

Schedule of Federal Audit Findings and Questioned Costs

**King County
January 1, 2008 through December 31, 2008**

1. King County's internal controls were inadequate to ensure compliance with requirements of its Edward Byrne Justice Assistance Grant.

CFDA Number and Title:	CFDA 16.738 Edward Byrne Memorial Justice Assistance Grant Program
Federal Grantor Name:	U.S. Department of Justice
Federal Award/Contract Number:	2005-DJ-BX-1640 and 2007-DJ-BX-0935
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$378,456

Background

The Edward Byrne Memorial Justice Assistance Grant (JAG) supports all components of the criminal justice system, from multijurisdictional drug and gang task forces to crime prevention and domestic violence programs, courts, corrections, treatment and justice information sharing initiatives. Projects funded by the grant may address crime through the provision of services directly to individuals and/or communities and by improving the effectiveness and efficiency of criminal justice systems, processes, and procedures.

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 the grant requirements and monitoring of program activities.

Description of Condition

During 2008, the County charged \$547,582 to the Edward Byrne Memorial Justice Assistance Grant. The grant consists of four awards that span multiple years. We focused our audit on two grant awards that account for 96 percent of the 2008 charges to the grant:

- The 2005 grant award was charged \$377,448, which was to be used for the analysis and development of a strategic plan, hiring two temporary project managers to implement the Booking and Referral System and the Criminal Justice Information Portal, and software costs to develop regional security infrastructure such as digital certificates for law enforcement officers. We found the expenditures charged to the 2005 grant consisted entirely of four cash transfers to other County funds. We requested all documentation from the County to support those expenditures. The results of our review are described below.

- The 2007 grant award was charged \$150,000 for King County Superior Court Operations to support the Juvenile Drug Court. The expenditures were for payroll and small purchases. We reviewed \$42,163.18 of these expenditures. The results of our review are described below.

We found the County did not have internal controls that were adequate to ensure compliance with the following grant requirements:

Allowable Costs/Activities Allowed

The federal grant agreements state the County must use the funds for specific projects and for specific costs of the project. Further, grant requirements state that the County must use the grant funds in compliance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. The County did not ensure the costs charged for the 2005 grant award were for allowable activities as identified in the grant award and the costs complied with the federal cost principles. We found the County spent \$377,448 on projects that were not allowable according to the grant agreement. We found an additional \$1,008 charged to the 2007 grant award for gift cards, which are unallowable costs according to federal requirements.

Further, 34.5 percent, or \$298,833, of the two grant awards paid employee salaries. We reviewed payroll transactions to determine whether salaries charged to federal grants were supported by adequate time and effort documentation as required by federal cost principles. We reviewed \$216,582 of wage and salary charges and found the County did not maintain time and effort documentation for either award. The County provided alternative documentation for \$116,506 in 2007 grant award payroll expenses, and we excluded these charges from the total amount of questioned costs.

Equipment

Grant requirements state the County must maintain adequate internal controls to provide reasonable assurance that proper records are kept for equipment; the disposition or encumbrance of such equipment complies with federal requirements; and the Department of Justice is appropriately compensated for its share of any property sold or converted to nonfederal use. The County charged \$125,333 to the 2005 grant for equipment. The County did not comply with the equipment management requirements cited above because the project manager failed to notify the asset manager that the equipment was purchased with federal grant money until nearly a full year after the grant expired.

Reporting

Grant requirements state the County must submit quarterly financial reports to the fiscal agent, the city of Seattle. The County should have processes in place that provide reasonable assurance that financial reports include all activity during the reporting period, are supported by underlying accounting records and are fairly represented. This did not occur for the 2005 grant award. The County submitted only one report during 2008 that indicated the County spent \$11,929. However, \$377,448 was recorded in the County's general ledger. We reviewed the records for these expenditures, which showed that the majority of the costs occurred between 2005 and 2007 and were not reported in quarterly reports for the periods incurred.

Level of Effort (supplanting)

The County may use the grant funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the federal funds, be made available from nonfederal sources for the program objectives. The County cannot use federal JAG funds to replace funds from nonfederal sources.

The County paid for the \$377,448 in project costs using federal funds. These project costs were previously funded with nonfederal (local) funds.

The County recorded the activity for the 2005 grant in the OIRM Capital Projects fund. This fund's only revenue source is the general fund. In 2008, the County removed the previously mentioned expenditures totaling \$377,448 from the OIRM Capital Projects fund, transferring them to the grant fund.

Period of Availability

The County may only use grant funds during the period of availability of funding, which is defined in the grant award. The 2005 grant agreement stated the period of availability was from October 1, 2004, through September 30, 2008. The County is required to have processes in place to ensure the grant funds are obligated and spent during the grant period. Although the King County Office of Management and Budget was aware of this requirement, the program manager responsible for ensuring expenditures are charged to the grant occurred during this timeframe did not have a process or procedure in place to ensure compliance with this requirement.

Cause of Condition

For all the above compliance requirements, the internal controls rested primarily upon employees who lacked adequate training and knowledge to reliably administer the grant requirements. There was also a lack of monitoring of the program managers by the County. In addition, the County allowed a nonstandard accounting process in which grant expenditures were charged first to a non-grant fund and subsequently reversed and charged to the grant fund.

Effect of Condition and Questioned Costs

In general, noncompliance with grant requirements could result in loss of eligibility for future federal awards. Specifically:

Allowable Costs/Activities Allowed

The County used \$378,456 in federal program funds to pay for unallowable costs. We are questioning this amount.

The County cannot ensure only activities allowed under the grant agreement, and allowable costs are charged to the grant per OMB Circular A-87. The County cannot ensure that adequate records are maintained for grant expenditures, including, but not limited to, time and effort documentation.

Equipment

The County cannot provide reasonable assurance that proper records are kept for equipment. Without these records, it is possible that equipment paid with federal funds could be disposed of in a manner that violates federal requirements and the Department of Justice would not be appropriately compensated for its share of any property sold or converted to non-Federal use.

Reporting

The County is unable to ensure the quarterly reports include all activity of the reporting period, are supported by underlying accounting records and are fairly represented. The Department of Justice relies on these reports to assess financial and program performance.

