

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

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**City of Seattle**  
**King County**

Audit Period  
**January 1, 2012 through December 31, 2012**

**Report No. 1010624**

Issue Date  
**September 30, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

September 30, 2013

Mayor and City Council  
City of Seattle  
Seattle, Washington

***Report on Federal Single Audit***

Please find attached our report on the City of Seattle's compliance with requirements applicable to each of its major federal programs in accordance with OMB Circular A-133.

We are issuing this report in order to provide information on specific financial activities of the City.

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

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King County  
January 1, 2012 through December 31, 2012**

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# Federal Summary

City of Seattle  
King County  
January 1, 2012 through December 31, 2012

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

## **FINANCIAL STATEMENTS**

We issued an unmodified opinion on the City's financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information in our separately issued audit report dated June 28, 2013.

### ***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 City.

## **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 no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs.

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>
10.559	Child Nutrition Cluster - Summer Food Service Program
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
14.235	Supportive Housing Program
14.253	ARRA - CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants (Recovery Act)
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act)
16.738	JAG Program Cluster - Edward Byrne Memorial Justice Assistance Grant Program
16.804	ARRA - JAG Program Cluster - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government (Recovery Act)
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants
20.932	ARRA - Surface Transportation Discretionary Grants for Capital Investment (Recovery Act)
81.042	Weatherization Assistance for Low-Income Persons
81.042	ARRA - Weatherization Assistance for Low-Income Persons (Recovery Act)
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) (Recovery Act)
93.724	ARRA - Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) (Recovery Act)
93.778	Medicaid Cluster - Medical Assistance Program
97.036	Disaster Grants - Public Assistance Program
97.056	Port Security Grant 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 City did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Federal Audit Findings and Questioned Costs

City of Seattle  
King County  
January 1, 2012 through December 31, 2012

1. The City did not have adequate internal controls in place to ensure it complied with Weatherization Assistance for Low-Income Persons grant requirements.

**CFDA Number and Title:** 81.042 ARRA - Weatherization Assistance for Low-Income Persons  
**Federal Grantor Name:** U.S. Department of Energy  
**Federal Award/Contract Number:** NA  
**Pass-through Entity Name:** Department of Commerce  
**Pass-through Award/Contract Number:** F09-43103-404, F12-43103-404, F10-431SE-404  
**Questioned Cost Amount:** \$9,699

The City of Seattle helps eligible applicants to weatherize their homes through a program called HomeWise. The City determines eligibility, identifies weatherization work that is needed and then enters the information into the HomeWise database, which contains a listing of about 181 possible weatherization improvement tasks and their unit prices obtained from eight contractors. Program staff then selects one of those contractors to perform the work at that contractor's established unit price. The grant allows the City to perform weatherization tasks in three categories of Measures – weatherization, health and safety, and repair as shown in the table below:

Activities allowed by the grant (i.e. grant budget)			
Allowable Cost:	Grant F12-43101-403	Grant F10-431SE-404	Grant F09-43103-404
Administration	\$35,427	\$107,825	\$62,576
Program Operation		215,649	363,177
Training and Technical Assistance	2,800		18,056
Liability Insurance			2,885
*Weatherization Measures	139,549		
*Health and Safety Measures	41,000	1,833,017	79,966
*Weatherization Repairs Measures	18,000		86,080
Program Support	28,000		
Audit			1,000
Grant Total	\$264,776	\$2,156,491	\$613,740

In 2012, the City spent \$1,890,653 from the Weatherization Assistance for Low-Income Persons grants, of which \$1,573,682 was funded by the American Recovery and Reinvestment Act (ARRA). The Washington State Department of Commerce received this money as a grant from the US Department of Energy and passed it through to the City of Seattle as a subgrant.

### **Description of Condition**

We examined the City's processes and documentation to ensure compliance with grant requirements. We found the City had deficiencies in internal controls over compliance with grant requirements that, when taken as a whole, constituted a significant deficiency:

#### **Activities Allowed**

The City's weatherization assistance program includes 181 possible weatherization tasks. Examples of tasks include sealing heating ducts, adding wall insulation, and installing smoke detectors; each weatherization project can include a number of such tasks carried out on an eligible building. At the start of the weatherization program, the City categorized each task into one of three measures allowed by the grant as summarized in the table below:

Measure category:	Activities
Health and Safety Measures	26
Weatherization Measures	67
Weatherization Repair Measures	88
Total	181

The categorization process is key to ensuring that the City appropriately spends grant money on the specific allowable measures intended by the grant. During our review of controls, we noted the City did not document the process it followed to ensure each task was appropriately categorized into one of the three measures. We concluded the City does not have adequate controls and the City is not able to ensure it performed the amount of measures intended by the grant. However, based on our testing of expenditures, all the expenditures we tested did fit into one of the three allowable measure categories.

#### **Eligibility**

We tested ten of 27 weatherization projects subject to eligibility requirements applicable to this grant. The City incorrectly determined eligibility for one out of ten tested projects when it made an error in calculating the household income; we determined the actual income exceeded the maximum allowable income by \$70 per month and the household was not eligible for weatherization assistance under this program. . The City's error resulted from using four months of income data to calculate income, rather than the three months allowed by the rules. Existing controls over eligibility did not detect the error. The cost of improvements to the ineligible household was \$17,587, of which \$9,699 was provided by Department of Energy grant. Therefore, we question costs of \$9,699; based on the error we noted, we estimate total questioned costs for all projects are likely to exceed \$10,000.

