged to the grant based on parts purchased was \$1,458,438. This amount minus \$1,103,983 yields \$354,455. We believe the amount of sales tax questioned should be the difference between the estimated and actual charges for sales tax, which would lower the questioned costs to \$354,455.*

## *Salaries and Wages Documentation*

*The County respectfully disagrees with the Auditor's finding regarding its processes to ensure compliance with payroll time and effort requirements. The County asserts that all payroll costs were adequately documented in accordance with federal regulations, as well as County policy and practices, and therefore costs should not be questioned.*

*The County understands the requirements for time and effort reporting in both federal regulations and County policy. For federal awards, the County complies with the applicable sections of 2 CFR Part 225, Appendix B, Section 8(h). Specifically, our charges for salaries and wages are based on payrolls in accordance with agency practices; semi-annual certifications that employees worked solely on the program have been provided; and employees charging to multiple activities must be signed by employees. There is no requirement that the semi-annual certification list individual employees--this was confirmed with Federal Transit Administration Region X Office, and provided to the Auditor. Also, there is no requirement that activity reports must be signed by the supervisor as the Auditor suggests.*

*The auditor was provided time reports for 34 employees, which included written time sheets, electronic self time entry and semi-annual certification documentation. For 13 employees, the written time reports were signed by the employee and supervisor. A separate group of 13 employees utilized the self-time entry process, where the access is controlled by user ID, passwords, and approval is by system hierarchy. Both the employee and supervisor have distinct user ID and authorities within the system. The time for these employees was approved in accordance with county practices. Finally, the remaining 8 employees were covered by the semi-annual certification process. In response to the Auditor's inquiry regarding the requirement that a list of employees accompany the certification, the County confirmed with the FTA Region X Director of Operations and Program Management that the semi-annual certification do not require a list of employees. The semi-annual certification process has been in place for many years.*

*Again the County respectfully asserts that all of these timesheet procedures comply with both 2 CFR Part 225 and County policy and practices.*

## *Procurement for Bus Engine Parts and Tools*

*The County respectfully disagrees with the Auditor's finding relating to Procurement. The County agrees that it received three bids for Caterpillar C-9 bus engine parts and tools solicitation in January 2010. As the Auditor notes, the County rejected the two lowest bids and awarded the contract to the third and final bidder in March 2010. The two lower bids were rejected because both bidders certified in their solicitations that they could comply with the Buy America Act (the Act). The third bidder certified that they could not comply because the parts requested were not all produced in the United States.*

*The Act places the responsibility on the bidder to know and certify to the origin of its products. Due to the differing certifications, the County requested additional information from all three bidders. Specifically, the County requested that they obtain and provide information from the manufacturer showing the origin of their products. The two bidders that certified that they could comply with the Act did not produce information showing the parts were manufactured in the United States. Because their certifications were*

*incorrect, in compliance with the terms of the Act, these two bidders were deemed non-responsive and the County rejected their bids. Because it is a matter of responsiveness under federal regulation, the County must reject non-responsive bids. The third bidder who certified in the original bid that they could not comply with the Act produced information from the manufacturer supporting its certification. The Act also states that once bids are received, a waiver of the Act's requirements can be provided if the product(s) being procured are not available from U.S. manufacturers (49 CFR Part 661.7(c)). After a Waiver of the Buy America Act was obtained, the responsive, responsible third bidder was awarded the contract.*

*FTA procurement regulations and the Buy America Act do not contain a duty to obtain a Buy America waiver and re-procure if components of the procurement are not available from American manufacturers. To do so would harm responsible, responsive bidders—who perform their due diligence and correctly certify compliance or non-compliance with the Act—by placing them at a competitive disadvantage during the re-procurement. Similarly, the Act does not require grantees to perform market research to determine the origin of the products it seeks to procure as suggested by the FTA procurement reviewers in April 2010 (after this contract was awarded). There is no provision in the Act to that effect. That duty is placed on bidders through the Act's certification requirements.*

*The County ensures compliance with federal requirements for FTA funded contracts. When selecting the contractor for award where a Buy America Waiver appears to be appropriate, King County sends these waiver requests to FTA Region X, and follows the directions received in their response.*

*Where waivers are granted, King County proceeds to award a contract to the selected contractor. Where FTA Region X indicates that a waiver was not needed, King County followed their direction. In this case, the FTA granted a Buy America waiver by letter on March 15, 2010, which allowed the County to proceed with awarding the contract.  
Davis Bacon (prevailing wage)*

*The County agrees with the finding that the Davis Bacon Act's prevailing wage language was inadvertently left out of the specific federal provisions in the construction contract between Swedish Medical Center (SMC) and their Contractor on the project. SMC's contract with the Contractor, however, specifically referenced and incorporated copies of federal circulars such as 5010.1D that clearly state Davis Bacon applies to the project. SMC and its Contractor were both aware that Davis Bacon applied to this project and SMC worked with the Contractor to ensure that the Contractor was complying with the Act. SMC supplied the auditor with its tracking spreadsheets and documentation of certified payrolls from the Contractor's sub-contractors. Out of 989 separate documented payrolls, SMC was unable locate only two documents. It is clear that in both intent and action that SMC and its Contractor attempted to comply with the Davis Bacon Act.*

*With regard to collecting payrolls less than weekly, the County acknowledges that some of the certified payroll records were submitted less than weekly by the Contractor's sub-contractors. The County notes, however, that there is no enforcement mechanism in the Davis Bacon Act if payroll information is not submitted weekly. The common practice is to withhold payment if a contractor has not submitted certified payroll. Because pay applications from contractors are usually submitted monthly, there is no mechanism to force contractors to comply weekly other than reminders from the project manager.*

*Further, if a contractor is not working on the job during any given period, they have no pay application from which to withhold payment until they submit their statements that no labor was performed. Although the County acknowledges that some of the sub-contractor documents were not submitted within the timeframe provided for in the Act, during the course of the project, no payments were made to sub-contractors without the certified payroll documentation.*

*County staff met with SMC's project manager during the course of the project and spot-checked the certified payroll records. Unfortunately, the spot check did not un-cover the two missing documents.*

*Finally, King County's Grant staff worked with the King County Prosecuting Attorney's office in November 2008 to review and update the contract clause templates used in agreements involving FTA funds to ensure that all relevant FTA clauses, including the Davis Bacon Act, were contained in these agreements. The County will put in place an annual review of these templates to ensure their accuracy and confirm the verbiage is up to date.*

#### *Equipment*

*The timing of capitalization relative to an asset being put into service is an area that has been noted in previous audits and Transit has taken steps to improve the process. The County agrees in part with this finding as the County does not record assets into the fixed asset system until they have been constructed and put into service. When purchased, a bus is added to the fleet management system in order to track activities associated with getting the bus ready for service. All buses are inventoried every two weeks using the information in the fleet management system and the vehicles on hand.*

*During the course of the audit, agreement could not be reached regarding a definition of 'acquisition date'. In response to auditor questions, extensive research was done to attempt to identify a standard definition. No such standard definition could be found. The county records the acquisition date as the date that an asset is placed into service. In the case of the buses identified in this finding, in most instances, the acquisition date is the date that the vehicle went into service and not the purchase date. In general, vehicles are put into service during a service change when fleet assignments are revised. As a result, several months can pass between the purchase date and the acquisition date (in service date) recorded in the fixed asset system.*

#### *Significant Difficulties Encountered*

*We respectfully disagree with the Auditor's description of why significant difficulties were encountered during the review of this grant program. Throughout the audit process, the County provided the information specifically requested, and if not what the auditor needed, attempted to clarify the request for information to provide documentation. The County also provided access to appropriate staff to ensure the auditor could complete the work. This year, DOT grants staff received, tracked and responded to over 200 information requests from the audit team, with an average response time between two and three working days. Excessive amounts of time were spent on Period of Availability and Program Income, meeting and discussing these two requirements, which ultimately were removed from the final report. Additionally, contracts were gathered for testing of bus part purchases in mid-August. The contracts, however, were not reviewed by the Auditor, who informed the County on August 24<sup>th</sup> that the Auditor would not be testing*

*bus parts. After subsequent meetings between County and Audit managers to discuss the draft audit finding and the reasons for delay, the testing of bus parts and contracts resumed in mid-November, ultimately resulting in a reduction of \$13 million in questioned costs to \$1.4 million of sales tax. Contracts for bus parts were requested by Audit staff on December 5 and made available the next day. The contract review was completed in January 2012. County staff was readily available throughout this audit.*

#### *Federal Requirements Training*

*The County's Grants Financial Administration unit offers centralized oversight and direction over the administration of the County's grant and assistance program operations. The unit provides technical and analytical expertise on federal grants requirements, information and advice, access to resources and provides training opportunities countywide. This countywide training program provides agency staff with in-depth A-133 federal compliance requirement information via monthly training meetings and a variety of other forums. These forums include audio conferences (presenters are industry experts), annual State Auditor's Office-conducted training, discussions at quarterly Finance Managers' meetings and phone technical assistance by the Grants Financial Administration Unit.*

*In 2010, there were 11 training sessions with an average attendance of 18 per session (198 attendees annually). In 2011, there were 10 training sessions with an average attendance of 20 per session (200 attendees annually).*

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

We reaffirm our finding. Although we completed our work in time to meet the federal reporting requirement, the County provided additional information after the deadline. Although the County made information available in December, it did not provide all information requested for the audit until January 2012. The FTA has disagreed with the County's interpretation of the intention of the Buy America Act. Further, the County has more than 120 federal programs, which are administered by hundreds of staff members. We have found the same staff members attend repeatedly, therefore it would not be appropriate for the County to assert that 198 individuals attended the training.

#### **Applicable laws and Regulations**

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR 225), states in part:

Appendix A, Section C(1)

To be allowable under Federal awards, costs must meet the following general criteria:

b. Be allocable to Federal awards under the provisions of this Circular . . .

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items . . .

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

j. Be adequately documented.

#### Appendix B, section 8

d. Fringe benefits.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

h. Support of salaries and wages.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will

be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.

Appendix B, section 26, *Materials and supplies costs*

a. Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable.

b. Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies cost.

c. Only materials and supplies actually used for the performance of a Federal award may be charged as direct costs.

d. Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.

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

Section 105: definitions.

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

(1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;

(2) Where the costs, at the time of the audit, are not supported by adequate documentation; or

(3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Section 300: The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

(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.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §\_\_\_310.

(e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by §\_\_\_320(a) are granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.

(f) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with §\_\_\_315(b) and §\_\_\_315(c), respectively.

U.S. Code, Title 41 Public Contracts, Chapter 7, Office of Federal Procurement Policy, Section 403-Definitions, states:

(11) The term "simplified acquisition threshold" means \$100,000.

Code of Federal Regulations Title 49, Part 18, *Uniform Administrative Requirements For Grants And Cooperative Agreements To State And Local Governments*, states in part:

Section 18.36 – Procurement:

(b) Procurement standards.

(8) Grantees and subgrantees will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.

(c) Competition.

(1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of section .36 . . .

(3) Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations:

(i) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description shall not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured, and when necessary, shall set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a "brand name or equal" description may be used as a means to define the performance or other salient requirements of a procurement. The specific features of the named brand which must be met by offerors shall be clearly stated; and

(ii) Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

(4) Grantees and subgrantees will ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, grantees and subgrantees will not preclude potential bidders from qualifying during the solicitation period.

(d) *Methods of procurement to be followed*—(1) *Procurement by small purchase procedures.* Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11)

(currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. (2) Procurement by *sealed bids* (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price....

Section 18.32 - Equipment:

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Title 29, Code of Federal Regulations, Parts 3 and 5, state in part:

Section 3.3(b):

Each contractor or subcontractor engaged on the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period.

Section 5.5:

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in Sec. 5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, Provided, That such modifications are first approved by the Department of Labor):

(1) Minimum wages . . . (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics....

FTA C 5010.1D, GRANT MANAGEMENT REQUIREMENTS, Chapter 1 section 5: definitions, states in part:

s. Equipment: An article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5,000. Includes rolling stock and all other such property used in the provision of public transit service.

# Schedule of Federal Audit Findings and Questioned Costs

King County  
January 1, 2010 through December 31, 2010

**2. King County's internal controls were inadequate to ensure compliance with requirements of its Shelter Plus Care Grant.**

<b>CFDA Number and Title:</b>	14.238 Shelter Plus Care
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development (HUD)
<b>Federal Award/Contract Number:</b>	WA0033C0T000801, WA0034C0T000801, WA0033C0T000802, WA0034C0T000802, WA01C500001
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$5,267,583

### Background

The Shelter Plus Care program provides rental assistance to homeless persons with disabilities and their eligible family members. The County charged \$5,592,394 to this grant during 2010 for rental assistance and administrative expenses: \$5,264,363 in rental assistance and \$323,271 in administrative costs.

The County relies on a subrecipient to administer the program. The subrecipient contracts with 14 organizations to provide direct services.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of grant requirements and monitoring of program activities.

### Description of Condition

We found the County did not have adequate internal controls to ensure compliance with the following grant requirements. The period of availability has significant deficiencies in controls; the remaining compliance requirements noted below have material weaknesses in controls:

### Activities Allowed and Cost Principles

Shelter Plus Care grants may be used to pay rental assistance and to pay for administrative costs. This grant money may not be used for rental assistance or operating costs that are paid for through any other HUD rental assistance program. The County did not have a process to ensure that no other HUD programs provided rental assistance to the units receiving Shelter Plus Care rent support. The County does not

have supporting documentation to demonstrate it complied with this requirement. As a result, we were unable to audit compliance and are questioning rental assistance charges to the program totaling \$5,264,363.

### **Matching**

A grantee must provide or ensure the supportive services, such as food bank, mental health and chemical dependency treatment provided to participants are at least equal in value to the total amount of rental assistance funded by HUD. The supportive services may be newly created for the program or already in place, and may be provided or funded by other federal, state, local, or private programs. Only services that are provided after the execution of the grant agreement may count toward the match. The County relied on its subrecipient to ensure compliance with this matching requirement. However, the subrecipient verifies only 10 percent of participants met the matching fund requirements on a 16-month rotation. This leaves the remaining 90 percent of participant match to be determined by the County. The County does not have processes to ensure compliance with this requirement, and does not have documentation to demonstrate the matching requirement was met.

