Washington State Auditor's Office

Troy Kelley

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Federal Single Audit Report

City of Seattle

King County

For the period January 1, 2013 through December 31, 2013

Published September 30, 2014

Report No. 1012743

Washington State Auditor
Troy Kelley

September 30, 2014

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, 2013 through December 31, 2013

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Federal Summary

City of Seattle
King County
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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 26, 2014.

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 reported deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs, with the exception of the CFDA 14.267 Continuum of Care Program on which we issued a qualified opinion on compliance with applicable requirements.

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
14.235	Supportive Housing Program
14.267	Continuum of Care Program
20.932	ARRA - Surface Transportation - Discretionary Grants for Capital Investments (Recovery Act)
20.933	National Infrastructure Investments
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds (Recovery Act)
81.128	ARRA - Energy Efficiency and Conservation Block Grant (Recovery Act)
93.044	Aging Cluster - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers
93.045	Aging Cluster - Special Programs for the Aging - Title III, Part C - Nutrition Services
93.053	Aging Cluster - Nutrition Services Incentive Program
97.056	Port Security Grant
97.067	Homeland Security Grant

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
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1. The Seattle Human Services Department does not have adequate internal controls to effectively monitor service providers for grant compliance.

CFDA Number and Title:	14.235 Supportive Housing Program 14.267 Continuum of Care Program 14.218 Community Development Block Grant
Federal Grantor Name:	U. S. Department of Housing and Urban Development
Federal Award/Contract Number:	Multiple awards
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount for 14.235:	$ 744,907
Questioned Cost Amount for 14.267:	$1,704,044
Questioned Cost Amount for 14.218:	$ 202,752

Background

The City of Seattle Human Services Department (Department) spent almost $38 million in federal grants in 2013; much of the money (about $17.5 million) came from the U.S. Department of Housing and Urban Development (HUD). We audited the Department's compliance with requirements applicable to HUD grants titled the Supportive Housing Program (SHP), Continuum of Care Program (CoC) and Community Development Block Grant (CDBG), which together represent over $15.2 million. The Department spends most of the funds from these three programs to pay various provider organizations to provide homeless assistance to City's residents.

The Department pays service providers based on cost reimbursement or upon reaching program milestones and/or goals and then receives reimbursement from federal grants. It also reports program activity and results to federal grantors.

Federal grant rules require grantees to have both (1) adequate processes (internal controls) to ensure compliance and (2) evidence of compliance with applicable requirements. Coincidental compliance without adequate internal controls does not meet grant requirements. We are required to report significant control deficiencies, material weaknesses in controls, and material noncompliance, including questioned costs.

Description of Condition

The Department does not consistently ensure that every payment to service providers is supported by adequate documentation. We continue to find that invoice documentation the Department obtains from service providers is not sufficiently detailed and thus the Department cannot ensure it pays only appropriate costs or that purchased services were delivered. We examined invoices and identified questioned costs as shown in the summary Table 1 below. The documentation for these invoices is insufficient to determine whether funds are expended in compliance with grant regulations related to activities allowed, allowable costs and period of availability. Similar conditions were also identified in our 2010, 2011 and 2012 audits.

The Department does not consistently verify the information it receives from service providers. In regard to matching, program income, reporting, and subrecipient monitoring compliance requirements, the Department does not substantiate program information reported by service providers before using the information to submit reports to the federal grantor. The grantor then uses the Department's reports to make program and funding decisions. While subrecipient monitoring processes have improved in some ways in recent years, they do not compensate for lack of adequately documented invoices and program information.

The subrecipient monitoring performed now is not adequate to help the Department ensure compliance with applicable grant requirements.

The Department does not adequately monitor other departments' charges to the grant. Other departments of the City (Office of Housing and Department of Parks and Recreation) participate in grant-sponsored activities and charge their costs to grants. The Department of Human Services, which is ultimately responsible for HUD grant compliance, receives insufficient information about those charges to determine whether they are allowable. Although Department staff have access to other departments' records, including time and labor records, the Department paid those invoices without adequate verification that only appropriate costs were charged to the grant. We found the Department of Parks and Recreation did not have adequate accounting records to allow us to determine whether costs charged to the grant are allowable.

Table 1 below specifically identifies control and compliance issues for each federal grant, by compliance area.

Cause of Condition

Several significant causes led to control deficiencies. The overarching cause is the way that the service provider monitoring responsibility is assigned to Department employees.