Level of Effort (supplanting)

By allowing a nonstandard accounting process and inadequate monitoring, the County cannot ensure that federal funds do not replace local funds.

Period of Availability

The County was unable to ensure that all the grant expenditures occurred during the period of availability. This resulted in \$11,620 charged to the grant fund after the period of availability had ended. We are questioning this amount.

Recommendation

We recommend the County:

- Establish adequate internal control to ensure compliance with federal grant requirements.
- Provide training to staff responsible for the use of the federal grant funds to ensure staff have adequate knowledge of the grant and its compliance requirements, and understand the necessity of maintaining adequate documentation in accordance with OMB Circular A-87.
- Require that expenditures be charged directly to the grant fund when such a fund exists.
- Consult with the Department of Justice about repayment of questioned costs.

County's Response

The County agrees with most of the findings, but disagrees with the supplanting finding. The County offers additional comments and will be taking immediate corrective action as noted below.

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 comprehensive, county-wide training program provides agency staff with in-depth A-133 federal compliance requirement information via monthly training meetings. The County views the lack of adequate program manager training as an isolated incident.

The County agrees with the SAO's recommendation to provide training to OIRM and OMB staff responsible for the use of the federal grant funds to ensure staff has adequate knowledge of the grant and its compliance requirements and will:

- Require staff to review the County's Grants Financial Administration Unit's resource manuals, training materials and reporting templates. In addition, these tools will be included in all OMB trainings for JAG grant program staff and administrators
- Meet to review all grant administration materials to discuss compliance issues and identify questions and issues requiring follow up.

The county received \$23,236,734 in federal funds from the Department of Justice (DOJ) in FY05-08. The County's portion of the DOJ JAG award funds received in FY05-08 was for \$959,808. The costs being questioned are \$377,448 and make up less than 2% of total funds received by the County from DOJ.

Allowable Costs

The county agrees in fact with the finding that \$377,448 of the grant award was expended on project activities that were not allowable according to the grant agreement. The county further agrees that the project manager had insufficient knowledge and training. King County's grant narrative indicated the county would purchase software in order to create a "regional security 'public key' infrastructure". Once the project was initiated, it was discovered that this technical objective was not feasible in the exact manner originally considered; therefore the county proceeded in an alternative direction of building software to create a regional law enforcement "security gateway".

The county agrees in fact with the finding that \$1,008 of the grant award for gift cards, as incentives for participants in the Juvenile Drug Court program, is unallowable. The county would argue that program incentives are necessary operating costs for the program and that reasonable consideration is gained in exchange for the incentives in terms of achieving program objectives and improving participant outcomes. Prior drug court program grants from the Department of Justice (DOJ) allowed for the cost of incentives, recognizing the importance and value that they contribute to program outcomes. The use of incentives is considered a best practice and is part of nationally recognized models for effective drug court programs.

The county will:

- Require project managers to provide more detailed budgets, to include all categories of cost, to the grant administrator during the grant application. Gift cards will be listed in the budget.
- Request verification in writing from the grantor on allowability of any uncertain costs.
- Require project/finance managers to monitor project expenditures and progress to verify the project activities and expenditures have not changed from the

approved grant award. Any necessary change of activity or expenditures from the approved grant award will be reported to the grant administrator, who will work with the project manager to describe the changes and request approval from the grantor.

Time and Effort Documentation

The county agrees in fact with the finding that the county did not provide time and effort documentation for this grant. The court has already addressed the deficiencies in the time and effort certification template identified by the auditors. The template has been modified and will be submitted to the Grant Financial Officer for review and approval.

The county will:

- Provide training for project/finance managers regarding time and effort documentation requirements for federal grants.
- Require project/finance managers to use the county's time and effort documentation model, and provide instruction on its use. Alternative project time and effort documentation may be used if approved by the Grant Financial Officer in the King County Department of Finance.
- The project manager will provide correct CFDA number to direct supervisors and review time and effort certifications to ensure the correct CFDA number is included in the documentation.
- A supervisor having direct knowledge of the day-to-day operations of the staff member shall sign the time and effort certification(s).

Equipment

The county agrees in fact with the audit finding and will:

- Provide training for project/finance managers in asset management and adequate record keeping for federally-funded assets. This includes form use and instruction.
- Require project managers to submit evidence of proper asset management notification and tagging of equipment with quarterly reporting for any period that includes expenditures for equipment.

Reporting

The county agrees in fact with the audit finding and will:

- Designate grant roles and responsibilities for grant administrators, finance managers and project managers for monitoring expenditures and developing adequate controls.
- Require project/finance managers to post expenditures to the period of activity in the grant fund and in quarterly reports to grantor. Grant Administrator will require revisions or amendments to prior quarterly reports if errors or corrections are discovered.
- Require the grant administrator to monitor quarterly reporting of grant expenditures and supporting documentation to verify 1) expenditures are approved per the grant award, 2) expenditures match the reporting period and 3) interfund transfers of expenditures are completed in the reporting period.
- Provide documentation from the county's financial system to support expenditures in the grantor quarterly reports. The grant administrator will review

and verify that documents sent by the project/finance managers support the expenditures in the quarterly reports.

Level of Effort / Supplanting

The King County Office of Management and Budget is disputing the supplantation finding in this audit report. This project, in its original and revised descriptions and budgets, was selected for grant funding because it provided a regional benefit, was not included in the scope of other criminal justice IT projects, and was not able to be funded with other county resources

The county agrees in fact with the audit finding that grant costs were accumulated in a capital information technology (IT) fund and later transferred to the 2005 JAG grant fund for reporting to the grantor. While accumulating expenditures in an operating or capital project fund, other than a grant-specific fund, may not be "best practice," the county has used this method on other federal, state, local and private grants, and does not consider this a non-standard accounting process.

The county would note that the specific project deliverable – a Security Gateway project – was not approved or appropriated for the Law Safety Justice Integration Program (LSJ-I). When the LSJ-I program was approved in April 2003, its scope consisted of six projects and funding for the approved scope was appropriated in the 2003, 2004 and 2005 annual budgets. The security Gateway project was not included among the six projects in the LSJ-I scope. The 2005 Adopted Budget appropriated \$2.2 million for the LSJ-I Program to fund integration middleware that would enable criminal justice agencies to share data between disparate information systems. The security gateway funded by the JAG grant is software that allows law enforcement to present their credentials and allows them sign-on access to multiple applications. This regional security gateway project was not in the scope of LSJ-I and which the county was not able to fund it with existing resources. No funding other than the JAG grant was ever appropriated for this project.

