



**Office of the Washington State Auditor  
Pat McCarthy**

January 11, 2024

Mayor and City Council  
City of Edmonds  
Edmonds, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our federal grant compliance audit of the City of Edmonds from January 1, 2022 through December 31, 2022. We believe our recommendations will assist you in improving the City's internal controls and compliance in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to City officials and personnel. If you have any further questions, please contact me at (425) 951-0290.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for their cooperation and assistance during the audit.

Sincerely,

Kristina Baylor, Program Manager

Attachment

## Management Letter

City of Edmonds

January 1, 2022 through December 31, 2022

### **Subrecipient Monitoring**

The City received a Coronavirus State and Local Fiscal Recovery Funds Program award, ALN 21.027, and spent \$1,371,952 in program funds to cover additional costs it had incurred during the pandemic, including expenditures supporting public health, household utility relief, and necessary investments in water and sewer infrastructure. The program funds also included \$965,946 passed through to two subrecipients to provide emergency assistance to households for people financially affected by COVID-19.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires federal award recipients to establish and follow internal controls, and to monitor subrecipients to ensure compliance with federal program requirements. This includes providing subrecipients with program required and monitoring risk assessments to determine the appropriate level of monitoring, reviewing financial, performance and special reports to monitor program compliance, ensuring each subrecipient receives a single audit when required, and issuing management decisions for audit findings reported pertaining to the federal award provided to the subrecipient. During our audit, we identified an internal control deficiency and noncompliance related to the City's subrecipient monitoring for this program. Specifically, the City did not have adequate controls for monitoring its subrecipients, including ensuring they received a federal single audit when required and reviewing their audits when applicable.

The City contracted with four subrecipient agencies during 2021, including two that continued to receive funding during 2022. Our audit found the City provided subrecipients with program requirements, performed risk assessments, and monitored their financial and other reports for program compliance. However, we found the City did not perform monitoring activities to verify if subrecipients were required to receive single audits when their total federal expenditures exceeded \$750,000. Without this verification, the City cannot ensure it is performing the proper level of monitoring and that subrecipients are complying with program requirements. Our testing found that two of the four subrecipients would not have been required to have single audits until 2023, and the remaining two did not appear to have federal expenditures in 2021 exceeding the threshold requiring a single audit.

We recommend the City verify all subrecipients have received single audits when required and retain sufficient documentation of this verification to ensure proper monitoring occurs in compliance with federal requirements.