Job responsibilities are incompatible and are not aligned with most relevant skills, education and interests. Currently, the main responsibility for monitoring subrecipient service providers lies with the Department's grants and contracts specialists who work in the Department's three divisions. Specialists participate in program design along with

planners and are responsible for selection, negotiation, preparation, monitoring, and administration of service-provider contracts in support of their Division's goals. The current job description for grants and contracts specialists seeks individuals with incompatible job skills: social worker skills and compliance specialist skills. Hiring managers also seek candidates with a social work or human service background and many of the current specialists do not express interests in the area of financial/compliance oversight.

Further, the same person is expected to tailor the particular program, negotiate the contract and then to self-evaluate it throughout the year. Some of these roles lack segregation of duties resulting in the Department's continuing inability to comply with federal grant requirements designed to promote good management/administration of programs.

For example, a single individual determines the nature and level of the services needed by a population, selects the provider(s) to fill that need, negotiates the necessary contract(s), and then is responsible to not only monitor delivery of the purchased services but also to review detailed and complex accounting/compliance records for fiscal and grant accountability/compliance. These duties are incompatible.

Assignment of specialists results in multiple contracts with service providers. Often different Division's grants and contracts specialists have multiple contracts with the same service-provider organization. Each of them independently negotiates with the service provider for specific services, which results in multiple contracts. Such assignment of responsibility causes a lack of centralized concentration of institutional knowledge and, because the monitoring is done on the contract level, leads to ineffective monitoring of compliance. Further, the Department's contracting and negotiation cannot result in the most beneficial terms for the Department and those who receive the services because it is more difficult for the Department to completely understand all of the service provider's capacity and activities.

For example, in 2013 the Department had 468 contracts with 173 different service providers and 77 of those providers had multiple contracts.

Monitoring of interdepartmental charges. Similar to monitoring of service providers, some people charged with monitoring interdepartmental charges do not have a background in grant compliance monitoring.

Effect of Condition and Questioned Costs

The Department does not have required processes to ensure federal dollars are spent only on allowable activities and further the grant objective, to ensure that the service providers meet match requirements and report all program income as required, and to ensure the information it reports to grantor is accurate. Further, the Department's subrecipient monitoring processes do not help ensure the Department is in compliance with all

applicable grant requirements. These process deficiencies result in noncompliance with grant rules as follows:

Table 1: Control and Compliance Issues by Grant

Compliance Area	Significant Deficiency in Control	Material Weakness in Control	Material Noncompliance
Activities Allowed	CoC/SHP/CDBG		
Allowable Costs – service providers		CoC/SHP	CoC/SHP
Allowable Costs -- interdepartmental	CDBG		
Period of Availability	CoC/SHP/CDBG		
Matching		CoC/SHP	CoC/SHP
Program Income		CoC/SHP	CoC/SHP
Reporting		CoC/SHP	CoC/SHP
Subrecipient Monitoring – ongoing monitoring	CoC/SHP	CDBG	COC/SHP/CDBG

As a result of inadequate controls, the Department paid costs without adequate supporting documentation. We report questioned costs as follows:

Program Name	Known Questioned Costs	Likely Questioned Costs
Supportive Housing Program – service providers	$103,068	$744,907*
Continuum of Care Program – service providers	$316,362	$1,704,044*
Community Development Block Grant -- interdepartmental	$202,752	$202,752

*Includes known and estimated amounts.

We issue an unmodified opinion on the City's compliance with requirements applicable to programs identified above, with the exception of the Continuum of Care on which we issued a qualified opinion on compliance with applicable requirements.

Recommendation

We recommend the Department improve internal controls to ensure compliance with all applicable grant requirements. Based on our observations during our audits, we recommend that the Department correct persistent issues related to provider payments and oversight by redesigning its approach to administration of service-provider contracts.

The Department should consider realigning job functions with relevant skills and education. Then, the Department should consider assigning people in those positions to service providers rather than Department divisions.

The Department should consider separating the grants and contracts specialists duties into two positions. One would focus on contracting and program outcome monitoring, while the other would perform detailed fiscal and grant compliance monitoring. The program specialists should have a background and interest in social and human services. The fiscal/compliance specialists should have a background and interest in finance, accounting and auditing. The two monitors would coordinate their respective roles. This approach is similar to division of responsibilities common to other types of contracting.