### **Period of Availability**

Each grant agreement with HUD specifies when the funds must be obligated and spent. The County is responsible for ensuring the funding is used only during this period and for allowable activities and costs. The County did not have a process to ensure the funds were used within the allowable time period. We found most costs charged to the program were made through the subrecipient. To ensure no service lapse occurs, the County sets up the subrecipient contract to begin two weeks prior to the funding period. We found \$3,220 reimbursed to the subrecipient for administrative costs that were incurred prior to period of availability.

### **Subrecipient Monitoring**

The County is responsible for monitoring the subrecipient's use of federal awards through reporting site visits, regular contact or other means to provide reasonable assurance that the subrecipient complies with program requirements. The County performs an on-site visit at the subrecipient every other year. It did not perform a site visit in 2010. The County annually attends the subrecipient's site visits to three of the 14 agencies with which it has contracts and reviews how the subrecipient monitors. The subrecipient reviews only 10 percent of participant files for compliance purposes. No one reviews the remaining 90 percent.

The County's subrecipient determines who is eligible for the program. An eligible person must be homeless, very low-income, and have disabilities as defined by federal regulation. Eligibility is to be determined by obtaining signed applications that contained information on income, expenses and rent; and, when appropriate, third-party verifications or documentation of that information. The County did not monitor the subrecipient, outside of the three agency site visits, to ensure the sub-recipient correctly determined eligibility of the participants, and therefore could not ensure only eligible people were receiving the rental assistance.

The County relies on the subrecipient to ensure compliance with the rent reasonableness requirement. The County stated it monitors subrecipient compliance with this requirement during its visit to the subrecipient. The County did not do so in 2010 because it did not perform a site visit.

During our audit we found the County does not retain documentation of the monitoring of its subrecipient. The County gives all documentation to the sub-recipient; therefore the County is not maintaining records of its monitoring activities.

### **Rent Reasonableness**

HUD provides assistance only for a unit for which the rent is reasonable. It is up to the County to determine if rent is reasonable by comparing it to rent for similar units. The County relied upon its subrecipient to ensure this requirement was met for the units provided through the contract agencies and the 36 units for which the subrecipient is the owner. The County did not ensure the subrecipient met this requirement.

### **Housing Inspections**

The grant requires the County to perform an initial physical inspection of each unit to ensure it meets housing quality standards before assistance is paid. It also requires an annual inspection of each unit. County staff responsible for the inspections was not trained in how to do them, did not retain the documentation of inspections and were not monitored by the County.

### **Cause of Condition**

The County relied upon its long-term relationship with the subrecipient to ensure compliance with this grant.

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

We were unable to test compliance with the provision requiring no other HUD program provided rental assistance to the units receiving Shelter Plus Care rental support because the supporting documentation provided by the County does not demonstrate compliance with this requirement. The County was reimbursed for costs it incurred outside the grant's period of availability. This could jeopardize future grant funds. We are questioning \$5,267,583 of expenditures related to this program.

### **Recommendation**

We recommend the County establish and follow controls to ensure:

- Rental assistance is provided only to units that receive no other HUD rent support.
- Compliance with program matching requirements.
- Charges to the program are within the specified time period.
- Adequate monitoring of its subrecipient annually.
- Rent does not exceed the federally specified limits.
- Work with the granting agency to determine if any grant funds will have to be returned.

- We also recommend the County maintain its own documentation to demonstrate compliance with federal and state regulations and provide training to staff responsible for performing the housing quality inspections and monitor those staff.

### **County's Response**

*While we agree that the County's internal controls may be improved to ensure full compliance with the applicable Shelter Plus Care (SPC) program regulations, we respectfully disagree that the conditions described by the SAO adequately supports the finding which questions the entire cost of the program.*

*Under Description of Condition on Activities Allowed and Cost Principles, it states that the County did not have a process to ensure that no other HUD programs provided rental assistance to the units receiving SPC rent support. This is a potential duplication of rent subsidy issue that the low-income housing funders and providers are aware of. In addressing this issue, the County adheres to the industry-wide practices of including provisions in the SPC agreement with the landlord against duplication of subsidy; and reviewing A-133/financial audit reports, where applicable. These standard practices help ensure that rental assistance is not duplicated.*

*We believe that the risk of rental assistance duplication is relatively low and it is impractical and not cost effective to impose additional controls to address this risk. We will, however, improve the existing controls by requiring landlords to certify, annually, that they have not received other rental assistance for the units with SPC support.*

*With respect to the Description of Condition on other grant requirements including Matching, Period of Availability, Subrecipient Monitoring, Rent Reasonableness, and Housing Inspection, we generally agree that our monitoring efforts may be strengthened. However, we believe that our monitoring of subrecipient compliance must continue to be carried out on a sampling basis due to resource limitations. Except for the required housing inspections which must be conducted annually, we will formalize our other compliance monitoring procedures to ensure that qualified staff conduct and document their monitoring visits in a consistent and acceptable fashion, and that the results of their monitoring visits are reviewed by a knowledgeable supervisor to ensure compliance with the applicable grant requirements. We will also contact HUD to seek their advice on the acceptable sampling size for purposes of confirming the required match, to obtain their input on our new monitoring procedures, and to determine if any of the questioned costs need to be repaid.*

### **Auditor's Remarks**

We reaffirm our finding. We look forward to reviewing the County's corrective action during our next audit.

### **Applicable Laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities, 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

U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR 225), states in part:

Appendix A, Section C

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

j. Be adequately documented.

Title 24, Code of Federal Regulations, Section 85.23, states in part:

Period of availability of funds.

(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

OMB Circular A-133, Part 3, Section M, states in part:

A pass-through entity is responsible for:

During-the-Award Monitoring – Monitoring the subrecipient’s use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Title 24 Code of Federal Regulations, Section 582.105 - Rental assistance amounts and payments, states in part:

(a) Eligible activity. S+C grants may be used for providing rental assistance for housing occupied by participants in the program and administrative costs as provided for in paragraph (e) of this section, except that the housing may not be currently receiving Federal funding for rental assistance or operating costs under other HUD programs. Recipients may design a housing program that includes a range of housing types with differing levels of supportive services. Rental assistance may include security deposits on units in an amount up to one month's rent.

Title 24, Code of Federal Regulations, Section 582.110 - Matching requirements, states in part:

- (a) Matching rental assistance with supportive services. (1) To qualify for rental assistance grants, an applicant must certify that it will provide or ensure the provision of supportive services, including funding the services itself if the planned resources do not become available for any reason, appropriate to the needs of the population being served, and at least equal in value to the aggregate amount of rental assistance funded by HUD. The supportive services may be newly created for the program or already in operation, and may be provided or funded by other Federal, State, local, or private programs in accordance with 42 U.S.C. 11403b. This statute provides that a recipient may use funds from any source, including any other Federal source (but excluding the specific statutory subtitle from which S+C funds are provided), as well as State, local, and private sources, provided that funds from the other source are not statutorily prohibited to be used as a match.
- (2) Only services that are provided after the execution of the grant agreement may count toward the match.
- (3) It is the responsibility of the recipient to ensure that any funds or services used to satisfy the matching requirements of this section are eligible under the laws governing the funds or services to be used as matching funds or services for a grant awarded under this program.

Title 24, Code of Federal Regulations, Section 582.305 - Housing quality standards; rent reasonableness, states:

- (a) Housing quality standards. Housing assisted under this part must meet the applicable housing quality standards (HQS) under Sec. 982.401 of this title--except that Sec. 982.401(j) of this title does not apply and instead part 35, subparts A, B, K and R of this title apply--and, for SRO under Sec. 882.803(b) of this title. Before any assistance will be provided on behalf of a participant, the recipient, or another entity acting on behalf of the recipient (other than the owner of the housing), must physically inspect each unit to assure that the unit meets the HQS. Assistance will not be provided for units that fail to meet the HQS, unless the owner corrects any deficiencies within 30 days from the date of the lease agreement and the recipient verifies that all deficiencies have been corrected. Recipients must also inspect all units at least annually during the grant period to ensure that the units continue to meet the HQS.
- (b) Rent reasonableness. HUD will only provide assistance for a unit for which the rent is reasonable. For TRA, PRA, and SRA, it is the responsibility of the recipient to determine whether the rent charged for the unit receiving rental assistance is reasonable in relation to rents being charged for comparable unassisted units, taking into account the location, size, type, quality, amenities, facilities, and management and maintenance of each unit, as well as not in excess of rents currently being charged by the same owner for comparable unassisted units. For SRO, rents are calculated in accordance with 24 CFR

Title 24, Code of Federal Regulations, Section 582.300 General operation, states in part:

(d) Records and-reports.

(1) Each recipient must keep any records and, within the timeframe required, make any reports (including those pertaining to race, ethnicity, gender, and disability status data) that HUD may require.

# Schedule of Federal Audit Findings and Questioned Costs

**King County**  
January 1, 2010 through December 31, 2010

3. **The County does not have controls to ensure compliance with activities allowed and allowable cost principles for grants operated by the Public Health Department.**

<b>CFDA Number and Title:</b>	10.557 Special Supplemental Nutrition Program for Women, Infants and Children (WIC) 93.069 Public Health Emergency Preparedness Grant 93.268 Immunization Grants 93.712 ARRA - Immunization 93.703 ARRA - Grants to Health Center Programs 93.724 ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) 93.778 Medical Assistance Program 93.283 Centers for Disease Control and Prevention Investigations and Technical Assistance
<b>Federal Grantor Name:</b>	U.S. Department of Health and Human Services U.S. Department of Agriculture
<b>Federal Award/Contract Number:</b>	C14961, 1U58DP002422-01, 1U58DP002423-01
<b>Pass-through Entity Name:</b>	Department of Health Department of Social and Health Services
<b>Pass-through Award/Contract Number:</b>	C14961, 75211200, N13255, H8BCS11886, C81CS13768, DSHS 0963-53331, 0563-75892-02
<b>Questioned Cost Amount:</b>	\$1,572,112

The questioned costs consist of the following programs:

93.069 Public Health Emergency Preparedness Grant - \$153,329  
 93.268/93.712 ARRA - Immunization Cluster - \$250,887  
 93.703 ARRA - Grants to Health Center Programs - \$16,038

- 93.724 ARRA - Prevention and Wellness -  
Communities Putting Prevention to Work  
Funding Opportunities Announcement  
(FOA) - \$143,259
- 93.778 Medical Assistance Program -  
\$451,990
- 93.283 Centers for Disease Control and  
Prevention Investigations and Technical  
Assistance - \$556,609

## **Description of Condition**

Federal regulations require recipients of federal grants to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of grant requirements and monitoring of program activities.

We audited the following federal programs administered by the King County Department of Public Health: Women, Infants and Children nutrition program, Public Health Emergency Preparedness, Immunization, Grants to Health Centers, Prevention and Wellness, and Medical Assistance Programs. The County charged a total of \$31,123,671 to these programs in 2010.

We first identified the material weaknesses listed below in our 2009 audit. In 2010 we found they continued.

### ***Benefits***

The County charges employee benefits, such as retirement and medical and dental insurance to its grant programs. Benefits reimbursed to the County for these grants were \$14,101,831. This is an allowable cost so long as the amount charged to each grant is fair and equitable. The County relies on an automated monthly calculation and does not have processes to ensure the calculation is correct. Initially the County was unable to demonstrate how this calculation ensured charges to the program were appropriate. To determine benefit rates, the County asserts it aggregates all individual benefit costs each month and then divides this amount by the year-to-date actual salary costs of all employees by project and program. At the end of the audit, three months after our initial request for the calculation the County was able to provide the formula. As a result we were able to audit the calculation and verify the charges made to each program were fair and equitable and met federal requirements; therefore we are not questioning these costs.

### ***Paid Time Off***

The County charges paid time off for its employees, such as vacation, sick leave, holidays and jury duty to its grant programs. At the end of the year the County allocates employee paid time off based on actual hours worked by project on a percentage basis. For example, if an employee works a total of 2,000 hours, spending 1,000 on project A, 800 on project B and 200 on project C; the paid time off for the year charged to each project would be 50 percent, 40 percent and 10 percent respectively. While this methodology is reasonable, the County does not periodically ensure its automated calculation is working correctly. During the audit the County attempted to provide the formula for the calculation; however, when we applied it to 19 employees we found none

of the recalculated amounts agreed to the actual charges. Ultimately the County was not able to provide the formula for the allocation that would enable us to audit the charges made to each program to ascertain they are fair and equitable and meet federal requirements.

### **Cause of Condition**

The County did not retain adequate support to demonstrate its allocation was accurate and allowable. In addition, the County determined it has dedicated sufficient resources to this area.

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

If the system of allocating costs is not reviewed or monitored, the County cannot ensure costs charged to multiple programs are adequately supported. This could jeopardize future funds under these grants. We are questioning \$1,572,112 for paid time off to these programs. The grantor could seek repayment of any questioned amounts.

### **Recommendation**

We recommend the County establish and follow internal controls to ensure benefits and paid time off charges to grants are accurate, allowable and adequately supported. In addition, we recommend the County provide information associated with the allocations in a manner that allows the information to be audited to ensure compliance.