## **Procurement**

City is required to ensure competitive selection of all contractors and vendors used in federally funded programs. It can follow its own procurement procedures as long as they conform to federal rules and do not result in restriction of competition. Federal rules state that any arbitrary action in the procurement process restricts competition. To ensure compliance, the City of Seattle adopted rules and provides guidance so its departments can ensure compliance.

The HomeWise program staff was unable to describe the process used to select the eight contractors used in the Weatherization program, nor could the City demonstrate that it followed a public, competitive process to obtain unit prices from these contractors. Additionally, the City did not document the reasoning for selecting specific contractors from the database to perform work on each individual weatherization project, which is especially important when the selected contractor did not have the lowest cost.

## **ARRA Reporting**

The American Recovery and Reinvestment Act of 2009 requires recipients of Recovery funds to report quarterly how they are using the funding. The City compiles the quarterly cumulative data and submits it to WA State Department of Commerce who reports it to Recovery.gov so the public can track the use of the money. Because of inadequate review of reports for accuracy, the City understated the final 2012 report by \$174,819, (12 percent of funds subject to this reporting). Existing controls were ineffective and did not detect and correct the error.

## **Cause of Condition**

The Housing program staff did not have adequate training on City processes and grant compliance or consistently follow established City processes for selecting of contractors. In addition, the Office of Housing's management did not adequately oversee the program.

The Recovery Act reporting errors were made during the recording of total amounts paid to two vendors. The City did not detect the reporting error nor had a chance to correct it in subsequent reporting periods because the final report was already filed.

## **Effect of Condition**

The City cannot demonstrate that it ensures that it spends federal money on the appropriate amount of grant-allowed activities.

The City provided weatherization assistance to ineligible household; we report related questioned costs in the amount of \$9,699. This amount may be subject to recovery by the grantor.

The City cannot demonstrate that it is ensuring that all interested contractors can compete for opportunity to perform weatherization work. Further, the City cannot demonstrate that it is getting the best unit prices.

The City underreported expenditures of ARRA funds by 12%.



## Recommendation

We recommend the City provide adequate training to individuals responsible for making decisions that affect compliance with federal grant requirements. Specifically the City should:

- Establish a documented process to ensure appropriate categorization of weatherization activities.
- Use the eligibility determination guidance issued by Washington State Department of Commerce.
- Ensure that all unit prices were obtained from contractors through an appropriate competitive selection process, and to adequately document its selection of each contractor from the contractor list.
- Establish and follow controls to provide sufficient review to detect reporting errors.

## City's Response

### **Categorization of Measures**

*HomeWise management and Building Performance Institute-certified technical staff assigned each of the 181 measures to the Weatherization, Repair and Health/Safety categories in 2009. Each assignment was made on the basis of definitions and criteria established in the Washington State Department of Commerce Weatherization Manual.*

*Though HomeWise did not retain a written record of the categorization process, subsequent reviews by the State Department of Commerce have not revealed any concerns with the categorization process or outcomes. Commerce inspects our files and our work 3-4 times a year. During those visits, the Commerce Inspector can easily see how measures were categorized and have had ample opportunity to provide feedback and response. Throughout the years, inspectors have never identified a case of mis-assignment of a measure to a category.*

*While we feel confident that measures have been categorized correctly, HomeWise will document the process by which HomeWise staff apply the Department of Commerce's category definitions to individual measures in order to answer similar questions in the future.*

### **Eligibility**

*The HomeWise Program Manager will review income qualification guidelines, including limitations on permissible time periods for income documentation (3 months or 12 months) with all relevant staff.*

### **Procurement**

*HomeWise has an application process for new contractors that is clearly described on our website. This process was used for all eight contractors. We agree however that we did not keep adequate written documentation of how the opportunity to be on the roster was advertised. Going forward, we will improve documentation of the advertisement and selection process.*

*In response to the Auditor's questions about the selection process for individual projects, HomeWise staff explained the basis for each job award. However, on the basis of the Auditor's recommendation, we will now include a written explanation on each bid sheet.*

### **ARRA Reporting**

*The discrepancy identified by the Auditor was unavoidable, as the reporting cycle to the State Department of Commerce did not match to the ARRA grant's closing date. Commerce required the City to submit the report in question by the 3rd working date after each quarter; therefore we reported to the State the expenditures recorded in our system as of April 3, 2012. Three days after this report submittal, but still within the grant's 45-day closing period, further expenditures were accrued into our accounting system. Commerce provided no opportunity for the City to provide an updated version of report in question at the end of the grant period.*

### **Auditor's Remarks**

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### **Applicable Laws and Regulations**

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

Section 300 Auditee responsibilities.

The auditee shall:

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

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 10, Code of Federal Regulations, Section 440.22 Eligible dwelling units, states in part:

(a) A dwelling unit shall be eligible for weatherization assistance under this part if it is occupied by a family unit:

(1) Whose income is at or below 200 percent of the poverty level determined in accordance with criteria established by the Director of the Office of Management and Budget,

(2) Which contains a member who has received cash assistance payments under Title IV or XVI of the Social Security Act or applicable State or local law at any time during the 12-month

period preceding the determination of eligibility for weatherization assistance; or

(3) If the State elects, is eligible for assistance under the Low-Income Home Energy Assistance Act of 1981, provided that such basis is at least 200 percent of the poverty level determined in accordance with criteria established by the Director of the Office of Management and Budget.