The County will:

- Require project/finance managers to post expenditures directly to the specific JAG grant fund whenever possible. In special circumstances, the project/finance manager will notify the grant administrator and the Grant Financial Officer to seek direction on approved alternate methods of accounting for the grant expenditures.

Period of Availability

The county agrees in fact with the audit finding that \$11,620 was charged to the grant fund after the period of availability had ended. However, the county notes that these expenditures were obligated and spent during the grant period of availability in the capital IT fund, where the grant costs were accumulated prior to transfer to the grant fund.

Questioned Costs

The county agrees with the SAO's recommendation to consult with the Department of Justice (DOJ) about repayment of questioned costs. The county understands that questioned costs should only be refunded upon determination by the appropriate

granting agencies. The county will be asking the DOJ to approve these expenditures as we believe they are congruent with the outcomes, mission and purpose of the grant.

Auditor's Remarks

We thank the County for the assistance we received during the audit. We have considered the County's response and reaffirm our finding.

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:

- (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.

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

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 . . .
- j. Be adequately documented.

Attachment B, Section 8(h)

- (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.

Title 28 Code of Federal Regulations, Part 66

Section 66.20 - Standards for financial management systems.

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.

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Section 66.32 - Equipment.

(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.

Period of Availability - Office of Justice Programs (OJP) Financial Guide, part III, Chapter 2 states in part:

- An obligation occurs when funds are encumbered, such as in a valid purchase order or requisition to cover the cost of purchasing an authorized item on or after the begin date and up to the last day of the grant period in the award.
- Any funds not properly obligated by the recipient within the grant award period will lapse and revert to the awarding agency. The obligation deadline is the last day of the grant award period unless otherwise stipulated. (Example: If the award period is 10/1/06 to 9/30/07, the obligation deadline is 9/30/07).
- No additional obligations can be incurred after the end of the grant.

U.S Code

Title 42, Chapter 46, Subchapter V, part A, § 3752(1), states in part:

To request a grant under this part . . . Such application shall include the following:

(1) A certification that Federal funds made available under this part will not be used to supplant State or local funds, but will be used to increase the amounts of such funds that would, in the absence of Federal funds, be made available for law enforcement activities.

Revised Justice Assistance Grant Budget Narrative, contract 2005-DJ-BX-1640, states in part:

King County wishes to perform a new operational assessment of regional criminal justice opportunities to update the strategic plan for ongoing criminal justice integration, especially focused on regional interaction and data access throughout King County. In addition, the county wants to hire a temporary full-time project manager to facilitate implementation of two regional LSJ-I projects: the Booking and Referral System and the Criminal Justice Information Portal. Finally, software purchases – to include procuring digital certificates for law enforcement officers throughout the county – will support development of a regional security “public key” infrastructure.

- The cost breakout of these activities will be as follows:
- Analysis and development of strategic plan: \$104,788
- Temporary project manager to implement regional projects: \$105,000
- Software costs to develop regional security infrastructure: \$200,000
- Total: \$409,788

All costs are expected to be expended during 2006 and 2007.

Schedule of Federal Audit Findings and Questioned Costs

**King County
January 1, 2008 through December 31, 2008**

2. King County's internal controls were inadequate to ensure compliance with federal grant requirements of the Homeland Security Grant Program.

CFDA Number and Title:	CFDA 97.067 Homeland Security Grant Program
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington State Military Department
Pass-through Award/Contract Number:	E08-102, E08-196, K298, OFM 880-07, E07-144, E07-174
Questioned Cost Amount:	\$0

Description of Condition

The Homeland Security Grant program provides support to state and local governments to prepare for, prevent, respond to and recover from disasters.

In 2008, the County spent \$7 million of Homeland Security grant funding it received from the State Military Department to pay for equipment, planning, training and exercises, management and administration.

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 the grant requirements and monitoring of program activities.

We reviewed four of the County's seven contracts with the Military Department that account for 99 percent of the County's reported grant expenditures for 2008. During our audit, we noted:

Equipment management

Grant requirements state the County must maintain adequate internal controls to provide reasonable assurance that proper records are kept for equipment; the disposition or encumbrance of such equipment complies with federal requirements; and the Department of Homeland Security is appropriately compensated for its share of any property sold or converted to nonfederal use. We found King County does not have adequate processes in place to ensure equipment is managed in accordance with federal requirements.

During our review, we noted the source of the money used to pay for the equipment is not consistently documented in the County's centralized database or in departmental

databases. These databases are used to meet the federal requirement for biennial equipment inventories. As a result, asset lists used to conduct the inventories did not include equipment paid for with federal money. We obtained asset lists from the Sheriff's Office and Finance and Budget Office and compared them to equipment invoices from the grant files. One list excluded six night vision systems valued at \$10,144 each and did not include the funding source for 11 of 15 assets we reviewed. The 11 assets value totals \$1.6 million. The other excluded a patrol boat that cost \$509,728. We were able to confirm this equipment was in the County's possession.

The County Office of Emergency Management requires County departments to submit hand receipts when new equipment is received, if there is a change in location, change in use or disposition of equipment. It also periodically requests departments to submit hand receipts certifying the equipment is still in the department's possession. However, this process does not meet the requirement for grantees to conduct a biennial physical inventory of all equipment purchased with federal money. The patrol boat mentioned above was purchased in 2006, and an updated receipt was not requested until 2009.

We noted the hand receipts and accompanying invoices do not include the percentage of federal money used in the purchase or the asset tag number. The hand receipts for the patrol boat and the night vision goggles did not include the Catalog of Federal Domestic Assistance (CFDA) number. The hand receipt and invoice for an infrared imaging system that cost \$239,904 did not include the serial number. Although Emergency Management conducts spot checks of equipment, we noted instances in which site visit reports documented whether the equipment was tagged or not. However, if it was not tagged, no follow up was done to verify corrective action was taken. Further, we noted not all fields were consistently completed for each hand receipt.