### **County's Response**

*Public Health – Seattle and King County (PHSKC) partially concurs with the finding. PHSKC has partnered with the Finance and Business Operations Division of King County Executive Services, the owner of the County payroll and general ledger systems, to develop a more systematic method of monitoring the benefit and PTO calculation for PHSKC projects. Additionally effective January 1, 2012 the County will implement new payroll and financial systems that will change the benefit and PTO allocation methodologies.*

*PHSKC strongly disagrees with the State Auditor's Office (SAO) presumption that past monitoring of PTO system controls warrants questioning 100% of the PTO costs distributed by the system to employees with multiple cost objectives. PHSKC believes, through testing a sample of employee payroll records from 2010, that substantially all PTO expenses are properly distributed. PHSKC will engage additional staff to analyze the allocation of PTO calculation for 2011, which will provide sufficient internal controls support, effectively addressing this issue.*

*PHSKC acknowledges that the allocation methodology for benefits and paid time off, have not been modified in years, and that staffing resources for these processes are limited.*

*In response to the auditor's representation of the length of time to provide the calculation, the County did provide to the auditor the calculation of the allocation of benefits, on multiple occasions. In mid-August (23<sup>rd</sup>), the County provided the auditor with a re-calculation of the benefits allocation by month to all projects, Federal and non-*

Federal, to within a 0.129% difference, or approximately \$40,000 of the total allocated benefits of approximately \$31 million. The second calculation provided in early September (3<sup>rd</sup>) was by project and was to within 0.025% or approximately \$4,000 of the benefits allocated to projects selected by the auditor for testing of approximately \$16 million. Finally, in mid-September (15<sup>th</sup>), the final calculation had a forty-six cent difference of the total benefits allocation of approximately \$31 million to all projects. The County believes the initial calculation provided in August was sufficient to demonstrate that benefit allocations to projects were reasonable and met the A-87 requirements.

### **Auditor's Remarks**

The fringe benefits re-calculation provided on August 23<sup>rd</sup> referenced by the County was for the Department of Public Health as a whole. It did not provide the information by project and therefore could not be tied back to the charges to federal programs. During discussions with the County regarding the initial formula provided it was explained to the auditor that the County did not provide the entire formula for the calculation as it would be too time consuming to determine. We reaffirm our finding. We look forward to reviewing the County's corrective action during our next audit.

### **Applicable Laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities, 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

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), states in part:

Appendix B, Section 8(d) Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they

are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

- (4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

# Schedule of Federal Audit Findings and Questioned Costs

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- 4. The County does not have controls to ensure compliance with subrecipient monitoring requirements for grants operated by the Public Health Department.**

<b>CFDA Number and Title:</b>	10.557 Special Supplemental Nutrition Program for Women, Infants and Children (WIC) 93.703 ARRA- Grants to Health Center Programs 93.724 ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) 93.778 Medical Assistance Program
<b>Federal Grantor Name:</b>	U.S. Department of Health and Human Services U.S. Department of Agriculture
<b>Federal Award/Contract Number:</b>	1U58DP002422-01, 1U58DP002423-01
<b>Pass-through Entity Name:</b>	Department of Health Department of Social and Health Services
<b>Pass-through Award/Contract Number:</b>	C14961, 75211200, N13255, H8BCS11886, C81CS13768, DSHS 0963-53331, 0563-75892-02
<b>Questioned Cost Amount:</b>	\$0

**Description of Condition**

We audited the following federal programs administered by the King County Department of Public Health: Women, Infants and Children nutrition program, Grants to Health Centers, Prevention and Wellness, and Medical Assistance Programs. The County charged at total of \$23,884,966.39 to these programs in 2010.

Federal regulations require recipients of federal grants to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of grant requirements and monitoring of program activities. We found the County does not have internal controls in place to ensure compliance with subrecipient monitoring. The control deficiencies represent material weaknesses in controls which resulted in material non-compliance with the requirement.

The County is responsible for ensuring subrecipients who spend \$500,000 or more in federal money in a fiscal year have an audit conducted in accordance with federal Office of Management and Budget (OMB) Circular A-133. The County also is responsible for ensuring subrecipients take prompt corrective action on audit findings.

During the audit, we found the County staff member responsible for ensuring subrecipient monitoring occurred in 2010 no longer was employed with the County. We

worked with the individual that took over these duties until the individual left employment with the County during the audit. At that time, the County notified us we could not rely on the information that had been provided. County management was unaware of the daily staff activities and documentation that would exist over subrecipient monitoring. The County was unable to demonstrate its internal controls over subrecipient monitoring were adequate and operating as intended. Further, since we were not able to rely on information provided, we could not determine compliance with this requirement.

### **Cause of Condition**

Staff turnover and lack of monitoring over staff activities led to the loss of knowledge of grant requirements and the ability to demonstrate internal controls were in place.

### **Effect of Condition**

Without proper controls over subrecipient monitoring, the County cannot ensure subrecipients are spending grant funds for allowable purposes and meeting grant requirements. Noncompliance could jeopardize future federal funding and require the County to return money to the grantor.

### **Recommendation**

We recommend the County:

- Establish and follow internal controls to provide reasonable assurance that subrecipients who spend \$500,000 or more in federal money during a fiscal year have the required audits and take appropriate corrective action on audit findings.
- Cross-train employees to ensure compliance continues in the absence of key staff.

### **County's Response**

*Public Health – Seattle and King County (PHSKC) partially concurs with the finding. PHSKC believes it fully complied with its subrecipient monitoring obligations in 2010, a perspective supported by the absence of any specific instances of non-compliance cited in the State Auditor's Office review of subrecipient files during the audit. Starting in 2011, PHSKC has enhanced its documentation for subrecipient monitoring by utilizing a new electronic tracking system. PHSKC is using electronic spreadsheets that are shared between staff performing these functions on a central network location. The new tracking system will help ensure the continuity of subrecipient monitoring during staff transitions.*

*PHSKC also proactively established a new Controller position and filled this new position in August, 2011. The Controller will provide enhanced monitoring and oversight of compliance functions, including subrecipient monitoring.*

### **Auditor's Remarks**

Federal regulations require the County to have controls to ensure compliance with program requirements. Not having these controls is non-compliance. Further, it is the

responsibility of the County to demonstrate compliance with federal requirements, which it did not. We reaffirm our finding. We look forward to reviewing the County's corrective action during our next audit.

## **Applicable laws and Regulations**

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

### Section .300

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.

### Section .400

A pass-through entity shall perform the following . . .

1. Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year . . . and name of Federal agency . . .
2. Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contract 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 \$500,000 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.

# Schedule of Federal Audit Findings and Questioned Costs

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5. **King County's internal controls were inadequate to ensure compliance with federal requirements for cash management and subrecipient monitoring for the HOME Investment Partnership grant.**

<b>CFDA Number and Title:</b>	14.239 HOME Investment Partnership Program
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	M-07-DC-53-0200, M-08-DC-53-0200, M-09-DC-53-0200, M-10-DC-53-0200
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

## **Background**

During 2011, the County spent \$4,005,876 in federal funds for the HOME Investment Partnership Program. The objectives of the program are to expand housing opportunities for low- and very low-income Americans and to assist state and local governments and the private sector in that effort.

Federal regulations state the County is responsible for managing day-to-day operations of its HOME program. Regulations further state the use of subrecipients to provide services does not relieve the County of this responsibility.

## **Description of Condition**

Our audit found the County does not have sufficient internal controls to ensure compliance with the following requirements. These material weaknesses in controls resulted in material non-compliance with the requirements:

### **Cash Management**

The County requested and received \$1,294,119 of HOME funds for program costs on February 5, 2010; however, the amount drawn was used for program activities which were to be funded by programs other than HOME as identified in the contract between the County and its subrecipient. The other programs were subsequently charged for the costs and the HOME funds were not used until November 30, 2010. At that time the HOME funds were used for two large projects, even though the County made several

additional draws between February and November. Federal regulations require HOME funds be spent within 15 days of a draw or returned to the U.S. Department of Housing and Urban Development (HUD).

Program staff state they contacted HUD about the overdraw in February 2010, and were given permission to keep the funds with the expectation the funds were to be used soon. However, the funds were not used until November 30, 2010. Further, this authorization was not documented at the time. The County provided an email dated August 4, 2011 from HUD; however, the details of the situation were not documented in the email.

Further, the County earned \$9,640 in interest over the 10 months the money was held. Federal regulations require interest earned exceeding \$100 on federal funds be returned to the grantor at least quarterly. The County did not return this to HUD as required, but spent it as HOME program income.

### **Subrecipient Monitoring**

The County is responsible for ensuring subrecipients who spend \$500,000 or more in federal money in a fiscal year have an audit conducted in accordance with federal Office of Management and Budget (OMB) Circular A-133. The County also is responsible for ensuring subrecipients take prompt corrective action on audit findings.

The County collects the audit reports as a part of the annual reporting process which it requires of its subrecipients. The program staff collecting those reports maintains a spreadsheet of the reports to be submitted by project. A project is not included in the spreadsheet until the project is complete. It is not uncommon for projects to span multiple years. The County does not have adequate controls in place to provide reasonable assurance all subrecipients obtain required audits, appropriate corrective action is taken for findings, the effect any subrecipient noncompliance on the County is evaluated and findings are resolved annually.

During 2010 there were 11 projects for this program, of which 2 were completed.

### **Cause of Condition**

#### **Cash Management**

Although the program staff claim they were knowledgeable of cash management requirements they did not comply with them. Program staff did not have documentation to demonstrate the HUD authorization allowing the County not to comply.

#### **Subrecipient Monitoring**

Program staff believed tracking subrecipient audit reports was adequate to satisfy the compliance requirement. However, the County did not recognize the need to have a process in place to collect and monitor the audit reports for its subrecipients with open projects.

## Effect of Condition

### Cash Management

The County held \$1,294,119 of federal funds for 10 months, which is significantly longer than the 15-day use or return requirement. HUD could perceive this as an unauthorized loan, which could jeopardize future funding.

Further, HUD could seek reimbursement of the \$9,640 in interest income.

### Subrecipient Monitoring

Without proper controls over subrecipient monitoring, the County cannot ensure the subrecipients are spending grant funds for allowable purposes and meeting grant requirements. In addition, the County also cannot determine the impact of any subrecipient noncompliance on the County itself.

## Recommendation

We recommend the County:

- Ensure program staff has adequate knowledge of federal program regulations.
- Establish and follow internal controls to ensure compliance with federal grant requirements.
- Improve internal controls to provide reasonable assurance that subrecipients who spend \$500,000 or more in federal money during a fiscal year have the required audits and take appropriate corrective action on audit findings.
- Work with HUD to determine whether repayment of the \$9,640 is required.

## County's Response

*We respectfully disagree with the finding that the County's internal controls were inadequate to ensure compliance with federal requirements for cash management and subrecipient monitoring for the HOME Investment Partnership grant.*

*The Description of Condition for Cash management does not accurately describe that the \$1,294,119 in HOME funds were in fact drawn down to reimburse the County for eligible expenditures incurred on 1/28/2010. In contemplation of a planned reallocation of the project expenditures to other fund sources, the County contacted HUD by phone and received verbal direction that any HOME funds previously drawn (and "freed" up by virtue of expenditure reallocation to other fund sources) may be held by the County and applied toward subsequent HOME grant eligible expenses. The County's records clearly indicate that the HOME expenditure reallocation took place in March and June of 2010, while the HOME funds made available due to the reallocation were fully applied towards two HOME eligible projects in November 2010. We do agree that in addition to HUD's verbal authorization, the County should have requested a follow up written confirmation of HUD's direction that would include sufficient details to avoid any subsequent misinterpretation.*

*In addition, the Description of Condition for Subrecipient monitoring does not take into account the fact that housing finance loan recipients are set up as for-profit entities and are therefore exempt from A-133 audits. Consequently, we do not agree that the projects identified are subject to application of the federal A-133 audit and monitoring requirements.*

*We agree that the County earned interest on the HOME funds made available due to the expenditure reallocation which took place in March and June of 2010. County staff accounted for the interest earnings as HOME program income and fully applied the amount toward eligible program expenditures. We will consult with HUD to determine whether repayment is required under these circumstances.*

### **Auditor's Remarks**

The County's subrecipients for this program are non-profit entities or local governments as follows: Delridge Neighborhood Development, Intercommunity Mercy Housing, King County housing Authority, Red Vines 1, St. Andrew's Housing Group, Vashon House Hold, YWCA of Seattle, King and Snohomish Counties. We reaffirm our finding. We look forward to reviewing the County'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 Auditee responsibilities, 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.

Title 24 Code of Federal Regulations, Section 92.504 Participating jurisdiction responsibilities; written agreements; on-site inspection, states in part:

(a) Responsibilities. The participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually.

Title 24, Code of Federal Regulations, Section 92.502, Program disbursement and information system, states in part:

(c)(2) HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within

the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.).

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

Section .300

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.

Section .400

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

(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.

# **Schedule of Federal Audit Findings and Questioned Costs**

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- 6. The County does not have controls in place to ensure compliance with requirements of its Energy Efficiency and Conservation Block Grant Program.**

<b>CFDA Number and Title:</b>	81.128 ARRA - Energy Efficiency and Conservation Block Grant Program
<b>Federal Grantor Name:</b>	U.S Department of Energy
<b>Federal Award/Contract Number:</b>	DE-EE0000-854
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

## **Background**

The Energy Efficiency and Conservation Block Grant Program is designed to help local governments with strategies to reduce fossil fuel emissions, energy use and to improve energy efficiency. The program is funded for the first time by the American Recovery and Reinvestment Act of 2009.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure program requirements are followed. We found the County did not have adequate internal controls in place to ensure compliance with reporting and recovery act accountability requirements. The control deficiencies represent material weaknesses in controls which resulted in material non-compliance with the requirement.

During 2010, the County had 19 active projects in this program. The County uses two general ledger systems. The projects funded by this grant are accounted for in both systems, depending on which department is managing the project. Seven projects are accounted for in the IBIS system and 12 projects are accounted for in the ARMS system.

King County spent \$1,493,921 in these grant funds in 2010.

## **Description of Condition**

### **Recovery Act Accountability**

Federal regulations require recipients of American Recovery and Reinvestment Act money to establish and follow internal controls to maintain records that identify adequately the source and use of the money.

We found the County staff responsible for the program were unaware of the requirement and therefore did not have a control in place to ensure compliance. Our audit found the County did not comply with this requirement when it coded Recovery Act expenditures to generic project accounts. The County records all costs for a project to a single project code. The expenditures charged to the ARRA grant are only identifiable through a review of the reimbursement requests and the supporting documentation attached in the paper files. This documentation enabled us to determine the costs are allowable and as such we did not question the costs; however, this does not meet the federal government's expectation. As a result, these expenditures were commingled with non-Recovery Act expenditures for two IBIS projects and nine ARMS projects.