Title 10, Code of Federal Regulations, Section 600.236 Procurement, states in part:

(b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(c) Competition.

(1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of § 600.236.

(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.

Agreements between Washington State Department of Commerce (COMMERCE) and the City of Seattle (grantee) contain section titled "Additional Provisions Under the American Recovery and Reinvestment Act of 2009", which states in part:

Grantee agrees to provide to COMMERCE all reports, documentation, or other information, as may be required by COMMERCE to meet reporting obligations under the Recovery Act. Grantees receipt of funds is contingent on Grantee meeting the reporting requirements of [ARRA] Section 1512.

# Schedule of Federal Audit Findings and Questioned Costs

**City of Seattle  
King County  
January 1, 2012 through December 31, 2012**

2. **The City's internal controls were inadequate to ensure payments to subrecipients were supported and the subrecipients' activities were adequately monitored.**

<b>CFDA Number and Title:</b>	14.235 Supportive Housing Program
<b>Federal Grantor Name:</b>	U.S. Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	Multiple awards
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$ 598,601 known questioned costs \$ 2,116,176 total likely questioned costs

During 2012, the City spent \$9,548,423 of Supportive Housing Program grant funds. The Program, administered by the Seattle Human Services Department, is designed to assist homeless individuals and families in the transition from homelessness and to enable them to live as independently as possible. In 2012, the City paid more than 93 percent of these funds to subrecipient organizations to provide these services.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure program requirements are met. These controls include monitoring subrecipients through reporting, site visits, regular contact, or other means to provide reasonable assurance that federal awards are administered in compliance with laws and regulations, and that provisions of contracts or grant agreements and performance goals are achieved. The City has the ultimate responsibility for compliance with federal regulations.

We reported control deficiencies and questioned costs in our 2011 and 2010 audits of the City's Supportive Housing Program grant. The accompanying Schedule of Prior Federal Audit Findings describes the City's ongoing efforts to address conditions reported in the prior audits. However, our current audit determined those conditions persist.

## **Description of Condition**

We found in most cases, service providers are providing sufficient documentation to allow the City to monitor their activities and to ensure federal funds were being spent on allowable costs and allowed activities.

We tested 64 transactions and found 14 were not supported by adequate documentation. As support for these costs, the City only received un-posted (not finalized) accounting entries and/or summary invoices. Such documentation is insufficient to allow the City to determine whether federal funds are paying only for allowable costs and activities. Without adequate supporting documentation, the City should not have used federal funds to pay those costs.

Additionally, the City did not actively monitor subrecipients to ensure they used grant money only for authorized purposes and in compliance with laws, regulations, and the provisions of contracts and grant agreements. The City's standard approach to monitoring service providers in this program has been to perform a "desk review" of reports. It did not review whether the provider requests for funds were based on actual costs. Further, the City's monitoring focuses on whether providers stay within their contract amounts and within budgeted line items. This approach does not ensure that the service providers are paid only for the cost of providing contracted services.

Additionally, in 2012 the Department maintained documentation that it performed on-site monitoring of only 11 out of 32 programs funded by the grant while the remaining 21 programs received no documented on-site monitoring during the year. For example, Downtown Emergency Services Center operates six programs funded by this grant and received over \$2.8 million in grant funds during 2012, but was subject to only four on-site visits during 2012.

### **Cause of Condition**

The Department is now relying on periodic monitoring scheduled by the Office of Housing as part of that Office's internal controls. However, Office of Housing schedules its monitoring based on its needs and the needs of its various funding sources (i.e. grants), which may be different than Human Services Department. The Grants and Contracts specialists do not appear to understand the reasons for performing monitoring or the amount of monitoring that is appropriate for this grant program.

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

By reimbursing subrecipient service providers for costs claimed without receiving adequate supporting documentation or otherwise monitoring the subrecipients' use of the funding, the City is unable to ensure costs charged to the grant are allowable.

Because the City did not actively pursue compliance documentation in 14 out of 64 tested transactions, we report \$598,601 of known questioned costs which represents 24% of \$2.5 million that we tested. Because we used sampling techniques to test those transactions, we must extrapolate results to the entire grant expenditures. Using the 24% identified error rate, we determined a projected likely questioned cost total of \$2,116,176. Questioned costs are subject to recovery by the grantor.

### **Recommendation**

We recommend the City establish internal controls, such as a process or procedures to obtain adequate supporting documentation and review it before using federal funds to pay subrecipient service providers. This documentation should include enough detail to allow the City to decide whether the cost is actual (versus being based on budget or an

estimate), and contain enough detailed information to decide that the cost benefits the grant objective. The City should not use federal grant funds to pay for any costs that do not meet its grant requirements.

We further recommend the City provide training to staff responsible for monitoring the activities of its subrecipients to ensure compliance with federal grant requirements. Specifically, the training should clarify that subrecipient monitoring should allow the City to be reasonably sure that the subrecipient is in compliance with federal program requirements. Such subrecipient monitoring should be performed with such frequency, at least annually, and, in terms of procedures performed, should have adequate focus on the specific activity being funded by the grant, rather than a generic visit. For example, if the City continues to pay based on un-posted entries or summary invoices, it should perform procedures to make sure all payments are supported by adequately detailed documentation. Documentation should be retained in the form and detail necessary to demonstrate City's compliance with subrecipient monitoring requirements.