Reporting

The Washington State Military Department requires, at a minimum, quarterly invoices be submitted by the County. We reviewed all 41 invoices for four contracts with \$7 million in billing activity. We found 17 invoices, accounting for 41 percent of the invoices, were not billed timely. The billings were submitted two or three times per year. The related expenditures for the late invoices were \$2.44 million, or 35 percent of the program expenditures claimed for reimbursement.

During the May 2008 monitoring report, the Military Department reminded the County of the reporting procedures and stated it would not pay invoices nor approve the purchases of equipment if the County fell behind in sending reports or invoices.

Subrecipient monitoring

Local governments distribute federal funds to other organizations that provide services needed to accomplish federal program objectives. These organizations are known as subrecipients. The original grant recipient is considered to be a pass-through agency. A pass-through entity 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 administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.

King County's contracts require subrecipients submit to the County, at a minimum, quarterly invoices. Of the seven subrecipient invoices totaling \$795,835 we examined, six totaling \$452,102 were not submitted quarterly. The County did not monitor subrecipients for timely invoicing. Billings were one or more quarters late. Without timely invoicing, the County cannot ensure the related quarterly invoices report all activity to the Military Department. This increases risk the state will not pay the County's invoices and not process requests for equipment approval.

Cause of Condition

Because of the decentralized nature of King County effective controls to ensure compliance with federal grant requirements were not consistently monitored to applicable departments. Such decentralization diminishes the ability for the controls to be effective. King County's Office of Emergency Management administers this grant; its employees believed that including the federal requirements in sub-award contracts with other County departments was adequate and relied on the contract language to ensure compliance.

The Office of Emergency Management revised its hand receipt form to include the CFDA number in 2007; however, hand receipts for assets purchased prior to that date were not updated to include this information.

The Office of Emergency Management is not effectively using the County-wide asset system to manage federally funded assets. OEM does not reconcile its equipment records to the county-wide inventory list to ensure all equipment is recorded.

King County fails to submit invoices as received and monitor subrecipients to ensure those invoices are received timely for submission for reimbursement.

Effect of Condition

The County is not complying with grant requirements. This could jeopardize the County's ability to qualify for future federal grants and funds.

Equipment management

When equipment records are incomplete and do not contain the required elements, it increases the risk federally-funded equipment may be lost, misappropriated, or used for purposes not allowed in the grant agreement. In addition, the County is required to reimburse the federal government for the fair market value of federally funded equipment when it is sold or converted to other uses. Since the funding source is not properly tracked nor are complete physical inventories conducted, this increases risk that the County will not comply with this requirement. Lack of effective oversight may expose the County to additional liability.

Reporting

By not submitting timely invoices as required it increases risk that the Military Department will not pay the County's reimbursement requests and will not process requests for equipment approval.

Subrecipient monitoring

Allowing subrecipients to consistently submit late reimbursement requests to the County increases the County's risk of noncompliance with federal reporting requirements and may result in loss of federal funding. This also contributes to subrecipients' noncompliance with federal reporting requirements.

Recommendation

We recommend the County establish effective controls to assure compliance with federal requirements for equipment management, reporting and subrecipient monitoring.

County's Response

The county would highlight that the auditor found that all assets selected for audit and purchased with these federal funds are in service and properly accounted for.

The county disagrees with the finding that the county does not have adequate processes in place to ensure equipment is managed in accordance with federal requirements.

King County does indeed track and manage equipment purchased with homeland security grant funds through a system that utilizes reimbursement spreadsheets, hard-copy hand receipts, and a subrecipient monitoring and equipment verification program. Earlier iterations of hand receipt forms for purchased equipment were missing minor information elements, but forms associated with more recent fiscal year grants contain all required information.

While it is true that a streamlined equipment management system might employ the county's central inventory database (IVIS), we feel strongly that the county has demonstrated its ability to track homeland security grant-funded equipment under its current manual system. Moreover, the optimized solution recommended by the State Auditor's Office only addresses King County-owned equipment, and it fails to recognize that the need to track equipment passed through to other jurisdictions is of equal importance. The existing system, while not optimized to electronically track county-owned equipment, does satisfy the equipment management requirements.

Even though the county believes that the State Auditor is conflating "suboptimal" with "inadequate," the Office of Emergency Management and the Finance and Business Operations Division intend to work together to merge the data pertaining to homeland security grant-funded equipment into the county's IVIS system. This will enable the county to tie the equipment management requirements of the grants to the annual inventory process for all county-owned equipment and, theoretically, streamline the internal verification process.

In addition, the county will hire additional staff to increase the frequency of monitoring and verification efforts to meet the biennial inventory requirements.

The county agrees in fact with the finding that the county did not submit quarterly invoices to the Washington State Military Department.

The county's Office of Emergency Management recognizes that quarterly billing was an issue in 2008, and has taken steps to improve its performance in the management of

homeland security grants. Quarterly billing has improved markedly in 2009. As of the date of this finding, OEM has prepared three sets of invoices, one for each of the first three quarters in 2009, and has met or exceeded the deadline for two of the three quarters.

The county agrees in fact with the finding that the county did not monitor subrecipients for timely invoicing

The King County Office of Emergency Management will communicate with all subrecipients to reiterate and reinforce that invoicing and narrative progress reports are due on a quarterly basis. Future iterations of the subgrant agreement and amendment will clearly specify this requirement, and existing subrecipients will be notified by December 15, 2009, that invoices and reports are due quarterly.

Auditor's Remarks

We thank the County for the assistance we received during the audit. We have considered the County's response and reaffirm our finding.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states:

Section 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) a description of the property
- (b) a serial number or other identification number
- (c) the source of property
- (d) who holds title
- (e) the acquisition date and cost of the property
- (f) percentage of federal participation in the cost of the property
- (g) the location, use and condition of the property

(h) any ultimate disposition data including the date of disposal and sales 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.

e. Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per-unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

Special Terms and Conditions Section from the Washington State Military Department and U.S. Department of Homeland Security Contracts No. E07-174, No. E07-144, No. E08-102, No. E08-196:

ARTICLE VI - EQUIPMENT MANAGEMENT:

All equipment purchased under this contract, by the Contractor or a Sub-contractor, will be recorded and maintained in an equipment inventory system.