### **Reporting**

The County is responsible for submitting a financial report called the "SF-425" to the Department of Energy quarterly. It also must submit expenditure and jobs information to the federal government quarterly as required by Section 1512 of the Recovery Act. We verified the County filed the required reports before each deadline, but found the SF-425 reports were not accurate, complete or supported by accounting records. The program staff responsible for preparing the reports lacked adequate knowledge of how to complete report. Further, no one does a review of the financial reports and Section 1512 reports to ensure the information is complete, accurate and presented in accordance with program requirements.

### **Cause of Condition**

County personnel were not aware that they had to separately track Recovery Act expenditures.

County personnel were not adequately trained to prepare the financial status and the ARRA reports. The financial reports and ARRA reports were not independently reviewed for accuracy prior to submittal.

### **Effect of Condition**

The County did not comply with program requirements. This could jeopardize future funding from these grants.

Failure to accurately report the required information could cause the Department of Energy to inaccurately measure the progress of these projects.

### **Recommendation**

We recommend the County establish internal controls to ensure:

- It tracks Recovery Act expenditures separately in the general ledger for both accounting systems.
- Financial and Recovery Act reports are complete, accurate, and presented in accordance with program requirements.

## County's Response

The County does not agree with the Recovery Act Accountability finding and partially agrees with the Recovery Act Reporting finding. The following is a detailed discussion.

A. Recovery Act Accountability - The County disagrees with the auditor's finding.

County staff is aware of the need to segregate costs and apply them appropriately to federal awards. All project managers responsible for these projects received instructions from the Department of Transportation Grants staff as part of a "roles and responsibilities" document in January 2010. This document detailed how the accounting structure should be established to adequately track expenditures for projects funded by the Energy Efficiency and Conservation Block Grant Program (EECBG).

As stated in the finding, 100 percent of all ARRA expenditures tested were allowable. The detailed accounting transaction records supporting ARRA reimbursement requests enable the county to easily identify ARRA funded project expenses. All ARRA revenues received in both of the County's accounting systems were accounted for in unique ARRA revenue accounts, thereby avoiding co-mingling of funds.

The auditor identified 11 projects as non-compliant with program requirements two in IBIS and nine in ARMS). Both IBIS projects and seven of the nine ARMS projects identified by the auditor used unique project numbers and/or accounting code strings to track ARRA project expenses and revenues. For the remaining two ARMS projects, the ARRA expenses were easily identifiable and documented and the revenues associated with ARRA reimbursement were coded to a unique revenue account that contained only ARRA grant proceeds.

In January 2012, the County is replacing its two legacy financial systems with a new system that has a specific grant accounting component. The new financial system is expected to further enhance the County's capability to track grant revenues and expenses. Following are additional supporting details about specific IBIS and ARMS projects which demonstrate the County's controls to ensure compliance with grant accounting requirements.

### IBIS

In IBIS, both projects funded by the ARRA grant used separate project numbers linked to a three digit grant number established solely for the ARRA grant. Only costs coded with both the unique project number and grant number were eligible for reimbursement. Non-eligible costs were not coded with this combination of grant and project number.

It is common for projects to incur more grant eligible expenses than can be supported by grant proceeds. This practice does not create a problem as the granting agency can only be billed for eligible costs incurred up to the maximum grant amount for the project. This overmatch of expenses is a common grant management practice and can be a useful technique in the event that additional grant funds become available. This overmatching situation should not be considered as commingling.

King County believes that this demonstrates adequate control of Recovery Act expenditures in the IBIS system.

### ARMS

In projects managed by King County Departments on the ARMS system, costs are coded to unique accounting strings, or are tracked by the project manager in separate systems that uniquely identify them as reimbursable ARRA costs.

The following projects had unique project numbers established in ARMS:

- Novelty Hill Road ITS project (100909)
- Energy Efficiency and Conservation Strategy project (M44498)
- Green Schools program (G14231)
- Greenhouse Gas Inventory Project (14096)

In other cases, side systems to ARMS were used to track ARRA expenditures and revenues:

- The Localize Sustainability project (GIS Center) tracks project costs using a unique project number for each project in the Time Reporting System (TRS). Only ARRA eligible costs were billed to this project number. The ARRA revenues were credited back into the ARMS system with the unique revenue account code number set up for ARRA revenues.
- Black River Facility LEED Certification and Lighting Upgrade project - This ARRA funded effort had a unique project number in ARMS to capture project expenses and revenues. The project manager kept a detailed record of ARRA expenses in an excel spreadsheet that were used to charge the grant.

The Hybrid Vehicle Purchase project expenses were coded to a general project number. However the single grant eligible expense is easily identifiable and well documented. The Hybrid Vehicle purchase was a one-time, one payment project completed in 2010, so further action in the general ledger for 2011 is not warranted.

The County will further segregate costs through coding changes for the following two projects:

- The Maleng Regional Justice Center project number and task code contained payments to contractors on this project. Only two of those contractors were eligible for grant reimbursement from the ARRA grant and records of accounting transactions documenting payments to these eligible contractors were used to support reimbursement requests.
- The Energy Efficiency and Sustainability project uses the TRS system to track ARRA funded expenses. TRS has a field with pull-down boxes with a choice to code expenses to the EECBG. This field was established to segregate costs and uniquely identify ARRA charges.

The financial replacement project, ABT will provide the capability to track grant revenues and expenditures. The project will be implemented in January 2012.

**B. Recovery Act Reporting: The County partially agrees with the auditor's findings.**

*The County does agree that the manner in which USDOE systems recorded and reported information makes it difficult to interpret 2010 reports. This is beyond the county's control as they worked closely with USDOE to complete the reports to the complete satisfaction of USDOE. Grant staff provided the auditor with samples of communication with USDOE regarding reporting requirements. We encourage the SAO to discuss this issue with the USDOE directly.*

*King County staff filed timely SF-425 reports in the USDOE PAGE system. USDOE approved every submitted report electronically. On several occasions in 2010, USDOE staff requested that County staff change the way in which reports were submitted. Grant staff provided the auditor with samples of communication with USDOE on this matter. Further, USDOE changed the on-line report format in their PAGE system twice during 2010. These changes make it difficult to reconcile grant data on the reports from quarter to quarter.*

*Accounting records and/or reports from the ARMS and IBIS general ledger systems supported all USDOE reports. These data were used to compile the billings to the USDOE. As previously stated, USDOE staff reviewed and approved all reports. All of these accounting records and reports were supplied to the auditor. County staff was following the direction of USDOE staff and USDOE staff was approving the reports.*

*In 2011, USDOE changed their reporting format to yield more accurate, clear and supportable information. County filed reports continue to be supported by financial reports. The County considers this issue resolved.*

*Regarding the auditor's finding related to review of the financial reports, the detailed accounting records supporting the SF-425 and Section 1512 reports are the billing request documents for the quarter. The billing request documents are compiled and tabulated by one member of the grant staff and then are reviewed, verified for accuracy, and initialed by two other staff members, including the supervisor of the unit. Using the billing information, the electronic forms are completed using the data from the verified accounting records. The County would agree that spot checking the SF-425 and Section 1512 reports could improve the process and will implement that practice immediately.*

### **Auditor's Remarks**

It is the responsibility of the County to demonstrate compliance with federal requirements, which it did not. We reaffirm our finding. We look forward to reviewing the County's corrective action during our next audit.

### **Applicable laws and Regulations**

Title 2, Code of Federal Regulations, Section 176.210, states::

- (a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with

2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.

Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Section 20, states in part:

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) Accounting records. Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

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.

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**7. The County's internal controls are inadequate to ensure compliance with requirements for the Community Development Block Grant Program.**

<b>CFDA Number and Title:</b>	14.218 Community Development Block Grants 14.253 ARRA Community Development Block Grants
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	B-10-UC-53-0001
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

Recipients use Community Development Block Grants money to provide housing and expanded economic opportunities, principally for persons of low and moderate income. During 2010, the County spent \$7,321,421 in federal money under this program.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure program requirements are followed. We found the County did not have adequate internal controls in place to ensure compliance with reporting requirements. The control deficiencies represent material weaknesses in controls which resulted in material non-compliance with the requirement.

The County is responsible for submitting quarterly Federal Financial Reports to the U.S. Department of Housing and Urban Development. During our review of the four quarterly Federal Financial Reports (called the SF-425) showing information for non-American Recovery and Reinvestment Act Community Development Block Grant funds, we noted inconsistencies in the preparation of the reports and were unable to trace all line items reported to the County's supporting documentation.

### **Cause of Condition**

Program staff who prepare the quarterly financial status reports does not have adequate knowledge of the reports to complete them properly. The County's internal controls lack sufficient monitoring and review to ensure federal reporting requirements are accurate and complete.

### **Effect of Condition**

Deficiencies in internal controls resulting in reporting can lead to inaccurate and incomplete information being communicated to the grantor who is relying on the report to make program and funding decisions.

### **Recommendation**

The County should establish internal controls that provide reasonable assurance that federal reports are accurate and complete.

### **County's Response**

*We respectfully disagree with the conclusion that program staff who prepare the quarterly financial status reports do not have adequate knowledge of the reports to complete them properly. This was an isolated incident involving a single employee and does not merit such a sweeping conclusion. After reviewing the work paper provided by SAO to support this audit finding, we believe that the errors found in the four quarterly CDBG financial reports were due to an oversight by a single preparer who mistakenly used the wrong entries from the cash and program income supporting work schedule to prepare the first quarter 2010 report. Since these quarterly reports are cumulative in nature, the errors were carried forward to the subsequent quarterly reports and affected the accuracy of some of the balances reported.*

*We do agree that our internal controls can be improved to provide reasonable assurance that future federal reports are accurately tied to the supporting documentations. We plan to assign a separate fiscal staff to review and verify all completed quarterly reports against their supporting source documents so that any errors found may be corrected prior to submission. Additionally, we are coordinating with the local HUD office to submit corrected quarterly financial reports for 2010.*

### **Auditor's Remarks**

It is the responsibility of the County to demonstrate compliance with federal requirements, which it did not. We reaffirm our finding. We look forward to reviewing the County'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*, states in part:

#### Section 300

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.

Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Section 20, states in part:

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) Accounting records. Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

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King County  
January 1, 2010 through December 31, 2010

8. The County does not have adequate controls to ensure charges to the Prevention and Wellness program grant are supported and within the period of availability.

<b>CFDA Number and Title:</b>	93.724 ARRA Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities
<b>Federal Grantor Name:</b>	U.S. Department of Human and Health Services
<b>Federal Award/Contract Number:</b>	1U58DP002423-01, 1U58DP002422-01
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$41,998

## Background

The objective of the Prevention and Wellness grant is to assist local governments in reducing chronic disease risk factors to prevent and delay chronic disease, promote wellness and better manage chronic conditions. Money is used for programs to increase physical activity, improve nutrition and decrease smoking.

The County spent \$4,235,040 in federal funding on the program during 2010.

Regulations require grantees to maintain adequate documentation to demonstrate that federal dollars were spent only for allowed activities, for allowable costs and during the approved time period. Auditors must report control deficiencies when internal controls are not likely to prevent or detect noncompliance.

## Description of Condition

### Allowable Cost Principles

Our audit found material weaknesses in controls which resulted in material non-compliance with allowable cost principles.

### Salaries and Wages

During our audit, we reviewed payroll transactions to determine whether salaries charged to the grant were supported by adequate time and effort documentation as required by federal regulations. In 2010 the County charged \$1,144,549 in wages to the grant. The County does not have adequate processes in place to ensure compliance

with time and effort requirements. We found the King County Department of Natural Resources & Parks did not maintain timesheets for employees working on the project, resulting in questioned costs of \$35,029.

We also noted four instances in which the time and effort certifications for employees' time charged to the program were not signed by the supervisor as required. The County does not have adequate processes to ensure compliance with time and effort requirements. The County provided alternative time and effort documentation and we excluded these charges from the questioned costs.

### Indirect Costs

The County Public Health Department centrally operates the prevention and wellness program, which includes projects administered by the County Department of Natural Resources and Parks and Mental Health Chemical Abuse and Dependency Services. Each department has indirect rates they apply to direct grant claims. Public Health also charges a separate indirect rate to external contracts and subrecipients. It treated these other internal departments as subrecipients. When examining internal billings between county departments, we noted Public Health overcharged the grant for its indirect charges by \$4,882. Further, the indirect costs charged by the other departments were inappropriately charged to the grant as direct costs.

### **Period of Availability**

We reviewed the County's internal controls and compliance with the period of availability requirements for the program and found significant deficiencies in controls that resulted in noncompliance. The County charged and was reimbursed for \$2,087 in payroll costs incurred before the grant start date of March 19, 2010. The grant agreement did not allow for pre-award charges. Subsequent to our audit, the County reversed these charges to repay the amount in its July 2011 reimbursement request.

### **Cause of Condition**

The County did not have adequate controls in place to ensure:

- Payroll costs charged to the grant were adequately supported and accurate.
- Billings between departments were proper.
- Only expenditures incurred after the starting date of the grant were claimed for reimbursement.

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

Inadequate monitoring of eligible costs along with inadequate documentation to support reimbursement billings resulted in unallowed costs charged to the grant. This could jeopardize future grant funds. We are questioning \$41,998 of expenditures related to this program.

## Recommendation

We recommend the County:

- Improve its processes to ensure charges to the program are adequately supported and meet federal requirements.
- Improve its processes to ensure charges to the program are within the specified time period.