### **City's Response**

*Despite previous efforts to address monitoring issues, the Human Services Department (HSD) has been unable to finalize efforts to institutionalize and sustain improvements to its monitoring practice in the past. One of the contributing factors was the department's organizational structure, and most recently, significant executive leadership changes within the department. Until 2011, HSD operated under a very de-centralized structure; the five service divisions reported to the HSD director and were allowed to operate with relative autonomy. There was little cohesiveness in how the divisions operated, thus reinforcing a silo approach to operational and investment decisions. In 2006, a contract monitoring manual was developed as a working document to help provide structure and consistency; however, this manual was never finalized or formally launched within the department.*

*In 2011, HSD underwent a reorganization which involved the consolidation of five divisions into four. Additionally, a deputy director was hired to work directly with the four division directors. The deputy director and division directors began to work together as an "operations team", focusing on the charge of implementing a seamless service system, addressing equity issues through contract and funding changes, and creating an outcomes framework which would allow for data to guide decision making. In 2012, the department further consolidated from four to three divisions. Additionally core work teams were convened with representation from mid-level managers from across the department, to work on the implementation of 1) an integrated planning structure, 2) a coordinated community engagement strategy, and 3) improvement to monitoring practice. The work from these three core teams will be launched in 2014. Specific deliverables will include a revised policy manual for how the department conducts funding processes and contract monitoring. It is intended for this policy manual to clearly articulate expectations, including internal controls, as well as be used as a training tool with staff as well as external partners.*

*Post 2011 audit findings, HSD changed invoice documentation standards to only include posted entries for the 2012-2013 McKinney grant year and all years following. This was adapted in May of 2012 with HSD contract monitors auditing all invoice transactions for the period covering January 2012-April 2012 retroactively replacing un-posted entries*

*with valid ledgers and documentation and on-site monitoring of Downtown Emergency Services Center (DESC), the largest receiver of McKinney funds involved in the audit findings.*

*HSD strategically sought monitoring support from the Office of Housing. Due to similarity of funding sources and both departments funding operations specifically, the monitoring requirements were identical. The collaboration of monitoring was with purpose, strategically increasing monitoring capacity until HSD increased staffing levels to meet monitoring needs. HSD Grants and Contract Specialists are aware of monitoring requirements and were maximizing capacity during a time of high need.*

*HSD has changed practices in 2012 based on monitoring findings in 2011, including no longer allowing pay based on un-posted entries. All invoices use adequately detailed documentation and the focus of all desk monitoring is on specific activity funded through the grant. The Grants and Contracts Unit in the CSA division of HSD is currently setting up training for Grants and Contracts specialists with our internal fiscal specialist to focus specifically on fiscal requirements and financial documentation for desk monitoring, on-site monitoring and invoicing.*

*HSD completed prior recommendation steps laid out in the 2011 auditor's report including informing sub recipients in writing that only documentation of actual expenditures will be accepted with contract invoices. Trainings on sub recipient monitoring were completed in late 2011 and an enhanced Agency Comprehensive Fiscal Review Process was implemented by the Fiscal Audit Specialist in 2012. The Monitoring Core team was convened in 2013 with the purpose of creating department wide procedures for monitoring investment that are standardized, effective, efficient and data-driven.*

*Corrective action has already taken place for the 2012 contract year and new standards are currently in place and practiced for invoice documentation. Corrective action for monitoring is planned for the year 2014 and is laid out in detail in corrective action plan.*

### **Auditor's Remarks**

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### **Applicable Laws and Regulations**

24 Code of Federal Regulations, Section 85, Administrative requirements for grants and cooperative agreements to State, local and federally recognized Indian tribal governments, states, in part:

§ 85.40 Monitoring and reporting program performance.

(a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

§ 85.21 Payment.

(a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

(d) Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and subgrantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or subgrantee may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement.

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

Section 105

*Pass-through entity* means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

*Subrecipient* means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program.

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

(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.

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

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

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

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

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

**City of Seattle  
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**3. The City did not have consistently applied internal controls to ensure it complied with Port Security Grant equipment requirements.**

<b>CFDA Number and Title:</b>	97.056 – Port Security Grant
<b>Federal Grantor Name:</b>	U.S. Department of Homeland Security
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Port of Tacoma and Marine Exchange of Puget Sound
<b>Pass-through Award/Contract Number:</b>	2008-GB-T7-K076, 2008-GB-T8-K065, 2009-PU-T9-K044, 2010-PU-T0-K033, EMW-2011-PU-K00268-S01
<b>Questioned Cost Amount:</b>	\$0

### **Background information**

In 2012, the City spent \$11,567,585 from the Port Security Grant Program, funded by the Department of Homeland Security to support transportation infrastructure security activities.

The Seattle Police Department and Seattle Fire Department were recipients of this grant and collectively spent approximately \$8,256,583 on equipment in 2012, of which \$4,548,932 was spent on the rehabilitation of the Chief Seattle, a fireboat. The City used the remaining \$3,707,651 to purchase 58 assets; the Police Department bought 17 assets for \$2,953,563 and the Fire Department bought 41 assets for \$754,088.

Federal regulations require grant recipients to keep accurate property records. Such records must 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. Additionally, at least every two years, the City must also perform a physical inventory of equipment purchased with federal funds.

### **Description of Condition**

Our audit focused on equipment items purchased with grant funds. We ensured the City is appropriately safekeeping all the items we tested and appropriately using them in accordance with grant requirements; however, the City's recordkeeping should improve. We found the City had deficiencies in internal controls over compliance with program

requirements that, when taken as a whole, constitute a significant deficiency. This resulted in noncompliance with grant requirements as described below.