3. The Contractor shall maintain equipment records that include: a description of the property; the manufacturer's serial number, model number, or other identification number; the source of the equipment, including the Catalogue of Federal Domestic Assistance or CFDA number; who holds title; the acquisition date;

the cost of the equipment and the percentage of Federal participation in the cost; the location, use and condition of the equipment at the date the information was reported; and disposition data including the date of disposal and sale price of the property.

4. Records for equipment shall be retained by the Contractor for a period of six years from the date of the disposition, replacement or transfer. If any litigation, claim, or audit is started before the expiration of the six year period, the records shall be retained by the Contractor until all litigations, claims, or audit findings involving the records have been resolved.

5. The Contractor shall take a physical inventory of the equipment and reconcile the results with the property records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the records shall be investigated by the Contractor to determine the cause of the difference. The Contractor shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

6. The Contractor shall develop a control system to ensure adequate safeguards to prevent loss, damage, and theft of the property. Any loss, damage or theft shall be investigated and a report generated.

7. The Contractor will develop adequate maintenance procedures to keep the property in good condition.

8. If the Contractor is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

9. When original or replacement equipment is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

a. Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of by the Contractor with no further obligation to the awarding agency.

b. Items of equipment with a current per-unit fair market value of more than \$5,000 may be retained or sold and the Contractor shall compensate the Federal-sponsoring agency for its share.

10. As sub-grantees of federal funds the Contractor must pass on equipment management requirements that meet or exceed the requirements outlined above for all sub-contractors, consultants, and sub-grantees who receive pass-thru funding from this contract.

Article VI -- Equipment Management

All equipment purchased under this contract, by the Contractor or a Sub-contractor, will be recorded and maintained in an equipment inventory system.

3. The Contractor shall maintain equipment records that include: a description of the property; the manufacturer's serial number, model number, or other identification number; the source of the equipment, including the Catalogue of Federal Domestic Assistance or CFDA number; who holds title; the acquisition date; the cost of the equipment and the percentage of Federal participation in the cost; the location, use and condition of the equipment at the date the information was reported; and disposition data including the date of disposal and sale price of the property.

5. The Contractor shall take a physical inventory of the equipment and reconcile the results with the property records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the records shall be investigated by the Contractor to determine the cause of the difference. The Contractor shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

9. When original or replacement equipment is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- a. Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of by the Contractor with no further obligation to the awarding agency.
- b. Items of equipment with a current per-unit fair market value of more than \$5,000 may be retained or sold and the Contractor shall compensate the Federal-sponsoring agency for its share.

Washington State Military Department Contract Special Terms and Conditions:

Article II -- Reports:

In addition to the reports as may be required elsewhere in this contract, the Contractor shall prepare and submit the following reports to the Department's Key Personnel:

<u>Financial</u>	<u># Copies</u>	<u>Due Date</u>
Quarterly Invoices	1	within 30 days following the end of the quarter in which the work was performed

Invoices must be submitted no more often than monthly, but at least quarterly. Failure to submit invoices in a timely manner will cause the

Department to hold all requests for equipment approval until invoices are submitted.

Article VII -- Subrecipient Monitoring

The Department will monitor the activities of the Contractor from award to closeout and for the life of equipment purchased under this contract. The goal of the Department's monitoring activities will be to ensure that agencies receiving federal pass-thru funds are in compliance with federal and state audit requirements, federal grant guidance, applicable federal and state financial guides, as well as OMB Circular A-133 and A-122 where applicable.

U.S. Office of Management and Budgets Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Section 400(d) states, in part:

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

1. Identify Federal awards made by informing each sub-recipient of CFDA title and number, award name and number, award year . . . and name of Federal agency . . .
2. Advise sub-recipients 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 sub-recipients 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 sub-recipients expending \$500,000 or more in Federal awards during the sub recipient'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 sub recipient's audit report and ensure that the sub recipient takes appropriate and timely corrective action.
6. Consider whether sub recipient audits necessitate adjustment of the pass-through entity's own records.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2008 through December 31, 2008

3. King County did not comply with the allowable activities of its federal Job Access Reverse Commute Grant.

CFDA Number and Title:	CFDA 20.516 Job Access Reverse Commute
Federal Grantor Name:	Federal Transit Administration
Federal Award/Contract Number:	WA-37-X021
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$11,238

Background

During 2008, the County spent \$1,385,106 on the federal Job Access Reverse Commute (JARC) program. The purpose of the program is to improve access to transportation to employment-related activities for public assistance recipients and eligible low-income individuals.

Description of Condition

The County was reimbursed \$11,238 for payments to a subrecipient to provide transportation to individuals for non-employment related activities. The federal Job Access Reverse Commute grant does not cover transportation costs that are not employment-related.

Cause of Condition

The County erroneously coded the charges to the federal Job Access Reverse Commute grant rather than to a state grant that allows these charges.

Effect of Condition and Questioned Costs

The County was reimbursed \$11,238 for activities that were unallowable. We are questioning this amount.

Recommendation

We recommend the County:

- Improve the monitoring over coding of charges to the Job Access Reverse Commute program to ensure only allowable costs are charged.

- Consult with the Federal Transit Administration about repayment of questioned costs.

County's Response

The Transit Division of the King County Department of Transportation concurs with the finding and recommendations as stated in the auditor's report.

Effective immediately, the Transit Division of the King County Department of Transportation will:

- *Process a correction to its financial records that will change the accounting for these charges so they are no longer coded to its JARC grant. A corresponding reduction in its billing for this grant to the Federal Transit Administration will be included in the Department's next request for reimbursement in November, 2009.*
- *Add a new step to its procedures to reduce the risk of future mistakes. We will utilize the Business and Finance Officer for Transit's Market Development Group to provide an extra level of review for payments to subrecipients.*

These procedures require the subrecipient to complete a reimbursement form, and submit with the form an invoice and supporting documentation. The Program Manager will perform a detailed review of the documents submitted, and follow up with the subrecipient if necessary. After review, the Program Manager will prepare the payment document for review and approval of account coding and amount, which is submitted to the Business and Finance Officer. Once approved by the Business and Finance Officer, the Administrative Assistant will process the invoice for payment and enter the data in the JARC Loaner Van spreadsheet. Documentation will be retained in both the Grants Office and by the JARC Program Manager.