## County's Response

*As noted by the Auditor, a very small fraction of charges to the grant occurred outside the period of availability and these charges were corrected in July 2011. Out of a \$4.2 million grant, 99.95% of the costs charged to the grant were within the period of availability. In addition, Public Health – Seattle and King County (KCPH) does have time and effort procedures and processes in place and will further strengthen these, especially when other County departments are participating as part of the grant project.*

*KCPH concurs with the Auditor's recommendations. On July 21, 2011, the ARRA Communities Putting Prevention to Work (CPPW) program managers reiterated previous communications and provided training to the Department of Natural Resources and Parks (DNRP) about the necessity of tracking (with supervisor concurrence) time and effort expended on Federal Contracts and Grants. To ensure future adherence to time and effort requirements, KCPH will require that DNRP send copies of signed/approved timesheets and IBIS monthly financial reports showing the employee hours worked on ARRA projects and amount submitted for reimbursement before funds are transferred. Additionally, the program manager is checking all timesheets before they are paid to ensure all time paid is within the effective dates of all grants.*

*In 2011, two ARRA CPPW subrecipient monitors were hired to educate, train, and monitor all ARRA CPPW subrecipients, and continue to conduct onsite monitoring reviews. These two employees are actively providing guidance to Public Health staff and all ARRA CPPW subrecipients, project managers, and project monitors on the importance of monitoring project performance period effective dates.*

*Additional training was provided relating to the use of correct accounts for recording of inter-departmental charges, to ensure indirect costs are appropriately charged.*

## Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

## Applicable laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities, 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

U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR 225), states in part:

Appendix A, Section C

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

b. Be allocable to Federal awards under the provisions of 2 CFR part 225 . . .

j. Be adequately documented.

Appendix B, Section 8 – Compensation for personal services

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation...

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Title 45, Code of Federal Regulations, Section 92.23, states in part:

Period of availability of funds.

(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

# **Schedule of Federal Audit Findings and Questioned Costs**

**King County  
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**9. King County's internal controls were inadequate to ensure compliance with requirements of its Child Support Enforcement Grant.**

<b>CFDA Number and Title:</b>	93.563 Child Support Enforcement Grant
<b>Federal Grantor Name:</b>	Administration for Children and Families; U.S. Department of Health and Human Services
<b>Federal Award/Contract Number:</b>	75-1501-0-1-609
<b>Pass-through Entity Name:</b>	Department of Social and Health Services Division of Child Support
<b>Pass-through Award/Contract Number:</b>	2110-80581
<b>Questioned Cost Amount:</b>	\$0

### **Description of Condition**

The Child Support Enforcement program objectives are to enforce support obligations owed by non-custodial parents, to locate absent parents, to establish paternity and to obtain child and spousal support.

During 2010, the County charged \$7,501,415 to its Child Support Enforcement grant. The grant was divided among four County departments. We focused our audit on the two County departments that received the majority of the grant funds: the Prosecuting Attorney's Office and the Department of Judicial Administration.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of grant requirements and monitoring program activities. Federal audit standards require the auditor to report deficiencies in internal controls.

### **Allowable Cost Principles**

We found the Department of Judicial Administration did not have adequate internal controls to ensure compliance with regulations governing allowable uses of grant funds. This is a significant deficiency in controls.

In 2010, the Department of Judicial Administration was reimbursed \$2,442,516 in grant funds for its Child Support Enforcement program. Under its grant agreement, the state reimburses the County for a portion of its costs related to these activities. The amount paid to the Department of Judicial Administration is based on the ratio of child-support pleadings in relation to total pleadings. We found the County was not consistent from month to month on which costs it included or excluded from the reimbursement claim.

The County charged \$8,630 in unallowable activities, such as witness and travel expenses, to the grant.

During the audit, program staff responsible for preparing the reimbursement requests was unable to demonstrate charges totaling \$51,329 for King County Financial Management Services (FMS) were not part of the indirect cost rate charged to the grant. The rate is based on central services costs divided by total direct costs (salaries and wages). Costs included in the indirect cost rate should not be charged to the program as direct costs. The Financial Management services costs were charged as direct charges to the grant which are unallowable. Subsequently the County provided additional information to demonstrate the FMS charges are not part of the indirect cost rate, and therefore are allowable direct charges.

### **Suspension and Debarment**

When a grantee uses federal funds to pay for goods and services, it must ensure the vendors and subrecipients are not suspended or debarred from participating in federal programs. Our prior year audit found the Department of Judicial Administration was not monitoring which of its vendor contracts are funded by the Child Support Enforcement grant and it was not aware it must ensure these vendors are not suspended or debarred. In the current audit we noted that although the County is aware of the requirement, the new process implemented did not operate as intended. This material weakness in controls resulted in material non-compliance with the requirement.

### **Cause of Condition**

Employees lacked adequate training and knowledge to administer the grant. The County did not monitor the program managers adequately to ensure internal controls were in place and effective.

### **Effect of Condition**

Deficiencies in internal controls led to noncompliance with grant requirements that could result in repayment of grant funding or loss of eligibility for future federal awards.

### **Recommendation**

We recommend the County establish adequate internal controls to ensure compliance with federal grant requirements and provide training to employees who are responsible for the use of the funds to ensure they have adequate knowledge of grant requirements.

### **County's Response**

*Judicial Administration (Department) identified and corrected the issues prior to the start of the current audit. The County offers additional comments outlining corrective action already taken as noted below:*

*Consistency issues resulting in the inclusion of unallowable costs were raised as an issue in the 2009 audit. In its response to this, the County stated in part: "To improve consistency with federal claims submissions, as of the July 2010 reimbursement claim and thereafter, the Accounting Supervisor will be trained in the compilation of IVD*

reimbursement claims. Monthly, Department staff will compile the claim and management will review it prior to distribution.” Upon checking with the granting agency after the 2009 audit, the Department was advised that it was not expected to submit any revised reimbursement claims for prior periods. The inconsistencies noted in the current audit occurred prior to the July 2010 claim. An additional inconsistency was discovered in the November and December claim which was the result of misinterpretation of new reimbursement claim forms provided by DSHS. This too was corrected prior to the current audit.

To address suspension and debarment, as the finding states, a new process was implemented subsequent to the prior year audit finding. Along with the new process, employees were provided with adequate training and knowledge to administer the grant. We acknowledge that one vendor contract was identified that did not have the suspension and debarment verification requirement on file prior to the purchase. However, our agency had already identified this omission as part of a periodic review and had immediately corrected it, prior to the current audit. This is an isolated incident.

In summary, of the issues raised above, all were identified and corrected by the Department prior to the start of current audit.

### **Auditor’s Remarks**

We thank the County for its cooperation and assistance during the audit. We reaffirm our finding. We look forward to reviewing the County’s corrective action during our next audit.

### **Applicable laws and Regulations**

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.

Office of Management and Budget Circular A-133, *Compliance Supplement*, March 2009, page 4-93.563-2, states in part:

Awards made under the State program with funding periods beginning on or after October 1, 2003, are subject to the HHS implementation of the A-102 Common Rule, 45 CFR part 92 (Federal Register, September 8, 2003, 68 FR 52843-52844). The State program also is subject to 45 CFR part 95 . . . Both programs are subject to the cost principles under 2 CFR PART 225 – Cost Principles for State, Local, and Indian Tribal

Governments (OMB Circular A-87,) as provided in Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government, HHS Publication ASMB C-10.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), states in part:

Attachment A, Section C(1):

To be allowable under Federal awards, costs must meet the following general criteria:

b. Be allocable to Federal awards under the provisions of this Circular.

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

j. Be adequately documented.

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under Sec. 180.210, and the amount of the contract is expected to equal or exceed \$25,000.

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.

# Schedule of Federal Audit Findings and Questioned Costs

King County  
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10. The County does not have adequate controls to ensure payroll-related costs charged to the Immunization program are supported.

<b>CFDA Number and Title:</b>	93.268 Immunization Grants 93.712 ARRA - Immunization
<b>Federal Grantor Name:</b>	U.S. Department of Health and Human Services
<b>Federal Award/Contract Number:</b>	C14961
<b>Pass-through Entity Name:</b>	Department of Health
<b>Pass-through Award/Contract Number:</b>	C14961, N13255
<b>Questioned Cost Amount:</b>	\$0

## Description of Condition

The Public Health Immunization program is designed to reduce and ultimately eliminate vaccine-preventable diseases by increasing and maintaining high immunization coverage. The program places an emphasis is in populations at highest risk for under-immunization and disease, including children eligible under the Vaccines for Children program.

The Immunization program consists of two parts: discretionary Section 317 immunization grants and Vaccines for Children, which is financed with Medicaid (CFDA 93.778) funding. In 2010, the County did not receive funding for Vaccines for Children.

The intent of the discretionary Section 317 immunization grant program is to supplement, not replace, each grantee's immunization efforts.

Regulations require grantees to maintain adequate documentation to demonstrate that federal dollars were spent only for allowed activities and for allowable costs. Auditors must report control deficiencies when internal controls are not likely to prevent or detect noncompliance.

During our audit, we reviewed payroll transactions to determine whether salaries charged to the grant were supported by adequate time and effort documentation as required by federal regulations. King County Public Health has employees who charge hours to the grant based on biweekly timesheets. The Department also has employees who charge a set amount of hours to the grant each period. These employees do not fill out timesheets. These salaries account for \$191,593 charged to the program, including associated paid leave and benefits. These employees did not complete time and effort certifications as required. The County does not have a process to ensure salaries charged to programs for these employees comply with federal time and effort

requirements. This is a material weakness in controls. The County provided alternative time and effort documentation and we excluded these charges from the questioned costs.

### **Cause of Condition**

Program management was unaware of the federal time and effort requirements for employees that charge all of their time to one program, therefore internal controls over payroll costs were inadequate to ensure charges to the grant were adequately supported and accurate.

### **Effect of Condition**

The County did not comply with federal time and effort requirements for the Immunization grant. Without proper internal controls, the County is at risk of overcharging a federal grant, which could result in repayment to the grantor and jeopardize future federal funding.

### **Recommendation**

We recommend the County implement processes to ensure employees complete adequate time and effort documentation to support expenses charged to the grant.

### **County's Response**

*Public Health – Seattle and King County (KCPH) concurs with the finding. KCPH has strengthened the documentation process used for time and effort semi-annual certifications for employees who work on only one cost objective or spend 100% of their time working on a single federally-funded program. KCPH has also developed time and effort certifications or personnel activity reports for, and a process by which, employees that work on multiple cost objectives or are supported by multiple funding sources certify their time and effort. The program managers for the programs noted in this finding have been reminded of the established procedures and effective September 7, 2011, employees who reported time by exception will also complete effort certifications.*

### **Auditor's Remarks**

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

### **Applicable laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities, 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

U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR 225), Attachment B, Section 8 – Compensation for personal services, states in part:

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non Federal activities;

(2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and

(3) Is determined and supported as provided in subsection h . . .

d. Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee

retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities...

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation . . .

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

# Schedule of Federal Audit Findings and Questioned Costs

King County  
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11. The County does not have adequate controls in place to ensure it charges all obligations to the Emergency Preparedness grant within the specified time period.

<b>CFDA Number and Title:</b>	93.069 Public Health Emergency Preparedness
<b>Federal Grantor Name:</b>	U.S Department of Health and Human Services
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Department of Health
<b>Pass-through Award/Contract Number:</b>	C14961
<b>Questioned Cost Amount:</b>	\$6,991

## Description of Condition

The Emergency Preparedness grant is designed to help recipients upgrade, integrate and evaluate public health departments' readiness for and response to emergencies. The County charged \$5,588,248 to the federal program for 2010.

Regulations require grantees to maintain adequate controls to demonstrate that federal dollars were spent only during the approved time period. Auditors must report control deficiencies when internal controls are not likely to prevent or detect noncompliance.

According to the grant agreement, the grant funding was available from August 10, 2010 through August 9, 2011. The agreement stated the grant would not pay for costs or obligations incurred outside this period of availability. We reviewed the County's internal controls and compliance with this requirement and found 13 expenditures totaling \$6,991 that were incurred before the period of availability starting date. The County's internal controls were not adequate, resulting in significant deficiencies. We noted the Business and Finance Officer:

- Overlooked one day of salaries in the billing that should not be charged to the grant. These salaries should not have been included because they were for hours worked on August 9, 2010.
- Did not know she had to prorate the monthly charges due to the grant period starting 10 days into the month.
- Did not review inter-fund transfers to ensure goods and services were within the period of availability. The transaction date recorded in the County's accounting system for vendor payments and inter-fund transfers is the date the invoice is "paid". However, to meet this requirement, the date a cost is considered

“obligated” is the date when the goods and services are “incurred” (for example, the date supplies and materials are ordered or the date a vendor service is provided).

### **Cause of Condition**

The County’s system of identifying and monitoring the date costs were obligated was not sufficient to meet the requirements of the grant.

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

Without adequate controls in place the County cannot ensure the grant is charged for costs obligated within the funding period. Further, the County received reimbursement for costs that were incurred outside the grant’s period of availability. These funds can be subject to repayment to the grantor.

### **Recommendation**

We recommend the County improve internal controls over period of availability to ensure funds are used within the allotted funding period.

### **County’s Response**

*The questioned costs represent a very small fraction of total grant expenditures (0.125%). This means that out of \$5.6 million charged to the grant in 2010, 99.875% of the reimburseable costs were appropriately charged to the grant during the period of availability.*

*Although this is the case, Public Health – Seattle and King County (KCPH) concurs with the finding. The Public Health Emergency Preparedness staff will review the Consolidated Contract dates, and extract from the ARMS reports the salaries for each grant period to ensure the appropriate grant period dates are used for billings. For grant year-end billing, the Business and Finance Officer will prepare the billing and the Preparedness Finance Manager will review and verify the dates are being coded to the correct grant period. This control will ensure the correct dates are coded to the new grant billing. The program will work with Public Health Finance to get assistance in splitting benefits and Paid Time Off (PTO).*

*The Business and Finance Officer will review the ARMS expense reports monthly to ensure proper proration of charges billed to the grant. Copies of any invoices will be requested from Public Health Central Finance and reviewed for the dates of service. The total invoice will be split between the number of days in each grant cycle. If the invoice doesn’t have specific dates on it, the Business and Finance Officer will do further research with the vendor to get appropriate documentation to include with the billing.*

*To ensure compliance with the period of availability for inter-fund transfers of goods and services, the Business and Finance Officer will maintain a copy of all approved purchase orders for supplies and services, and enter that information into a tracking log. A comparison between the log and ARMS financial reports will be conducted monthly.*

*When preparing the monthly invoice, the Business and Finance Officer will review the dates of the purchase orders and apply those charges to the monthly billing in which they were incurred.*

### **Auditor's Remarks**

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

### **Applicable laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities, 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

Title 45, Code of Federal Regulations, Section 92.23 states in part:

Period of availability of funds.

a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

# Schedule of Federal Audit Findings and Questioned Costs

King County  
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12. King County does not have adequate controls to ensure it charges all obligations to the Special Supplemental Nutrition Program for Women, Infants and Children within the specified time period.