#### Incomplete records

Maintaining accurate property records is crucial to ensuring compliance with equipment related requirements.

**The Departments' property records did not consistently include asset identification numbers.** Property records should contain an identification number so that each specific grant-funded item could be differentiated from other items, especially similar ones.

Of the seven Police Department property records we tested, three did not have identification numbers. Of the seven Fire Department property records we tested, two vessels were not tagged with identification numbers to easily distinguish the fireboats as grant funded. Without such information, the Departments cannot ensure compliance with equipment related requirements.

**The Seattle Police Department did not keep accurate and complete records of grant-purchased property.** We tested the records of seven items purchased with grant funds. None identified the percentage of federal funds used to acquire the items; four items did not include the assigned identification number and the record of their location was incorrect. The records for the remaining three items were incomplete and the Department spent several weeks to locate the items.

**The Seattle Fire Department did not keep accurate and complete records of grant-purchased property.** Out of seven items we tested, none identified the percentage of federal funds used to acquire the items, none identified the custodian, and five were in a different location than records indicated.

#### Incomplete inventory

Federal regulations require a physical inventory be performed at least every two years on all equipment acquired with federal grant funds.

**Seattle Fire Department did not perform a physical inventory as required. We could find no records identifying the last organized physical inventory.** Instead, the responsible individual telephoned asset custodians to ask if they still had the items. This activity is not in compliance with requirement for physical inventory. None of the Department's grant-funded assets were inventoried as required.

Further, the Department maintains property records in two systems: the citywide Asset Management System and its own WiseTrack system. This increases the risk that records are incomplete or recorded inaccurately. For example, 12 grant assets purchased in 2012 were not recorded in Asset Management separately but rather as one purchase order while 15 others were recorded in Asset Management but not in WiseTrack. Additionally, the identification numbers are logged in the Department's WiseTrack system, but not in the City's Asset Management System for any of the Department's assets. Such record keeping increases the risk that a physical inventory of assets may be incomplete and/or assets could be missing and not detected in a timely manner.

**Seattle Police Department's inventory of federally funded equipment was not complete.** The Department uses the City Asset Management System for official property record keeping. In 2011, it performed an inventory of property recorded in the System. However, because a number of the items in that system did not include an identification number (tag number) a physical inventory of these assets would not have been possible. For example, the Department could see that it owns a number of like items, but would not be able to specifically inventory items that were purchased with federal funds. We estimate 13 of the 27 assets purchased with grant funds could not be included in the next physical inventory.

### **Cause of Condition**

The Seattle Police Department's regular process is to place a tag on all items when they arrive at the central warehouse. These tags allow the Department to differentiate items purchased with federal funds from others. The Seattle Police Department's records were incomplete for those items that were not tagged due to their large size. Because these assets were missing tags, the Department would have been unable to identify them from other similar items or to ensure compliance with federal requirements related to equipment management.

The Seattle Fire Department's records were incomplete for boats which were not delivered to the warehouse due to their large size. Additionally, the Department did not complete a physical inventory because the responsible individual did not observe the assets being inventoried.

### **Effect of Condition**

Failure to comply with federal property record requirements increases the risk that federally funded equipment may be lost, misappropriated or used for unallowable purposes.

In addition, the City may be required to reimburse the federal government for the fair market value of federally funded equipment when it is sold or converted to other uses. Appropriate grantor approvals may not be obtained for the sales or conversions if assets are not properly identified or equipment records are incomplete.

### **Recommendation**

We recommend the City improve internal controls over equipment purchased with federal funds. The City should ensure all items are properly identified and their records comply with federal asset management requirements. We also recommend that the City require all property records be maintained in the citywide Asset Management System, which may require updating the system.

### **City's Response**

***The Departments' property records did not consistently include asset identification numbers.***

*Seattle Police Department utilizes the City of Seattle's Summit Financial Management*

System- the Asset Management Module to track all assets valued at \$5,000 or greater. The financial system assigns a unique asset ID number for each asset that is entered. In addition to the unique asset ID number that is assigned by the system, the following additional identifiers are available to be entered to assist in identifying each asset: 1) Asset Description, 2) Profile ID, 3) Acquisition Date, 4) Serial Numbers, 5) Model Number, 6) Vendor Name, 7) Org Number, 8) Org Description, 9) Grant Project Number, 10) Location, 11) Custodian, 12) Vendor Name and 13) Purchase Price

In addition, an Asset Tag number should have been affixed to each port security assets upon delivery to the Department. The Asset Tag number should have then been entered into the financial system for each corresponding asset. We have corrected our internal procedure to ensure that all fixed assets are tagged upon delivery and properly recorded in the Summit asset management system.

The Seattle Fire Department uses an internal inventory control system, named Wisetrack, in conjunction with the City's Summit Asset Management system. Of the seven Fire Department records tested, the two items which did not have a barcode identifier were two smaller boats. Boats do not process through the Department warehouse, and therefore did not get barcoded. These two boats are now barcoded and we have corrected our internal procedure to ensure all fixed assets are tagged upon delivery and properly recorded.