To reduce contracting and reporting complexity and streamline related processes, the Department should consider assigning program specialists and fiscal monitors to service providers, rather than to individual contracts. Such approach would benefit both providers and the Department.

- The Department would benefit from having a more complete understanding of each service provider's capacity and activities.

    - Program specialists will be able to better align Department needs for services with service providers. The Department's communication with service providers would go through one program specialist, which would lead to more consistent communication of strategies and goals.

    - Department fiscal/compliance monitors would be able to more completely monitor service providers' overall fiscal health and compliance with all contracts. The Department could then monitor the subrecipients' compliance with documentation, program income, and matching requirements.

- The service provider would benefit from reporting to and being monitored by one program and one fiscal/compliance specialist, instead of as many as 11.

    - Standard, common reporting processes would allow the service providers to prepare one report to the Department, rather than multiple reports for each contract.

    - The service providers' contact at the Department would be the person most knowledgeable about the organization. This would allow the Department and service providers to work more collaboratively to develop programs with more clearly defined outcomes.

Provider monitoring processes should be designed to help the Department meet program outcomes and comply with applicable grant requirements.

We further recommend the Department ensure all interdepartmental charges are in compliance with grant requirements. This could be accomplished by requiring relevant

and complete documentation to support each invoice from the other department. Alternatively, the Department can perform compliance-focused monitoring of those departments' charges to its grant(s).

City's Response

The Human Services Department recognizes and acknowledges the challenges noted in the State Auditor's report regarding the findings for the U.S Department of Housing and Urban Development (HUD) grant in three program areas: Supportive Housing Program, Continuum of Care Program, and Community Development Block Grant Program.

The Department understands there are three primary concerns. These concerns have resulted in $622,182 in "known questioned costs", and an additional $2,651,703 in "likely questioned costs". The concerns are:

1. *Inconsistency with the back-up documentation required from contract providers*
2. *Inconsistency with the Department's practice in verifying the information submitted by providers for reimbursement*
3. *Inadequate monitoring of other city departments charges to HUD grant*

The Department takes its role as a public funder very seriously. Additionally, the Department is charged with managing investments for the city's most vulnerable citizens, a fact that further heightens the importance of accountability and strong public stewardship.

In response to the Auditor's above noted concerns, the Department is taking the following immediate and long-term actions:

<u>Immediate Actions Steps</u>: (complete by January 2015)

- *Verify the "known questioned costs" and pursue recovery of funds as appropriate*
- *Verify the "likely questioned costs" and pursue recovery of funds as appropriate*
- *Launch a new Contract Manual to provide policy and practice guidance to staff*
- *Ensure alignment of expectations for contract compliance within staff work plans*
- *Complete skill assessment for all staff assigned to work with contracts*
- *Examine current staffing capacity and determine if additional staff resources are needed*
- *Establish Department expectations of adequate backup documentation.*

- *Focus the internal auditor's work plan on verifying adequate documentation exists within the Department's daily workflow.*

Long-term Actions Steps: (January 2015 through December 2016)

- *Develop and implement a new monitoring practice and policy manual, for how the Department will ensure both compliance and service quality expectations for its contracts*

- *Develop and implement a strategy for streamlining contracts that includes consolidating the number of contracts and moving to multi-year contracts where appropriate*

- *Develop and implement a strategy for continued separation of job functions such as the re-assignment of staff based on skill and competency*

- *Develop and implement a plan for increasing internal fiscal/compliance monitoring and oversight that aligns with Auditor expectations*

- *Work with the City Department of Human Resources to examine current job classifications and determine ways for increased alignment between the classification and recruitment needs*

- *Develop a business case for securing additional staff to support the Department's capacity increase achieving increased fiscal/compliance oversight*

- *Participate in citywide initiatives (i.e. Summit accounting system re-implementation) to ensure alignment between the city's infrastructure and Department priorities for contract efficiencies*

Auditor's Remarks

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

Applicable Laws and Regulations

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

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

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

U. S. Office of Management and Budget Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations Section 510, states in part:

§___.510 Audit findings.

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(1) Significant deficiencies in internal control over major programs. …The auditor shall identify significant deficiencies which are individually or cumulatively material weaknesses.

(2) Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.

(3) Known questioned costs which are greater than $10,000 for a type of compliance requirement for a major program. The auditor shall also report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program.