CFDA Number and Title:	10.557 Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Federal Grantor Name:	U.S Department of Agriculture
Federal Award/Contract Number:	NA
Pass-through Entity Name:	State Department of Health
Pass-through Award/Contract Number:	C14961/75211200
Questioned Cost Amount:	\$0

## Description of Condition

The Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is designed to provide supplemental nutritious foods, nutrition education and referrals to health care for low-income people during critical periods of growth and development.

Those eligible for the program include pregnant women, breast-feeding women up to one year after birth, non-breast-feeding women up to six months after birth, infants less than one year of age, and children under age five determined to be at nutritional risk. The County charged \$7,520,059 to the federal program for 2010.

Regulations require grantees to maintain adequate controls to demonstrate that federal dollars were spent only during the approved time period. Auditors must report control deficiencies when internal controls are not likely to prevent or detect noncompliance.

According to the grant agreement, grant funding was available from October 1, 2010 to September 30, 2011. The agreement stated the grant would not pay for costs or obligations incurred outside this period of availability. To ensure charges to the program were incurred within the allowable period the Program Manager prepares an expense report from the accounting system and identifies allowable transactions based on the transaction date recorded. The transaction date in the accounting system for vendor payments is the date the invoice was paid, not when the goods and services are incurred (the date the cost is considered "obligated").

We reviewed the County's internal controls and compliance with the period of availability requirements for the WIC program and found significant deficiencies in controls that resulted in noncompliance. We found five vendor payments totaling \$13,949 were incurred before the period of availability starting date. Subsequent to our initial review,

the County provided additional information for one transaction totaling \$11,833 showing the charges were reversed from the grant in a subsequent period since a different funding source was identified. However, this reversal was not the result of internal controls, but was coincidental.

During the audit, the Program Manager was on leave and the County was unable to demonstrate internal controls over period of availability were adequate and operating as intended. We noted the County does not have a back-up person to perform these duties in the absence of the Program Manager. The County was unaware of how the Program Manager prepares the grant billings to ensure the expenditures incurred within the grant period of availability. Further, we noted the Program Manager does not review the grant's expense report for vendor payments to ensure whether goods and services are incurred in the month for billing. Although the Program Manager returned prior to the completion of our work, the County still was unable to demonstrate internal controls over period of availability were adequate and operating as intended.

### **Cause of Condition**

The Program Manager does not review the expense report for vendor payments to ensure goods and services are within the period of availability.

The County does not have adequate internal controls in place to ensure compliance with period of availability requirements in the absence of the Program Manager

### **Effect of Condition**

Without adequate controls in place the County cannot ensure funds are used within the allotted funding period. Further, the County was reimbursed for costs it incurred outside the grant's period of availability. The grantor could seek repayment of any questioned amounts.

### **Recommendation**

We recommend the County:

- Improve internal controls over period of availability to ensure funds are used within the allotted funding period.
- Cross-train employees to ensure compliance continues in the absence of key staff.

### **County's Response**

*In 2010, the county charged 7,520,059 to the federal program, 99.82% of these charges were within the period of availability for the grant.*

*Although this is the case, we agree with the recommendations(s), and will take action as discussed below.*

*Currently, the program manager assures all transactions are reviewed for purchase dates to ensure goods and service costs are incurred within the period of availability. The program manager also reviews expenses for period of availability specific to*

*projects with special requirements which are outlined and updated by amendments per the WIC Consolidated Contract with the state Department of Health. For projects without special requirements, expenses were billed based on payment date, not incurred date, as ARMS does not contain the incurred date. Furthermore, all Public Health Center staff, sub-recipients and the eight special WIC projects have been notified to initiate federal fiscal year 2011 purchases by August 5. This will provide adequate time for the payments to post in the financial records (ARMS) by September 30, which is the end of the WIC federal fiscal year. Beginning January 1st, the new accounting system (ABT) will indicate an expenditure date in the projects and grants module that will provide efficiency and assurance that costs are not billed in the wrong funding/time period.*

*A staff person with experience in WIC billings and fiscal inquiries provides back up to the program manager to ensure adequate internal controls compliance with the period of availability requirement. Public Health Finance staff coordinate agency-wide trainings in internal controls and federal requirements compliance, and program staff will be trained by end of the first quarter of 2012.*

### **Auditor's Remarks**

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

### **Applicable laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities, 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

Title 7, Code of Federal Regulations, Section 3016.23 states in part:

Period of availability of funds.

(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

# Schedule of Federal Audit Findings and Questioned Costs

King County  
January 1, 2010 through December 31, 2010

13. **King County lacked adequate monitoring of subrecipient activities which resulted in unallowable costs charged to the Homelessness Prevention and Rapid Re-Housing Program.**

<b>CFDA Number and Title:</b>	14.257 ARRA Homelessness Prevention and Rapid Re-Housing Program
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Washington State Department of Commerce
<b>Pass-through Award/Contract Number:</b>	10-46111-612
<b>Questioned Cost Amount:</b>	\$0

## **Background**

The Homelessness Prevention and Rapid Re-Housing Program provides temporary financial assistance and housing relocation and stabilization services to individuals and families who are homeless or who would be homeless without this assistance. The services include rental assistance, moving assistance, and utilities assistance.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure program requirements are followed. We found the County did not have adequate internal controls in place to ensure compliance with subrecipient monitoring requirements. Auditors must report control deficiencies when internal controls are not likely to prevent or detect noncompliance.

The County received \$1,032,065 in funding for this program in 2010 through the American Recovery and Reinvestment Act of 2009. The Department of Community and Human Services administers the program. The County contracted with a third party subrecipient to provide the program services.

## **Description of Condition**

On February 11, 2011, the subrecipient notified the County of a suspected loss of \$15,799, and also notified the Federal Way Police Department. The County notified our Office as required by state law (RCW 43.09.185). The County did not report the suspected loss to the appropriate federal Inspector General for the U.S. Department of Housing and Urban Development (HUD) as required by the Recovery Act. The County was not aware of this requirement. This is a significant deficiency in controls.

An investigation by the Federal Way Police Department determined an employee of the subrecipient enrolled a friend and a family member in the program. The employee benefitted from the rental assistance services for the friend because the original lease for which the rental assistance payments were made was in the employee's name, and the employee and the friend were living together at the time. The investigation also determined the lease agreement had been forged so that it appeared the friend was the person with the lease obligation.

The employee also enrolled a family member in the program for rental assistance, moving assistance and utility payment assistance services even though that individual was not eligible for those services.

When enrolling participants in these programs, the subrecipient's employees are required to sign a certification that they are not related to or involved with the persons they are helping and that they will not financially benefit from any of the services. The employee signed the certification in both cases.

At the time of the loss, the subrecipient's management relied solely on the staff's certification that they are not related to or involved with the persons they are helping. Management at the subrecipient did not detect this loss until notified by the friend that the services no longer were needed. At that time, management began to question the payments. At the time the payments were questioned, the employee had not worked for the subrecipient for several months. Subsequently, the subrecipient began a supervisory review of client eligibility documentation and client files to ensure all appropriate paperwork was complete.

In March 2011, the subrecipient reimbursed the County and the County reimbursed the grantor.

Although the County performed an on-site visit to monitor the subrecipient, it did not determine that the subrecipient had inadequate controls to detect possible losses. This is a significant deficiency in controls.

### **Cause of Condition**

The County did not ensure the subrecipient was adequately monitoring its employees. During the December 2010 site visit, the County focused on the results of the HUD Office of Inspector General review related to specific client files and deficiencies. The subrecipient did not have adequate supervisory review of applicant eligibility.

### **Effect of Condition**

The County paid \$15,799 to a subrecipient that paid for homelessness prevention services for individuals that did not meet eligibility requirements.

Because the inspector general was not notified of the loss, any investigation it determines is needed is delayed.

## **Recommendation**

We recommend the County improve monitoring to ensure subrecipients adequately oversee employee activities to ensure only eligible individuals and families participate in the program, and charges to the program are allowable.

Further, we recommend the County report this loss to the HUD Inspector General and establish processes to ensure any future losses related to federal programs are reported in a timely manner to federal authorities.

## **County's Response**

*We respectfully disagree with the Description of Condition statement which states that "although the County performed an on-site visit to monitor the subrecipient, it did not determine that the subrecipient had inadequate controls to detect possible losses." We also disagree with the Cause of Condition statement that "the County did not ensure the subrecipient was adequately monitoring its employees. The subrecipient did not have adequate supervisory review of applicant eligibility."*

*It is important to note that this program was monitored by the HUD Office of the Inspector General during the year and that 97% of all costs paid to subrecipients did not have eligibility or other compliance issues. During the County's previous on-site monitoring visits, we found that the subrecipient did have reasonable internal controls established, in the form of supervisory review, of all rental assistance applications.*

*Internal controls are designed to provide reasonable, not absolute assurance, that all losses will be prevented and detected. In this situation, we believe reasonable internal controls were in place. The problem that surfaced was isolated to one employee and the result of a breakdown in the subrecipient's internal controls for one supervisor, given that the supervisor failed to review applications in sufficient depth to notice irregularities contained in the two falsified applications. We have made follow up visits since the problem came to light and have worked with the subrecipient agency to strengthen their supervisory review of all rental assistance application files*

*We acknowledge that the incident was not reported to the appropriate federal inspector general as required by the referenced notice (OMB Memo M-09-10, "Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009", dated February 19, 2009.). This requirement was not communicated to us, contractually or otherwise, by the State Department of Commerce, as the pass-through grantor agency. The County Finance and Business Operations Division will work with County agencies to ensure that we comply with the requirements of the OMB memo in the future.*

## **Auditor's Remarks**

Although internal controls are to be designed to give reasonable assurance, and not absolute assurance, the federal regulations assert internal controls are to be designed to identify fraud of this magnitude and the regulations require fraud be reported. We reaffirm our finding. We look forward to reviewing the County's corrective action during our next audit.

## Applicable laws and Regulations

American Recovery and Reinvestment Act of 2009 (HPRP Notice). HPRP was authorized by Title XII of ARRA, states in part:

### Activities Allowed or Unallowed

1. *Allowed Activities* - There are four categories of eligible activities for the HPRP program: financial assistance, housing relocation and stabilization services, data collection and evaluation, and administrative costs.

a. Financial assistance is limited to the following activities: short-term and medium-term tenant-based rental assistance up to 18 months, security deposits, utility deposits, utility payments, moving cost assistance, and motel and hotel vouchers for up to 30 days if housing has been identified. Grantees and subgrantees must not make payments directly to program participants, but only to third parties, such as landlords or utility companies. In addition, an assisted property may not be owned by the grantee, subgrantee, or the parent, subsidiary or affiliated organization of the subgrantee.

b. Rental assistance may also be used to pay up to 6 months of rental arrears for eligible program participants. Rental arrears may be paid if the payment enables the program participant to remain in the housing unit for which the arrears are being paid or move to another unit. All rents paid must be in compliance with HUD's standards of "rent reasonableness." (Section IV, A. Eligible Activities, in HPRP Notice)

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR 225), Appendix A, states in part:

### C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

b. Be allocable to Federal awards under the provisions of this Circular.

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items . . .

j. Be adequately documented.

Revised Code of Washington 43.09.185, states in part:

State agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity.

OMB Memo M-09-10, "Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009", dated February 19, 2009, states in part:

. . . each grantee or sub-grantee awarded funds made available under the Recovery Act shall promptly refer to an appropriate inspector general any credible evidence that a principal, employee, agent, contractor, sub-grantee, subcontractor, or other person has submitted a false claim under the False Claims Act or has committed a criminal or civil violation of laws pertaining to fraud, conflict of interest, bribery, gratuity, or similar misconduct involving those funds.

# Schedule of Federal Audit Findings and Questioned Costs

King County  
January 1, 2010 through December 31, 2010

- 14. The County's internal controls are inadequate to ensure compliance with subrecipient monitoring requirements for the Homeland Security Grant Program.**

<b>CFDA Number and Title:</b>	97.067 Homeland Security Grant Program
<b>Federal Grantor Name:</b>	U.S Department of Homeland Security
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Washington State Military Department
<b>Pass-through Award/Contract Number:</b>	E08-102, E08-196, K460, E09-178, E09-165, E10-186, E10-215, and K696
<b>Questioned Cost Amount:</b>	\$0

## **Description of Condition**

Recipients use Homeland Security grant money to enhance local governments' ability to prevent, deter, respond to and recover from, threats and incidents of terrorism and to enhance regional preparedness. The County spent \$4,216,315 in federal funding under this program. It paid \$1,815,107 of this to 11 subrecipients.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure program requirements are followed. We found the County did not have adequate internal controls in place to ensure compliance with subrecipient monitoring requirements. The control deficiencies represent material weaknesses in controls which resulted in material non-compliance with the requirement.

The County is responsible for ensuring subrecipients who spend \$500,000 or more in federal money in a fiscal year have an audit conducted in accordance with federal Office of Management and Budget (OMB) Circular A-133. The County also is responsible for ensuring subrecipients take prompt corrective action on audit findings.

During the audit, the Program Manager was on leave and the County was unable to demonstrate its internal controls over subrecipient monitoring were adequate and operating as intended. Although the County hired a person in 2011 to perform these duties in the absence of the Program Manager, the newly hired staff was not yet familiar with the monitoring process.

Further, we noted the County's process for tracking the subrecipient audit report submittals does not provide reasonable assurance subrecipients obtain required audits, appropriate corrective action is taken for findings, the effect any subrecipient noncompliance on the County is evaluated and findings are resolved.

Of the 11 subrecipients, we noted the County did not review six of the A-133 audit reports. One had a federal finding for which the County did not have supporting documentation that the finding was reviewed and resolved. —

### **Cause of Condition**

Program staff believed tracking subrecipient audit reports was adequate to satisfy the compliance requirement.