**The Seattle Police Department did not keep accurate and complete records of grant-purchased property.**

All seven items tested were included on the Summit Asset inventory report and the following identifiers were entered for each asset: The financial system assigns a unique asset ID number for each asset that is entered. In addition to the unique asset ID number that is assigned by the system, the following additional identifiers are available to be entered for each asset, thus providing alternatives to identifying each asset: 1) Asset Description, 2) Profile ID, 3) Acquisition Date, 4) Serial Numbers, 5) Model Number, 6) Vendor Name, 7) Org Number, 8) Org Description, 9) Grant Project Number, 10) Location, 11) Custodian, 12) Vendor Name and 13) Purchase Price.

The variance was caused because the tag numbers were not physically applied at the time of delivery of the assets. Again, that operational procedure has been corrected. Specifically for the assets tested, 100% were funded by Port Security Grant funds. A review of the voucher payment clearly indicates the percentage of federal funds that were utilized to purchase the identified assets.

**The Seattle Fire Department did not keep accurate and complete records of grant-purchased property.**

All seven items tested were identified and located. There were five items reported to be in locations other than designated in our inventory tracking, a variance from the Summit Asset Management system. All items have been accounted for and the Summit Asset Management system updated.

We will correct our internal procedure to include the percentage of federal funding for assets in the Department's Wisetrack system, as well as adding custodial assignment. We are reviewing our process to improve accountability for consistent tracking of assets through both the Wisetrack and Asset Management systems.

**The Seattle Fire Department did not perform a physical inventory as required. We could find no records identifying the last organized physical inventory.**

*A better understanding of what complying with this requirement entails for all assets has resulted in a change in business practice. Our 2013 physical inventory will be completed in October with a team conducting site visits for physical confirmation of each item.*

*The Fire Department uses an internal inventory tracking system to record all assets for the department even those below the threshold of the City's Summit Asset Management requirement. In order to minimize any future discrepancies between the systems, we will begin to include the Wisetrack barcode numbers in the Summit Asset Management system to have a unique identifier for reference in both inventory systems.*

*Twelve assets were reported in Wisetrack but not the Summit Asset Management system. These items are accounted for, and in their assigned location. The corrective action to record the assets in Asset Management is complete. Additionally, it was reported fifteen items were not in Wisetrack but listed in Asset Management. These items are communication equipment received at the City's Radio Shop that did not go through the department warehouse for barcoding. We have corrected our internal procedure to ensure all fixed assets are tagged upon delivery and properly recorded, and will work to include barcode numbers in both systems for identification and to reduce discrepancies.*

**Seattle Police Department's inventory of federally funded equipment was not complete.**

*SPD cannot rely solely on tag numbers to identify assets, because even when tag numbers are properly adhered and recorded in the fixed asset system, over time the tag numbers can become difficult to read or can be lost. The financial system assigns a unique asset ID number for each asset that is entered. In addition to the unique asset ID number that is assigned by the Summit system, the following additional identifiers can be entered for ease in identifying alternatives for identifying the assets: 1) Asset Description, 2) Profile ID, 3) Acquisition Date, 4) Serial Numbers, 5) Model Number, 6) Vendor Name, 7) Org Number, 8) Org Description, 9) Grant Project Number, 10) Location, 11) Custodian, 12) Vendor Name and 13) Purchase Price.*

*It is absolutely possible to identify assets with the multiple identifiers that are entered in the fixed asset system. A Project Number is assigned to all grant awards and is a critical component in tracking all grant funded purchases. SPD has a tight approval process for assigning expenditures to the project number and is confident that the entry of the Project Numbers in the asset management system provides the ability to identify all grant purchases. The Department conducted a physical inventory in the fall of 2011 for assets entered through July, 2011 and will conduct another physical inventory in October 2013 for assets acquired through July 2013. The 14 of the 26 assets purchased with grant funds and identified in the Summit Asset Management System will absolutely be included in the physical inventory. When the physical inventory is conducted, the assets will be researched by reviewing the voucher payment, matched with the physical items, tagged with asset numbers, and then the records will be updated.*

## **Auditor's Remarks**

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## **Applicable Laws and Regulations**

Title 44, Code of Federal Regulations, Section 13.32 states in part:

(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.

# Schedule of Prior Federal Audit Findings

**City of Seattle  
King County  
January 1, 2012 through December 31, 2012**

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

<b>Audit Period:</b> 1/1/2011-12/31/2011	<b>Report Reference No:</b> 1008567	<b>Finding Reference No:</b> 1	<b>CFDA Number(s):</b> 93.724
<b>Federal Program Name and Granting Agency:</b> ARRA - Prevention and Wellness - Communities Putting Prevention to Work/U.S. Department of Health and Human Services		<b>Pass-Through Agency Name:</b> King County	
<b>Finding Caption:</b> The City did not have processes to ensure it complied with Prevention and Wellness grant requirements.			
<b>Background:</b> Our audit identified control deficiencies and/or noncompliance with compliance requirements related to allowable activities, allowable costs and cost principles, equipment management, and procurement, suspension and debarment.			
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input 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>1. <i>Allowable Activities</i></p> <p><i>All coding errors are corrected. In addition, the City's purchasing rules were reviewed with key staff to insure they are educated on proper procurement procedures and accounting practices.</i></p>			
<p>2. <i>Allowable Costs and Cost Principles</i></p> <p><i>OED established MOU which clarifies the roles of partner organizations and clearly outlines their role as agents not only for the program, but also for the City in ensuring program outcomes. OED executed a contract amendment with Seattle King County Public Health that included line items for costs incurred in the implementation of this program including equipment.</i></p>			
<p>3. <i>Equipment Management</i></p> <p><i>All businesses receiving equipment as a part of the grant have equipment agreements stating that equipment is property of the City of Seattle and is to be used in accordance</i></p>			



with the purposes of the grant until such time as it is fully depreciated or they receive notice of disposition. OED maintains an inventory of equipment purchased under the award including a depreciation schedule documenting the fair market value of the equipment. The City conducted monitoring visits in April, 2013 for all 11 stores with equipment from the Healthy Foods Here project. At that time, each store was using the equipment to sell healthy foods and a number of them had actually expanded their healthy food inventory. OED will continue monitoring site visits annually to confirm the use of the equipment is in accordance with the equipment agreement until it is fully depreciated or disposed of.