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> > Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
> >
> > Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

General rules applicable to all grants:

Office of Management and Budget Circular No. A-87, 2 CFR 225*, General Principles for Determining Allowable Costs,* Appendix A, states in part:

> C. Basic Guidelines
>
> > 1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
> >
> > > J. Be adequately documented.

Office of Management and Budget Circular No. A-87, 2 CFR 225*, General Principles for Determining Allowable Costs,* Appendix B, states in part*:*

8. ***Compensation for personal services.***

> a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:
>
> > …
> > (3) Is determined and supported as provided in subsection h.
>
> h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

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

a. They must reflect an after the fact distribution of the actual activity of each employee,

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

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

d. They must be signed by the employee.

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

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

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

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

Title 2, Code of Federal Regulations, APPENDIX A TO PART 170 – AWARD TERM, provides, in part:

I. Reporting Subawards and Executive Compensation.

a. *Reporting of first-tier subawards.*

1. *Applicability.* Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment

Act of 2009, Pub. L. 111–5) for a subaward to an entity (see definitions in paragraph e. of this award term).

2. *Where and when to report.*

i. You must report each obligating action described in paragraph a.1 of this award term to *http://www.fsrs.gov.*

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

2 CFR § 215.28 Period of availability of funds – rules applicable to all grants

Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

24 CFR §85.23 Period of availability of funds – HUD rules to all its grants

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

Supportive Housing Program

24 CFR §583.145 Matching requirements

(a) *General.* The recipient must match the funds provided by HUD for grants for acquisition, rehabilitation, and new construction with an equal amount of funds from other sources.

(b) *Cash resources*. The matching funds must be cash resources provided to the project by one or more of the following: the recipient, the Federal government, State and local governments, and private resources, in accordance with 42 U.S.C. 11386. This statute provides that a recipient may use funds from any source, including any other Federal source (but excluding the specific statutory subtitle from which Supportive Housing Program funds are provided), as well as State, local, and private sources, provided that funds from the other source are not statutorily prohibited to be used as a match. It is the responsibility of the recipient to ensure that any funds used to satisfy the matching requirements of this section are

> eligible under the laws governing the funds to be used as matching funds for a grant awarded under this program.

PUBLIC LAW 105-276—OCT. 21, 1998 112 STAT. 2478-2479 HOMELESS ASSISTANCE GRANTS states, in part:

> For the . . . supportive housing program . . . all funding for services must be matched by 25 percent in funding by each grantee.

24 CFR §583.315 Resident rent

> (b) *Use of rent.* Resident rent may be used in the operation of the project or may be reserved, in whole or in part, to assist residents of transitional housing in moving to permanent housing.

24 CFR §583.300 General operation

> (g) *Records and reports.* Each recipient of assistance under this part must keep any records and make any reports (including those pertaining to race, ethnicity, gender, and disability status data) that HUD may require within the timeframe required.

Continuum of Care Program

24 CFR §578.73 Matching requirements

> (a) In general. The recipient or subrecipient must match all grant funds, except for leasing funds, with no less than 25 percent of funds or in-kind contributions from other sources. (b) Cash sources. A recipient or subrecipient may use funds from any source, including any other federal sources (excluding Continuum of Care program funds), as well as State, local, and private sources, provided that funds from the source are not statutorily prohibited to be used as a match. The recipient must ensure that any funds used to satisfy the matching requirements of this section are eligible under the laws governing the funds in order to be used as matching funds for a grant awarded under this program.

24 CFR §578.97 Program income

> (a) Defined. Program income is the income received by the recipient or subrecipient directly generated by a grant-supported activity.
>
> (b) Use. Program income earned during the grant term shall be retained by the recipient, and added to funds committed to the project by HUD and the recipient, used for eligible activities in accordance with the requirements of this part. Costs incident to the generation of program income may be deducted from gross income to calculate program income, provided that the costs have not been charged to grant funds.

(c) Rent and occupancy charges. Rents and occupancy charges collected from program participants are program income. In addition, rents and occupancy charges collected from residents of transitional housing may be reserved, in whole or in part, to assist the residents from whom they are collected to move to permanent housing.