The County does not have adequate internal controls in place to ensure compliance with subrecipient monitoring requirements in the absence of the Program Manager.

### **Effect of Condition**

Without proper controls over subrecipient monitoring, the County cannot ensure the subrecipients are spending grant funds for allowable purposes and meeting grant requirements. Noncompliance could jeopardize future federal funding and require the County to return money to the grantor.

### **Recommendation**

The County should improve internal controls to provide reasonable assurance that subrecipients who spend \$500,000 or more in federal money during a fiscal year have the required audits and take appropriate corrective action on audit findings.

### **County's Response**

*King County Office of Emergency Management (KCOEM) strives for full compliance with a wide array of federal grant requirements and this finding is limited to our monitoring of subrecipients. We agree we need to further strengthen our subrecipient monitoring practices and support the Auditor's recommendation. We have taken immediate actions in the following areas:*

#### *Subrecipient Audit Report Review and Tracking*

- *A letter will be drafted and sent to all subrecipients to reinforce the responsibility of the subrecipients to notify KCOEM, in a timely manner, of all audit findings they are issued and all corrective actions they plan to take.*
- *KCOEM will enhance tracking of all audits and corrective actions for all subrecipients. The tracking system will contain elements including but not limited to: date of finding issuance, grant year the finding is related to, the amount of money the finding is related to and possible causes of the finding. KCOEM will also follow up with each subrecipient within six (6) months of an audit finding to ensure they are executing their corrective action plans appropriately.*

#### *Internal Controls over Subrecipient Monitoring*

- *Putting a system into place to manage the tracking of compliance with an expected implementation of Q1 2012.*

- *Retain recently hired grants specialist staff position to provide enhanced oversight to KCOEM grants program.*

*Moving forward, we plan to continue to meet regularly scheduled responsibilities while implementing the actions described above. We plan to continuously work on our stated goals to produce the best results possible for our subrecipients as well as ourselves. Although a firm timeline is difficult to project currently due to the recent personnel limitations and competing responsibilities assigned to the office, we will implement an action plan to ensure full compliance with the subrecipient monitoring requirements.*

### **Auditor's Remarks**

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the County's corrective action during our next audit.

### **Applicable laws and Regulations**

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

#### Section .300

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.

#### Section .400

A pass-through entity shall perform the following . . .

1. Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year . . . and name of Federal agency . . .
2. Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contract 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 \$500,000 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.

# Schedule of Prior Federal Audit Findings

## King County January 1, 2010 through December 31, 2010

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of King County. The State Auditor's Office has reviewed the status as presented by the County.

<b>Audit Period:</b> 2009	<b>Report Reference No:</b> 1004330	<b>Finding Reference No:</b> 1	<b>CFDA Number(s):</b> 93.069
<b>Federal Program Name and Granting Agency:</b> Public Health Emergency Preparedness, U.S. Department of Health and Human Services		<b>Pass-Through Agency Name:</b> Department of Health	
<b>Finding Caption:</b> King County's internal controls were inadequate to ensure compliance with requirements of its Public Health Emergency Preparedness Grant.			
<p><b>Background:</b> The Public Health Emergency Preparedness and Response Grant funds activities and supplies to help public health departments upgrade, integrate and evaluate and coordinate responses to public health and other emergencies. It is passed through to the County by the state Department of Health through reimbursements.</p> <p>Federal law and grant rules require recipients of federal funds to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of grant requirements and monitoring of program activities.</p> <p>During 2009 the County charged \$3,396,423 to the grant. We found weaknesses in internal controls and noncompliance with the following federal requirements:</p> <p><b>Allowable Cost Principles</b></p> <p><u>Fringe Benefits</u> The County charges fringe benefits for its employees, such as retirement, medical, and dental to its grant programs. To determine fringe benefit rates, the County pools individual benefit costs by project and then divides by this amount by the projects' total salary costs. For the time period we reviewed, we found fringe benefit rates varied from 36.66 percent to 38.13 percent between different projects.</p> <p>At the end of the fiscal year, the County transferred many employees' salaries to the emergency preparedness grant and charged 38.1 percent of their fringe benefits to the grant. It did not calculate this rate based on actual hours employees charged to the grant and did not keep documentation to support the calculation. Thus the County cannot demonstrate the rate was appropriate.</p> <p>Fringe benefits reimbursed by this grant, including associated administrative costs, were</p>			

\$761,680. We are questioning these costs because the County cannot demonstrate the reimbursements reflected the actual costs of benefits for the time employees worked on the program.

#### Overhead

The County is allowed to charge overhead costs it incurs for indirect benefits to the program. The County annually reviews prior actual costs to determine the indirect rate that will be charged to the program. Our audit found the County inappropriately billed the grant for overhead costs, such as general administration costs, as direct costs. These costs are already included in the indirect cost rate. The unallowed overhead billed as direct costs to the grant was \$70,359. In addition, the indirect cost rate of 18.17 percent was applied to these unallowed costs. The costs reimbursed by the grant for unallowed overhead resulted in questioned costs of \$83,143.

#### Telecommunications Costs

During 2009 telecommunications costs charged to the grant totaled \$50,410. Those costs include cell phones, pagers, personal digital assistants and wireless services. They are billed through the County's Office of Information Resource Management. We examined \$14,626 of these costs. The County issued cellular telephones to 30 employees and volunteers without keeping track of who they were assigned to. In addition, the County does not routinely review detailed reports to ensure cell phone use is appropriate for the grant. Program staff charged a lump sum of cellular telephone expenses in the expenditure reports for the grant. The County does not have a policy for the use of cell phones and does not require cell phone users to sign a use agreement. The cost reimbursed by the grant for the unassigned cell phones was \$4,091. In addition, \$213 for fees and penalties was charged to the grant for three unreturned pagers. Fees and penalties are unallowed costs for federal grants. The unallowable telecommunications costs charged to the grant resulted in questioned costs of \$5,087.

#### Salaries and Wages

During 2009 the County charged \$2,108,210 in wages and benefits to the grant. We examined \$135,140 of these expenditures sampled from the population of general ledger transactions and noted salary costs associated with two employees did not have adequate time and effort documentation, resulting in questioned costs of \$28,845.

We also noted salaries for 78 employees totaling \$942,948 charged to the program through retroactive corrections referred to as fiscal adjustments. The supporting time and effort documentation was not corrected in a timely manner, as required. The adjustments occurred in January 2010 but the time and effort re-certifications were not completed until March 2010. The County does not have a process to ensure salaries charged to programs through fiscal adjustments comply with federal time and effort requirements. The County provided alternative time and effort documentation and we excluded these charges from the questioned costs.

#### Paid Time Off

During 2009 direct expenditures for paid time off totaled \$119,345. We examined \$12,243 of these transactions sampled from the general ledger transactions. The County's method of allocating paid time off to the grant is inadequate to ensure charges to the program are appropriate.

The County relies on an automated, monthly calculation for these costs based on year to-date actual hours. We determined this automated calculation creates unallowed costs. Moreover, we found the hours used in the calculation were not reliable. We compared the paid time amounts charged to the grant taken from the general ledger system, and related hours used to

calculate these, to the paid time off amounts and hours in the separate payroll system. We found they did not reconcile.

We noted one error occurred when an employee who retired. Unused leave was paid as a retirement benefit. When the employee returned as a temporary employee, these benefit costs were treated as paid time off and redistributed through the automated system and charged to the grant. We examined the period when the employee worked as a temporary employee and took no paid time off. No paid time off should have been charged to the grant for this pay period. The amount off this error was \$2,045. For two other employees, actual paid time off was different than what was billed to the grant. Paid time off to three employees resulted in questioned costs of \$12,838.

### Cash Management

The consolidated contract between the County and the state Department of Health for management of numerous federal programs requires accurate and timely billing. During the audit, we found billing errors and late billings. The County did not review program expenditures or certify payroll monthly as required by its procedures. It claimed expenditures for one project that were \$27,617 more than what supporting documentation showed. We are questioning these costs. The questioned costs reported under Allowable Cost Principles also represent inaccurate billings that are not in compliance with cash management requirements. The County did not detect or correct errors prior to billing. The contract period started July 31, 2009, but the County did not bill for reimbursement until January and February 2010.

#### Status of Corrective Action: (check one)

Fully Corrected       Partially Corrected       No Corrective Action Taken       Finding is considered no longer valid

#### Corrective Action Taken:

##### Fringe Benefits

*We respectfully disagree with the way the auditor has calculated the questioned costs for this finding. As noted above, the benefit rates varied by projects from a low of 36.6% to a high of 38.13. This represents a variance of 1.47%. If any costs are to be questioned, we believe the maximum amount that could be questioned would be the \$761,680 multiplied by the difference between the high and low end of the range. The resultant figure is \$29,400.*

##### Overhead

*The Department implemented controls to ensure that all costs included in the indirect rate are excluded from billing as direct expenses. The Department provided additional training on indirect costs to ensure that costs included in the indirect rate are not billed as direct expenses of the program.*

##### Telecommunications Costs

*The Department requested a report showing detailed billing information, on a quarterly basis, from OIRM to ensure unallowable costs are excluded from grant billings.*

##### Salaries and Wages

*The program implemented a review process to ensure all staff time billed to the grant is supported by time and effort documentation.*

##### Paid Time Off

*PHSKC accounting services and other staff reviewed the calculations for this distribution. PHSKC has partnered with the Finance and Business Operations Division of King County*

*Executive Services, the owner of the County payroll and general ledger systems, to develop a more systematic method of monitoring the benefit and PTO calculation for PHSKC projects. Additionally, effective January 1, 2012, the County will implement new payroll and financial systems that will change the benefit and PTO allocation methodologies.*

Cash Management

*The department developed procedures to ensure that all charges, including staff time, submitted to the funding agency are reviewed and approved, and reconciled with the general ledger prior to billing. The Program Manager reviews all charges and payroll on a monthly basis prior to submitting bills.*

<b>Audit Period:</b> 2009	<b>Report Reference No:</b> 1004330	<b>Finding Reference No:</b> 2	<b>CFDA Number(s):</b> 10.557
<b>Federal Program Name and Granting Agency:</b> Special Supplemental Nutrition Program for Women, Infants and Children, U.S. Department of Agriculture		<b>Pass-Through Agency Name:</b> Department of Health	
<b>Finding Caption:</b> The County does not have adequate internal controls over reporting and did not comply with reporting requirements for the Special Supplemental Nutrition Program for Women, Infants and Children.			
<b>Background:</b> The objective of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is to provide supplemental nutritious foods, nutrition education and referrals to health care for low-income people during critical periods of growth and development. People eligible for the program include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants less than one year of age, and children under age five determined to be at nutritional risk. The County charged \$4,870,683 to the federal program for 2009.  Each year, the County must submit an expenditure report to the state that identifies the costs it incurred in administering the WIC program in the following categories: client services, nutrition education, breastfeeding promotion and administration for the current October through September fiscal year. Included in these costs are employees' salaries and benefits. To support the payroll expenditures reported, the state requires grantees to use a time study, or another reasonable system, to calculate personnel costs for all federally funded WIC employees. A time study must to be completed at least once each federal fiscal year. Summary forms are to be retained on file at the local agency for four years.  We reviewed the County's internal controls and compliance with reporting requirements for the WIC program and found the time studies were not completed at King County Public Health Centers in the 2009 fiscal year for federally funded WIC employees. The County lacked internal controls to ensure it completed the time study as required. Further, we found the County lacked adequate internal controls to ensure the expenditure report was completed as required. For 2009 the County did not complete the King County Public Health Centers activity portion of the expenditure report for the required categories, resulting in noncompliance with reporting requirements.			

<b>Status of Corrective Action: (check one)</b>			
<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> No Corrective Action Taken	<input type="checkbox"/> Finding is considered no longer valid
<b>Corrective Action Taken:</b>			
<p><i>The Department has taken the following corrective action to ensure compliance with the WIC expenditure report:</i></p> <p><i>The WIC Expenditure Report requires reporting all costs (except Breastfeeding Peer Counseling funds and Farmers Market Nutrition Program funds) up to the amount of the grant. Personnel costs are the largest part of the grant. The WIC program has set up a system for completing Public Health staff monthly time studies via timesheets. Time studies are completed for one week each month during the 1<sup>st</sup> week of the second pay period of each month for these staff. Option codes are used to gather the actual amount of time spent working per the required categories: Client Services, Nutrition Education, Breastfeeding Promotion and Administration. The report is reviewed and approved by the Program Manager on a monthly basis. Additional expenses beyond personnel and up to the amount of the grant have been reported using the WIC program's new automated expense report, which was implemented in 2010. This same report is used for billing against the grant. Beginning January 1, 2012, the new accounting system will indicate an expenditure date in the projects and grants module that will provide efficiency and assurance that costs are not billed in the wrong funding/time period. In addition, a staff person with experience in WIC billings and fiscal inquiries will provide back up to the program manager. Public Health staff will coordinate agency-wide trainings in internal controls and federal requirements compliance, and more program staff will be trained by the end of the first quarter in 2012.</i></p>			

<b>Audit Period:</b> 2009	<b>Report Reference No:</b> 1004330	<b>Finding Reference No:</b> 3	<b>CFDA Number(s):</b> 97.067
<b>Federal Program Name and Granting Agency:</b> Homeland Security Grant Program, U.S. Department of Homeland Security		<b>Pass-Through Agency Name:</b> Military Department	
<b>Finding Caption:</b> King County's internal controls were inadequate to ensure compliance with federal grant requirements of the Homeland Security Grant Program.			
<b>Background:</b> We reviewed five of the County's contracts totaling \$3,266,901 with the Military Department that account for approximately 95 percent of the County's reported Homeland Security program grant expenditures for 2009. We found weaknesses in internal controls and noncompliance with the following federal requirements:			
<b>Equipment Management</b>			
<p>The County cannot provide reasonable assurance that proper records are kept for equipment paid for with federal grant funds. Without these records, it is possible that equipment could be used for unauthorized purposes or disposed of in a manner that violates federal requirements. Moreover, the Department of Homeland Security would not be appropriately compensated for its share of any property sold or converted to nonfederal use. The County Office of Emergency Management has improved this recordkeeping since our audit last year by requesting other County departments update the official King County capital asset database to include the grant number. We examined 29 items with a total value of \$704,343 at four locations and found</p>			

seven items totaling \$367,346 did not have County asset tags. In addition, 10 items totaling \$34,691 were not in the location indicated in program records. The County later was able to determine where the equipment was, and we confirmed these locations.