4. Procurement, Suspension and Debarment

OED has developed and implemented a new contract management checklist tool that identifies key issues in management of federal funds, including allowable activities, procurement and debarment requirements. OED's Assistant Director of Finance meets with program staff upon the initiation of a federal grant to review the checklist and key issues regarding grants management. She also meets regularly with program staff to review progress on grant deliverables, reporting and compliance with federal requirements. All OED contracts are now reviewed annually to ensure that appropriate documentation is contained in the files, including invoices and supporting documents and reporting.

Per Seattle King County Public Health's request, OED performed price analysis of vendors with procurement amounts in excess of \$44,000 which were not subject to a competitive process. This price analysis documented that one of the vendors was within the allowable market range and the others had acceptable unique skill sets and value-added services to merit their pricing.

<b>Audit Period:</b> 1/1/2011-12/31/2011	<b>Report Reference No:</b> 1008567	<b>Finding Reference No:</b> 2	<b>CFDA Number(s):</b> 14.235
<b>Federal Program Name and Granting Agency:</b> Supportive Housing Program/U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City's internal controls were inadequate to ensure payments to subrecipients were supported and the subrecipients' activities were adequately monitored.			
<b>Background:</b> We found cases where service providers were not providing sufficient documentation to allow the City to monitor their activities and to ensure federal funds were being spent on allowable costs and allowed activities.			
<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> 1. In 2013, hired one additional grants and contracts specialist and filled the vacant Manager of Homeless Investments (supervises grants and contracts specialists in TLS). These significant hires will help address the State Auditor's concerns about our internal/external monitoring process.  2. Staff began to collect "posted" GL back-up with each invoice for each of its SHP grants immediately upon notification by the SAO in mid-2012. (Three contracts waited for the new contract period to begin full implementation). A formal comparison of costs between the			

posted and un-posted GL was not done, although staff did conduct an on-site review of DESC who has multiple contracts to look at actual expenses reflected on the GL.

3. Three grants and contracts specialists conducted on-site monitoring visits of 5 McKinney grants (10 programs) between April and September 2012. These monitoring visits reviewed program performance and assessed the program's progress in meeting McKinney contract goals. The specialists reviewed agency records/participant files for each grant for the specified contract period. In addition, staff either accompanied or participated with Office of Housing staff on at least 6 site visits that assessed occupancy levels/persons served and building operations.
4. A 2013-2014 on-site monitoring schedule has been developed that emphasizes the review of financial support documentation including cost eligibility and allocability. This will be a financial spot check of sample invoice(s) and will be in addition to the Agency-wide financial monitoring conducted by HSD staff person, Efren Agmata.
5. HSD is completing a department monitoring manual targeted to both providers and staff so all will be aware of monitoring expectations and procedures. HSD convened a Monitoring Core Team to guide development of a standardized, equitable, data-driven, and effective monitoring practice. The deadline for producing this manual is the end of 2013. HSD made progress in 2013 with the following:
  - Reviewed consistencies/inconsistencies in staff monitoring practices
  - Reviewed the different methods of contract reimbursement in HSD contracts
  - Developed a list of specific contract and program requirements present in contracts and which of those requirements should be monitored centrally by HSD finance unit or in a decentralized manner by individual grants and contracts specialists.
  - Examined Agency feedback on a survey of current monitoring experiences.

<b>Audit Period:</b> 1/1/2011-12/31/2011	<b>Report Reference</b> <b>No:</b> 1008567	<b>Finding Reference</b> <b>No:</b> 3	<b>CFDA Number(s):</b> 14.218; 14.253
<b>Federal Program Name and Granting Agency:</b> CDBG Entitlement Grants Cluster – Community Development Block Grant-Entitlement Grants Cluster/U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City's internal controls were inadequate to ensure payments to subrecipients were supported and subrecipients' activities were adequately monitored.			
<b>Background:</b> Our audit found control deficiencies and/or noncompliance with compliance requirements related to allowable costs, allowable activities, and subrecipient monitoring.			
<b>Status of Corrective Action: (check one)</b>			
<input checked="" type="checkbox"/> Fully Corrected	<input 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> The Human Services Department committed to taking two sets of actions regarding this finding. One directly involved reviewing the subrecipient's documentation of costs, and the second involved initiating an improved system of contract monitoring for the department as a whole.			