Auditor's Remarks

We appreciate the County's response and commitment to the resolution of these matters and thank County's staff and management for their cooperation and assistance during our audit.

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 Part 225), Appendix A, Section C, states in part:

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 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 . . .

(j) Be adequately documented.

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

Section 300 Auditee responsibilities.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S Code

§ 5316. Job access and reverse commute formula grants

(a) Definitions.— In this section, the following definitions apply:

(1) Access to jobs project.— The term “access to jobs project” means a project relating to the development and maintenance of transportation services designed to transport welfare recipients and eligible low-income individuals to and from jobs and activities related to their employment, including—

(A) transportation projects to finance planning, capital, and operating costs of providing access to jobs under this chapter;

(B) promoting public transportation by low-income workers, including the use of public transportation by workers with nontraditional work schedules;

(C) promoting the use of transit vouchers for welfare recipients and eligible low-income individuals; and

(D) promoting the use of employer-provided transportation, including the transit pass benefit program under section 132 of the Internal Revenue Code of 1986.

Schedule of Federal Audit Findings and Questioned Costs

**King County
January 1, 2008 through December 31, 2008**

4. King County's internal controls were inadequate to ensure compliance with requirements of its Highway Planning and Construction Program.

CFDA Number and Title:	CFDA 20.205 Highway Planning and Construction
Federal Grantor Name:	Federal Highway Administration
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington State Department of Transportation (WSDOT)
Pass-through Award/Contract Number:	Various
Questioned Cost Amount:	\$0

Description of Condition

The County spent \$11,473,904 of Federal Highway Administration (FHWA) funds passed through the Washington Department of Transportation (WSDOT) during fiscal year 2008. The federal funds were for engineering and construction of roads and bridges. To be eligible for funding under the Highway Planning and Construction program, grant recipients must comply with certain federal requirements and have internal controls in place to ensure compliance with these requirements. We noted the following control deficiencies:

The Davis-Bacon Act requires federal prevailing wages be paid to workers who perform construction that is funded with federal grant funds. As a result, the County must include in applicable construction contracts a requirement that contractors comply with the Davis-Bacon Act. The County must also collect weekly certified payroll from those construction contractors. To assure compliance with the requirement, King County's policies require:

- (a) Federally funded construction contractors to submit certified payrolls for their employees.
- (b) Roads Division project engineers to conduct site interviews with the contractors' employees for the Construction Contracts Unit to verify prevailing wages are paid in compliance with Davis-Bacon requirements.
- (c) Federally funded construction contractors to include WSDOT contract templates, which include federal prevailing wages and Davis-Bacon prevailing wages compliance requirements.

We found the April 2008 certified payrolls for four subcontractor employees were identified by the project engineer as potentially underpaid and were not originally collected from the subcontractor. The Roads Division engineer did not cross-check the

workers' quoted wages noted during site-interviews against the certified payroll. In response to audit inquiry, the Roads Division did verify the wages and found the subcontractor did not submit the proper payroll. Although it was later obtained and the wages complied with the Act, the County did not follow its controls.

Further, we noted the staff responsible for ensuring the wages reported comply with the requirements, did not have a process to determine whether the state of Washington prevailing wage rates or the federal Davis-Bacon Act wage rates were higher; therefore, the County was not be able to ensure the contractor complied with state law that stipulates the higher of the two wages must be paid to the workers.

Cause of Condition

The employee responsible for investigating wage discrepancies from site interviews did not follow up on the reported discrepancies to discover the proper certified payrolls were not submitted from the subcontractor. Staff responsible to verify the correct wage was paid, to be the higher of state or federal rates, lacked adequate knowledge of the how to perform the review.

Effect of Condition

When the County does not follow its controls to assure compliance with federal Davis-Bacon Act requirement, this increases risk of noncompliance with federal requirements. However, based on our audit results, we are not questioning costs.

Recommendation

We recommend the County:

- Follow its controls established to assure compliance with federal Davis-Bacon Act requirement.
- Ensure employees have adequate knowledge of compliance requirements and how to perform duties to ensure such compliance.

County's Response

The RSD agrees with the auditor's finding that four subcontracting employees were identified as being potentially underpaid during the on-site interviews it conducted, and that the County did not cross-check against the certified payrolls at the time. The project was still open when the discrepancy was first identified, however, and, as the auditor noted, staff would have corrected the discrepancies during the final reconciliation. In addition, the FHWA website refers to the WSDOT site for Washington State's posted prevailing wages. The RSD employee responsible for verifying the prevailing wages had assumed that the wages posted by WSDOT either met or exceeded FHWA Davis-Bacon requirements. The RSD will:

- *Establish additional controls to ensure the certified payrolls are crosschecked with the on-site interviews.*
- *Require that responsible employee(s) verify that both FHWA Davis-Bacon and WSDOT prevailing wage rates be included in its contracts, and will cooperate*

with WSDOT Highway Local Programs to ensure that it complies with WAC 296-127-025 in all contracts that use FHWA funds.

The RSD deems that wage discrepancies must be investigated and resolved before a contract is closed out, and it agrees with the auditor's recommendation that resolving such issues sooner rather than later is the more prudent course of action. Division Management will counsel the employees responsible for performing these reviews and provide additional training to ensure that its staff understands the verification of wages paid and compliance with requirements of the Davis-Bacon Act.

Auditor's Remarks

We appreciate the County's response and commitment to the resolution of these matters and thank County's staff and management for their cooperation and assistance during our audit.

Applicable Laws and Regulations

Title 49 Code of Federal Regulations, Section 29.330, states:

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to--

(a) Comply with this subpart as a condition of participation in the transaction. You may do so using any method(s), unless Sec. 29.440 requires you to use specific methods.

(b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

The 29, Code of Federal Regulations, Section 3.3 states:

(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) states in part:

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 laborers and mechanics employed or working upon the site of the work...will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account . . . 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.