### Reporting

The Military Department requires the County, at a minimum, to submit quarterly invoices. We reviewed all 35 invoices for four of the five major contracts with \$2.6 million in billings. We found 16 invoices totaling \$1.1 million were not billed in a timely manner. We found invoices up to 25 days late.

Also, the grant agreement required semi-annual progress reports for the January 1, 2009, through June 30, 2009, period to be submitted by July 15, 2009, and for the period July 1, 2009, through December 31, 2009, to be submitted by January 15, 2010. The County submitted these reports in late July 2009 and early February 2010, respectively. The report for one of the grants was not submitted until the Department requested it.

### Subrecipient Monitoring

The County did not monitor to ensure subrecipients submitted invoices quarterly as required. The Military Department requests the quarterly invoices because it relies on the reports to monitor grant activity and costs that occurred during that quarter. Additionally, the County did not monitor to ensure subrecipients obtained audits required by federal Office of Management and Budget (OMB) Circular A-133.

#### Status of Corrective Action: (check one)

Fully Corrected       Partially Corrected       No Corrective Action Taken       Finding is considered no longer valid

#### Corrective Action Taken:

##### Equipment

*As corrective action King County Office of Emergency Management (OEM) has done the following:*

- Obtained IVIS information monthly from County Central Finance in order to conduct periodic reviews and compare OEM's internal records to IVIS.*
- Continue to request that other sub-recipients update their equipment records for prior year purchases to reflect federal funding.*
- Required, effective with the Federal Fiscal Year 2010 grant cycle, that sub-grantees submit proof that purchased equipment has been properly inventoried and recorded in order to receive reimbursement via a contractual clause.*

##### Sub-recipient Monitoring

*As of January 2010, King County Office of Emergency Management has streamlined the reporting function for all sub-grantees. All sub-grantees are required to invoice King County Office of Emergency Management on a calendar quarter basis rather than staggered dates throughout the year. This has enabled King County Office of Emergency Management to improve the monitoring of billing and has resulted in improved billing timeliness by sub-grantees. King County Office of Emergency Management will continue to send reminders of reporting requirements to sub-grantees during the last month of each quarter.*

As of the second quarter of 2010, King County Office of Emergency Management developed a database to track audit findings by sub-grantees as of 2002. This database is maintained by King County Office of Emergency Management grant administrative staff. In addition, King County Office of Emergency Management has developed a process to issue a management decision on audit findings within six months after receipt of the sub-grantee's audit report and ensure that the sub-grantee takes appropriate and timely corrective action.

Reporting

King County Office of Emergency Management continues to strive to improve our reporting timeliness in lieu of budgetary constraints and a human resource shortage. Although we frequently have competing deadlines, we have done the following:

- Submit timely semi-annual narrative progress reports – King County Office of Emergency Management requested from the Washington State Military Department revised narrative report submittal dates from the January 15 and July 15 to January 31 and July 31, respectively, for FFY10 and later years grant programs.

Timely quarterly invoice submittals – King County Office of Emergency Management continues to prioritize administrative staff support to assist with sending out sub-grantee reminders and other tasks related to quarterly billings.

<b>Audit Period:</b> 2009	<b>Report Reference No:</b> 1004330	<b>Finding Reference No:</b> 4	<b>CFDA Number(s):</b> 93.563
<b>Federal Program Name and Granting Agency:</b> Child Support Enforcement, U.S. Department of Health and Human Services		<b>Pass-Through Agency Name:</b> Department of Social and Health Services Division of Child Support	
<b>Finding Caption:</b> King County's internal controls were inadequate to ensure compliance with requirements of its Child Support Enforcement Grant.			
<b>Background:</b> The Child Support Enforcement (CSE) program objectives are to enforce support obligations owed by non-custodial parents, locate absent parents, establish paternity, and obtain child and spousal support.  During 2009 the County charged \$8,008,481 to the Child Support Enforcement grant. The grant was divided among four County departments. We focused on two County departments that received the bulk of the grant money: the Prosecuting Attorney's Office and the Department of Judicial Administration.  Federal regulations require recipients of federal funds to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of the grant requirements and monitoring program activities. Federal audit standards require the auditor to report deficiencies in internal controls.  In 2009 the County Department of Judicial Administration was reimbursed \$2,352,118 in federal grant funds for its Child Support Enforcement program. We found the County Department of Judicial Administration did not have adequate internal controls in place to ensure compliance with the following grant requirements:			

## Reimbursement of Costs

Under its grant agreement, the state reimburses the County for a portion of its costs related to child-support enforcement activities. The amount paid to the Department of Judicial Administrations is based on the ratio of child-support pleadings in relation to total pleadings. Our concerns over internal controls are:

- The Finance Manager determines the allowable costs and activities that are claimed for reimbursement; however, the County does not review or monitor the work to ensure its accuracy. In reviewing reimbursement claims, we found the County was not consistent from month to month on how certain costs were being included or excluded from the claim, which increases the risk of overpayment.
- The County received \$182,153 of grant funding in excess of its approved budget of \$2,352,118. Federal regulations require grantees to obtain the prior approval of the awarding agency whenever any revision to the budget would result in the need for additional funding. We found the County was not aware of this requirement.

## Equipment

In 2009 the County charged \$61,635 to the grant for equipment costs. Since 2002, the County Department of Judicial Administration has acquired more than \$1.6 million in assets such as servers, scanners, computers and other electronic equipment. We found the County was not aware it must record and monitor the amount of federal money it spent on the equipment. The purpose of doing this is so the County can compensate the federal government for its share when the equipment is no longer used for federal purposes or the County disposes of the equipment.

## Suspension/Debarment

When a grantee uses federal funds to pay for goods and services, it must ensure the vendors and subrecipients are not suspended or debarred from participating in federal programs. We reviewed eight procurement transactions that exceeded \$25,000 between the County and four vendors. We found the County was not monitoring which of its vendor contracts are funded by the Child Support Enforcement grant and it was not aware it must ensure these vendors are not suspended or debarred.

### Status of Corrective Action: (check one)

Fully Corrected       Partially Corrected       No Corrective Action Taken       Finding is considered no longer valid

### Corrective Action Taken:

#### Reimbursement of Costs

*The County offers additional comments and will be taking immediate corrective action as noted below:*

*To improve consistency with federal claims submissions, as of the July 2010 reimbursement claim and thereafter, the Accounting Supervisor will be trained in the compilation of IVD reimbursement claims. Monthly, Department staff will compile the claim and management will review it prior to distribution.*

#### Grant Funding in excess of budget

*The Department was following written instructions from the awarding agency which stated that*

revised budgetary approval was not necessary in the event that the approved budget amount was going to be exceeded. In the future, the County has and will continue to seek prior approval from the awarding agency for budget changes.

Equipment

The Department has gone back and updated the property records from January 2010 onward and will continue, on a go forward basis, to record and track the portion of federal fund reimbursement on equipment purchased by the Department (capital asset purchases). This doesn't account for equipment costs passed through our central service plan. The Department will continue to follow Federal and County procedures for proper asset recording.

Suspension/Debarment

Suspension and debarment requirements have been met for vendor purchases exceeding \$25,000 and all subrecipient agreements made by Judicial Administration. Department staff have institutionalized the process of reviewing the Excluded Parties Listing System website and checking the database for suspended and debarred individuals and companies and/or add a certification. This includes all sub-awards and covered contracts. In addition, when a requisition is submitted to procurement, staff has and will continue to note "federal funds" on the requisition and/or record of contract. This doesn't account for other costs passed through our central service plan.

Training

To improve staff's knowledge of federal compliance requirements, the County's Grants Financial Officer conducted a federal compliance requirements training with the Grant Administrator and Finance Manager in August 2010.

<b>Audit Period:</b> 2009	<b>Report Reference No:</b> 1004330	<b>Finding Reference No:</b> 5	<b>CFDA Number(s):</b> 93.218
<b>Federal Program Name and Granting Agency:</b> Community Development Block Grant Program, U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The County's internal controls are inadequate to ensure compliance with subrecipient monitoring requirements for the Community Development Block Grant Program.			
<b>Background:</b> Recipients use Community Development Block Grants money to provide housing and expanded economic opportunities, principally for persons of low and moderate income.  The County spent \$7,656,525 in federal funding under this program. It paid \$4,550,097 of this to 30 subrecipients. The County is responsible for ensuring subrecipients who spend \$500,000 or more in federal money in a fiscal year have audits made in accordance with federal Office of Management and Budget (OMB) Circular A-133. Subrecipients are required to take prompt corrective action on audit findings.  During our review of County contracts for the block grant program, we verified the County informed subrecipients who spent \$500,000 or more in federal money that they were required to have an audit. However, County employees responsible for grant monitoring were unable to show these audits occurred.			

**Status of Corrective Action: (check one)**

Fully Corrected     
  Partially Corrected     
  No Corrective Action Taken     
  Finding is considered no longer valid

**Corrective Action Taken:**

*We respectfully disagree with the finding that the County does not have adequate internal controls to ensure compliance with subrecipient monitoring requirements for the CDBG Program. We believe that, beyond the inclusion of A-133 audit requirements in our CDBG contract conditions and the use of audit report track lists, internal controls to provide reasonable assurance of A-133 compliance do exist in the form of regularly scheduled subrecipient agency site visits where County program and fiscal staff inquire and review agency documentations as appropriate. We also believe that the risk of non-compliance is low given that most of the 30 CDBG funded activities are with a small number of municipal cities and towns as well special governmental units which are all subject to annual audits by the State Auditor's Office. For these governmental entities, we will also search the SAO audit report website annually to ensure A-133 compliance.*

*We would acknowledge that documentation of our internal controls in this area may be improved by requiring more detailed description of our A-133 audit review procedures during the regularly scheduled site visits. Additionally, we believe that monitoring CDBG subrecipients for audit compliance may be made more efficient through a new system of positive confirmation where all recipient agencies are contacted annually by email and are required to respond affirmatively to questions regarding their compliance with the A-133 audit requirements. This annual audit survey enables us to identify CDBG recipient agencies subject to the audit requirement prior to an onsite monitoring visit. Respondents who are subject to an A-133 audit are required to submit an electronic or hard copy of their audit for our review and follow up on any audit exceptions and management comments. Finally, negative responses from the annual A-133 compliance survey are subject to verification during monitoring site visits and further confirmed through review of their SEFA.*

<b>Audit Period:</b> 2009	<b>Report Reference No:</b> 1004330	<b>Finding Reference No:</b> 6	<b>CFDA Number(s):</b> 93.283
<b>Federal Program Name and Granting Agency:</b> Centers for Disease Control and Prevention Investigations and Technical Assistance Grant, U.S. Department of Health and Human Services		<b>Pass-Through Agency Name:</b> Department of Health	
<b>Finding Caption:</b> King County did not maintain adequate records to support expenditures charged to its Centers for Disease Control and Prevention Investigations and Technical Assistance Grant.			
<b>Background:</b> The objective of the Centers for Disease Control and Prevention Investigations and Technical Assistance Grant is to assist state and local health authorities and other health organizations in controlling communicable and chronic diseases and disorders, and preventable health conditions.  We reviewed the County's internal controls and compliance with program requirements. The County reported spending \$4,845,087 in federal funding under the program during fiscal year 2009. Of this amount \$1,767,470 was reported for the Emergency Preparedness program.			

We reviewed payroll transactions to determine whether salaries and benefits charged to the grant were supported by adequate time and effort documentation as required by federal regulations. We noted several transactions charged to the grant for payroll, benefits and other areas were not supported by required time and effort documentation. Further, the County's method of allocating paid time off to the grant is inadequate to ensure charges are appropriate. These transactions totaled \$856 in known questioned costs. Because we randomly sampled charges to the grant, the questioned costs likely could be more.

**Status of Corrective Action: (check one)**

Fully Corrected       Partially Corrected       No Corrective Action Taken       Finding is considered no longer valid

**Corrective Action Taken:**

*We partially agree with this finding.*

Salaries and Wages

*The program has implemented a review process to ensure all staff time billed to the grant is supported by time and effort documentation.*

Paid Time Off Methodology

*PHSKC accounting services and other staff reviewed the calculations for this distribution. PHSKC has partnered with the Finance and Business Operations Division of King County Executive Services, the owner of the County payroll and general ledger systems, to develop a more systematic method of monitoring the benefit and PTO calculation for PHSKC projects. Additionally, effective January 1, 2012, the County will implement new payroll and financial systems that will change the benefit and PTO allocation methodologies.*

# **Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

King County  
January 1, 2010 through December 31, 2010

Council and Executive  
King County  
Seattle, Washington

## **COMPLIANCE**

We have audited the compliance of King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The County's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in Findings 1, 2, 3, 5, 6, 9 and 10 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the County did not comply with requirements regarding activities allowed or unallowed, allowable costs/cost principles, cash management, Davis-Bacon Act, equipment and real property management, matching, level of effort, ear marking, period of availability of funds, procurement and suspension and debarment, reporting, rent reasonableness, housing quality standards, Recovery Act accountability and subrecipient monitoring that are applicable to the Shelter Plus Care, HOME Investment Partnerships,

Federal Transit Capital Investment Grants, Federal Transit Formula Grants, ARRA - Energy Efficiency and Conservation Block Grant (EECBG), Immunization Grants, ARRA - Immunization Grant and Child Support Enforcement programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The results of our auditing procedures also disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 4, 7, 8, 11, 12 and 14.

## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 14 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2, 8, 9, 11, 12 and 13 to be significant deficiencies.

The County's response to the finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended for the information of management, the Council and Executive, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is stylized with a large, looping initial "B" and a cursive "S".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 17, 2012



## **ABOUT THE STATE AUDITOR'S OFFICE**

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

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