1. *Corrective action with the subrecipient*

*Two grants and contracts specialists conducted an on-site monitoring of the agency in May and June of 2012. The purpose of the monitoring was to review program performance and financial documentation and to assess the agency's progress in meeting contract goals. The specialists reviewed agency records for contracts inclusive of program years 2010 through 2012. Specific to cost documentation, records for the months of December 2010, December 2011, and March 2012 were reviewed. In all cases staff determined that the systemic documentation of costs accurately supported the costs invoiced to the City. Staff reviewed the general ledger, client file records, payroll records, and cancelled checks to make their determination.*

2. *Ongoing internal monitoring change process*

*The Human Services Department is working toward the completion of a monitoring manual targeted for both providers and staff so all will be aware of monitoring expectations and procedures. HSD has convened a Monitoring Core Team made up of program managers to guide this effort. The goal is to create standardized, equitable, data-driven, and effective monitoring practices that will be implemented by all staff responsible for the monitoring and administration of contracts with service providers. The deadline for producing this manual is the end of 2013. In addition to the activities and accomplishments already reported in HSD's response to the finding in last year's audit report (i.e. staff training and work groups on subrecipient monitoring and training needs), HSD has made progress in 2013 with the following:*

- *Reviewed consistencies and inconsistencies in staff monitoring practices*
- *Reviewed the different methods of contract reimbursement in HSD contracts*
- *Discussed a list of specific contract and program requirements present in contracts and which of those requirements should be monitored centrally by HSD finance unit or in a decentralized manner by individual grants and contracts specialists.*
- *Examined agency feedback on a survey of current monitoring experiences.*

*Finally, to address any staffing resource issues that may have contributed to the State Auditor's concerns about our internal monitoring process, HSD is working on an on-going goal of reducing the number of contracts we have. We plan to incorporate this goal into our manual on our Request for Investments procedures. (The Requests for Investments process is our means of procuring service providers.)*

<b>Audit Period:</b> 1/1/2011-12/31/2011	<b>Report Reference</b> <b>No:</b> 1008567	<b>Finding Reference</b> <b>No:</b> 4	<b>CFDA Number(s):</b> 81.086
<b>Federal Program Name and Granting Agency:</b> ARRA - Conservation Research and Development/U.S. Department of Energy		<b>Pass-Through Agency Name:</b> Puget Sound Clean Air Agency	
<b>Finding Caption:</b> The City did not have processes to ensure it complied with Conservation Research and Development grant requirements.			
<b>Background:</b> Our audit found control deficiencies and/or noncompliance with compliance requirements related to federal prevailing wages, Recovery Act special provisions, equipment management, and procurement, suspension and debarment.			

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

Fully  
Corrected

Partially  
Corrected

No Corrective Action  
Taken

Finding is considered no  
longer valid

**Corrective Action Taken:**

*The City has taken the following actions to correct the control deficiencies noted in the audit finding:*

*1. Federal Prevailing Wages / Procurement, Suspension and Debarment*

*The following has been implemented for all types of contracts used by the City, including City Purchasing (products, materials, supplies), and for Public Works (construction), and for Job Order Contracts (construction, small jobs), and for Consultant contracts.*

- City Purchasing and Contracting Services (CPCS) modified the Requisition forms for all 3 contract types, to more visibly prompt departments to consider and designate whether federal funds would be used.*
- CPCS modified the Purchasing Contract Summary Page (which is viewed when a department looks at a Master Contract) to, in bold, instruct departments and suppliers against placing orders if it is for federal funds.*
- CPCS revised all procurement documents (Public Works and Purchasing contracts) to always include Davis Bacon language in every solicitation and in the resultant contracts.*
- CPCS has added a statement into every Contractor Questionnaire (Consultant, Purchasing and Public Works) that requires the contractor of any tier confirm they have never been debarred.*
- CPCS has a checklist (for Purchasing, Public Works, JOC and Consultants) that is used prior to contract signature, which requires the Quality Assurance review to double-check and print-out federal debarment status.*
- CPCS has also placed language into every solicitation and contract (consultant, purchasing, public works, and JOC) to repeat the mandatory requirement that a Contractor of any tier must be free from debarment, and must immediately notify the City if a debarment action is under.*

*2. Equipment Management*

*The City's Fleets Division uses the Fleets Anywhere system to manage City owned vehicles and fleet equipment. Upon acquisition of vehicles or equipment the Fleets Division is including grant details including the portion of costs paid with federal grant funds in Fleets Anywhere. When vehicles or equipment is sold, the City is using the grant details in Fleets Anywhere to remit the appropriate share to the federal granting agency.*

*3. Recovery Act Special Provisions*

*The City has taken action to ensure all Catalog of Federal Domestic Assistance (CFDA) numbers are accurately reported on the Schedule of Expenditures of Federal Awards. Finance and Administrative Services (FAS) Accounting has reviewed all CFDA numbers for*

*its current projects funded by federal grants and determined there are no other CFDA number issues. FAS Accounting's Grant Accountant enters the correct CFDA numbers in Summit based on grant agreements and reviews Summit reports to ensure accuracy.*

*In addition, Citywide Grant Coordinator in Central Accounting also performs a review of the Grants Report to ensure that the Funding Source ties to a valid CFDA number.*

# **Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

**City of Seattle  
King County  
January 1, 2012 through December 31, 2012**

Mayor and City Council  
City of Seattle  
Seattle, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of the City of Seattle, 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, 2012. The City's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 City'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 on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of 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, 2012.

### ***Other Matters***

The results of our auditing procedures 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 1, 2 and 3. Our opinion on each major federal program is not modified with respect to these matters.

### ***City's Response to Findings***

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 City's internal control over compliance.

*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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be

material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2 and 3 that we consider to be significant deficiencies.

***City's Response to Findings***

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. 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.



**TROY KELLEY**  
STATE AUDITOR

September 26, 2013





# 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.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
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