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, states:

Section 300 - Auditee responsibilities.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Washington Administrative Code 296-127-025, *Applicability of joint federal-state standards*, states:

(1) When a public works project is subject to the provisions of the Washington state public works law, chapter 39.12 RCW, and the Federal Davis-Bacon and related acts, the contractor and every subcontractor must pay at least the Washington state prevailing wage rates, if they are higher than the federal prevailing wage rates for the project unless specifically preempted by federal law. (2) When the federal prevailing wage rates are higher than the Washington state prevailing wage rates, the contractor shall pay the federal rate as required by federal law.

Schedule of Federal Audit Findings and Questioned Costs

King County
January 1, 2008 through December 31, 2008

5. The County has inadequate internal controls to ensure compliance over subrecipient monitoring requirements for the Supportive Housing Program.

CFDA Number and Title:	CFDA 14.235 Supportive Housing Grant
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	WA01B600036, WA01B600034, WA01B700053, WA00040BOT000801, WA01B700040, WA00039BOT000801
Pass-through Entity Name:	City of Seattle
Pass-through Award/Contract Number:	DA08-5537, DA09-5537, DA07-5537, DA07-5431, DA08-5431, DA09-5431
Questioned Cost Amount:	\$0

Background

The Supportive Housing Program is designed to promote the development of supportive housing and supportive services, including innovative approaches to assisting homeless people who are transitioning from homelessness, and to promote supportive housing for homeless persons so they can live as independently as possible.

Local governments distribute federal funds to other organizations that provide services needed to accomplish federal program objectives. These organizations are known as subrecipients. The original grant recipient is considered to be a pass-through agency. A pass-through entity 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 administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.

Monitoring may include reviewing reports submitted by subrecipients and performing on-site reviews of subrecipient financial and program records and operations. Monitoring also includes providing subrecipients with program information, such as the award name and Catalog of Federal Domestic Assistance number, the name of the federal grantor and grant requirements. For subrecipients spending \$500,000 or more in federal awards during a fiscal year, pass-through agencies must ensure appropriate audits are done and appropriate and timely corrective action is taken in instances in which findings are reported.

Description of Condition

During 2008, the County spent \$2,676,813 in federal grant funding for the Supportive Housing program. Of this amount, the Department of Public Health paid \$1.1 million to five subrecipients that assist the homeless with supportive health care services.

During our review, we noted the County does not have sufficient internal controls to ensure subrecipients comply with grant requirements. The County does not perform a detailed review of expenditures to determine if they are for allowable activities, meet applicable cost principles, and are properly classified. Specifically, in 2008, the County conducted three biannual site visits to its subrecipients, but did not review any supporting documentation for costs and activities related to the grant, such as invoices, receipts, and payroll documents. As an alternative, this information could have been submitted by the subrecipients to Public Health with their reimbursement requests, but this did not occur.

Cause of Condition

The Department of Public Health does not have adequate training of program personnel responsible for ensuring that subrecipients are adequately monitored. During the site visits, supporting documentation was requested; however, in each instance the subrecipient stated the documents were in storage. No follow-up was performed to ensure charges to the program complied.

Effect of Condition

Inadequate monitoring of costs and activities over recipients of grant funding can result in unallowable costs being charged or a misappropriation of federal funds. Lack of effective oversight may expose the County to additional liability or damages.

Recommendation

We recommend the County's strengthen internal controls over monitoring of cost and activities charged to the Supportive Housing Program by subrecipients; and provide training to staff responsible for ensuring that subrecipients are adequately monitored.

County's Response

The Public Health Department (Department) partially concurs with the recommendation although does not agree that the description of the condition reflects our experience.

The Department has had a subrecipient monitoring plan and function in place for several years. However, due to staffing and workload changes in 2008, the timing of the site visits for the 2007 expenditures was substantially delayed. This delay created the circumstances that resulted in the finding. The incidents are isolated and not indicative of the internal controls that are in place and used by the Department in the implementation of its overall subrecipient monitoring program.

In two instances, where the subrecipients had placed their 2007 records in storage and were not accessible, the Department used alternative methods to conduct their reviews.

For one sub-recipient, they requested and reviewed fiscal backup from a more current month, and performed that review on-site. The other subrecipient, for which source documentation was not reviewed on-site, had been periodically submitting copies of its 2007 general ledger to program staff. Program staff reviewed the general ledger entries throughout the year, and follow up occurred as needed with the sub-recipient. In both of these cases, follow-up was performed to ensure charges to the program were compliant.

The Department does not agree with the cause of the condition. Program staff performing the subrecipient monitoring is well trained on oversight responsibilities and show evidence of a clear understanding of federal sub-recipient monitoring duties. They have attended trainings sponsored by the Department, King County, and the State Auditor's office including regular refreshers and updates.

The Department has a central subrecipient monitoring program in place that uses a risk-based approach to monitoring as well as reviewing subrecipient expenditures. The Department believes the issues raised in this finding are not systemic or recurring. This one-time lapse in procedure occurred as a result of a vacancy in the Department's sub-recipient monitoring program during the period under audit and the subsequent delays in the timing of the site visits.

The vacant position has subsequently been filled and the Department's subrecipient monitor works with each program to ensure that subrecipient expenses are reviewed for the applicable compliance requirements during site visits. A written subrecipient monitoring plan and cycle is solidly in place. The Department will take steps to ensure that subrecipient monitoring is a priority, the planned subrecipient monitoring calendar is adhered to, and there is adequate documentation that the review of source documentation has occurred for each visit.

Auditor's Remarks

We thank the County for the assistance we received during the audit. We have considered the County's response and reaffirm our finding.

Applicable Laws and Regulations

OMB 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.

U.S. Office of Management and Budgets Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Section 400(d) states, in part:

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 sub recipient'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 sub recipient's audit report and ensure that the sub recipient takes appropriate and timely corrective action.
6. Consider whether sub recipient audits necessitate adjustment of the pass-through entity's own records.

Schedule of Federal Audit Findings and Questioned Costs

King County
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6. King County's internal controls were inadequate to ensure compliance with federal Davis-Bacon Act requirements over the Airport Improvement Program.

CFDA Number and Title:	CFDA 20.106 Airport Improvement Program
Federal Grantor Name:	U.S. Department of Transportation
Federal Award/Contract Number:	AIP 3-53-0058-037 and AIP 3-53-0058-033
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

In 2008, King County spent \$10,084,226 in federal Airport Improvement Program grant money to rehabilitate and improve airport runway and taxi lanes. Grant-funded construction projects that are subject to the requirements of the Davis-Bacon (prevailing wage) Act require contractors to pay laborers no less than the prevailing wages prescribed by the federal government.

Further, grant recipients must obtain and retain certified payroll reports from the contractor and subcontractors for each week during the project and verify that laborers working on the federally funded airport improvement project were paid prevailing wage rates.

Description of Condition

King County contracted with an engineering firm to oversee the projects and to ensure federal requirements were met. Although the firm had collected the weekly certified payrolls from the contractor and subcontractors who worked on the project, the engineering firm failed to verify that laborers were paid in accordance with Davis-Bacon Act requirements. Further, King County was unable to demonstrate adequate monitoring of the engineering firm to ensure compliance requirements were met.

Cause of Condition

The County neglected to develop internal controls to ensure that the engineer compared the certified payroll wages to the federally required wage levels. The contract between King County and the engineer specified that the engineer was responsible for reviewing the certified payrolls. The engineer did not comply with the contract. Even though the

contract required the engineer to compare the payroll to prevailing wages, the engineer stated the County had verbally told him only to collect the weekly payrolls and report that they were received.

Effect of Condition

Unless the County monitors the process that is designed to ensure that laborers working on the federally funded airport improvement project were paid prevailing wage rates, King County cannot demonstrate that prevailing wage rates were paid in accordance with Davis-Bacon Act. We looked at approximately four salaries from the certified payrolls with the County AIP Contract Administrator (not the engineering firm). Although the County could not demonstrate their compliance with the wage requirements, we found each certified payroll reviewed indicated that the County was in compliance with the Davis Bacon Act.

Recommendation

We recommend the County develop internal controls to ensure that laborers working on the federally funded airport improvement project are paid prevailing wage rates.

County's Response

The County relied on its contract with the engineering firm to conduct the review of weekly certified payrolls as required by Davis-Bacon Act. When the auditor discovered that this review was not being conducted, and brought this to our attention, the County directed the engineering firm to review all certified payrolls and report any discrepancies. This review has been completed, with only a few immaterial exceptions noted.

The County believed that the responsibility for compliance with Davis-Bacon Act requirements was fully contracted to the engineering firm and the County had no reason to doubt that the engineering firm did not fulfill their contractual responsibilities.

In accordance with standard procedures, change orders to contracts should be in writing. For this contract, there is no written documentation from the County to the engineering firm that supports a change to the contractual requirement of reviewing and verifying payroll data rather than just collecting and reporting on payroll data.

The County acknowledges that the collected weekly certified payroll reports submitted by the engineering firm were not reviewed by County staff to verify that laborers were paid in accordance with Davis-Bacon requirements.

The County will develop, document and implement additional internal control procedures to review payroll data for compliance with the Davis-Bacon Act whether or not the function is contracted out to a third party.

Auditor's Remarks

We appreciate the County's response and commitment to the resolution of these matters and thank County's staff and management for their cooperation and assistance during our audit.

Applicable Laws and Regulations

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 29, Code of Federal Regulations, Section 3.3, states in part:

(b) Each contractor or subcontractor engaged in 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. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH 348, "Statement of Compliance", or on an identical form on the back of WH 347, "Payroll (For Contractors Optional Use)" ' or on any form with identical wording.

Title 29 Code of Federal Regulations, Section 5.5, states in part:

(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 . . . the following clauses . . .

(1) Minimum wages. (i) All laborers and mechanics employed or working upon the site of the work . . . will be paid unconditionally and not less often than once a week . . . 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

Schedule of Federal Audit Findings and Questioned Costs

King County
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7. The County's internal controls are inadequate to ensure compliance with cash management requirements for the Special Supplemental Nutrition Program.

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

Description of Condition

We reviewed the County's internal controls and compliance with the Special Supplemental Nutrition for Women, Infants, and Children program requirements. Although federal in origin, the funds were granted to the County by the state Department of Health. The County spent \$3,771,167 in federal money under this program.

The County does not have adequate internal controls to ensure expenditures are paid prior to requesting reimbursement from the state. The County paid \$1.1 million to 144 subrecipients in 2008. We identified 18 transactions totaling \$153,274 that were not paid prior to requesting reimbursement.

Cause of Condition

The County requests reimbursement based on the contractual caseloads of its subrecipients rather than actual cash disbursements. The County does not have adequate controls in place to ensure subrecipients are paid prior to requesting reimbursement.

Effect of Condition

Failing to pay claims prior to reimbursement may result in interest earnings on federal funds. The interest earnings would need to be remitted to the federal government. However, we were able to confirm that expenditures were paid before payment was received from the state; no interest was earned.

Recommendation

We recommend the County establish policies and procedures to ensure reimbursement requests include only expenditures that already have been paid.

County's Response

Public Health concurs with the finding as stated in the auditor's report.

Effective August 1st, both WIC contractor sub-recipients and public health center WIC sites have implemented the below internal control procedures. These procedures are in effect to ensure the payment of sub-recipients before Public Health requests reimbursements:

- *The WIC Manager will send a reminder e-mail to sub-recipient WIC Coordinators on the first working day of the month, requesting a fax or e-mail of their previous month's Caseload Management Report. The reports are due by the 5th working day of the month. If this is not possible, the sub-recipient's WIC Coordinator will inform the WIC Manager or Contracts Manager regarding when it will be submitted. This report provides the documentation that the sub-recipient provided WIC services for their caseload, and therefore, Public Health can initiate payment. The Contracts Manager files the reports with the contract files in PCH.*
- *The Consolidated Contracts billing is due to our Accounting services unit no later than the 20th day of the following month. The Contract Manager will submit billings closer to the 20th due date each month, avoiding early billing.*

Auditor's Remarks

We appreciate the County's response and commitment to the resolution of these matters and thank County's staff and management for their cooperation and assistance during our 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 31, Code of Federal Regulations, Section 12.b.5 states in part:

Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.