24 CFR §578.103 Recordkeeping requirements

(a) In general. The recipient and its subrecipients must establish and maintain standard operating procedures for ensuring that Continuum of Care program funds are used in accordance with the requirements of this part and must establish and maintain sufficient records to enable HUD to determine whether the recipient and its subrecipients are meeting the requirements of this part, including:

(10) Match. The recipient must keep records of the source and use of contributions made to satisfy the match requirement in §578.73. The records must indicate the grant and fiscal year for which each matching contribution is counted. The records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services must be supported by the same methods that the organization uses to support the allocation of regular personnel costs.

(15) Other federal requirements. The recipient and its subrecipients must document their compliance with the federal requirements in §578.99, as applicable.

(16) Subrecipients and contractors. (i) The recipient must retain copies of all solicitations of and agreements with subrecipients, records of all payment requests by and dates of payments made to subrecipients, and documentation of all monitoring and sanctions of subrecipients, as applicable.

(ii) The recipient must retain documentation of monitoring subrecipients, including any monitoring findings and corrective actions required.

(e) Reports. In addition to the reporting requirements in 24 CFR parts 84 and 85, the recipient must collect and report data on its use of Continuum of Care funds in an Annual Performance Report (APR), as well as in any additional reports as and when required by HUD. Projects receiving grant funds only for acquisition, rehabilitation, or new construction must submit APRs for 15 years from the date of initial occupancy or the date of initial service provision, unless HUD provides an exception under §578.81(e).

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
King County
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2. The City did not comply with all requirements for charging payroll and benefits to the Aging Cluster of programs.

CFDA Number and Title:	93.044 Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers 93.045 Special Programs for the Aging – Title III, Part C – Nutrition Services 93.053 Nutrition Services Incentive Program
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	Multiple
Pass-through Entity Name:	Department of Social and Health Services
Pass-through Award/Contract Number:	Multiple
Questioned Cost Amount:	$72,401

Background

City of Seattle Human Services Department's Aging and Disability Services Division serves as the Area Agency on Aging for the Seattle-King County region. Area Agencies on Aging are local organizations across the state that develop and promote services and options to aged adults and their caregivers. In 2013, the Division spent about $5,237,325 in funds from three federal grants collectively known as the Aging Cluster. These funds are passed through to the City by the Department of Social and Health Services, which receives them from the U.S. Department of Health and Human Services.

An audit focuses on rules for spending federal grant funding. We are responsible to report questioned costs when inadequately supported charges to grant exceed $10,000.

Description of Condition

We found the Department lacks adequate documentation for employee time charged to the grant. We found some timesheets were completed and approved before the time was worked and thus the timesheet is not a reliable record of actual time worked. We question the grant charges for hours worked between the timesheet approval and payperiod end. We report questioned costs of $72,401 for salaries/wages and related benefits.

Cause of Condition

The City's current payroll processes are setup in a way that allows employees to complete their timesheets before they worked the hours and supervisors approve those timesheets before the end of payperiod. Specifically, we found that employees prepare timesheets before they worked, sometimes several days in advance. That is, instead of actual hours, employees' timesheets record estimated hours. Timesheets that contain estimated hours are not sufficient records for supporting payroll charges to grants.

Effect of Condition and Questioned Costs

Because the inappropriately charged amounts described above exceed $10,000 we must report them as $72,401 in questioned costs. Questioned costs may be subject to recovery by grantor.

Recommendation

We recommend the Department ensure its employees maintain appropriate evidence of time worked on grant funded activities. The Department should consider requiring employees to complete timesheets daily to ensure recorded hours accurately reflect the time worked, and submit them for supervisory review at or after pay period end. Timekeeping system controls should allow recording of time only after the time was worked. After the pay period ends, supervisors should have sufficient time to review and approve timesheets prior to submission to the Payroll Division for processing.

City's Response

The Human Services Department (HSD) understands auditor's perspective on this finding and the issues with the City's current process of approving employee payroll prior to the completion of the pay period. However, in the instances sited in this audit of the aging cluster grant funds, HSD contends that while timesheets were submitted prior to the end of the pay period they are an accurate reflection of hours worked and should not require repayment of funds. HSD intends to alter its process and come into compliance with the auditor's recommendations as the soonest possible date. This may require collaborative work with Department of Finance and Administrative Services and other city systems to create a process where payroll approval occurs after the end of the pay period and allows adequate time for supervisory review and subsequent payroll processing activities.

Auditor's Remarks

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

Applicable Laws and Regulations

Office of Management and Budget Circular No. A-87, 2 CFR 225, General Principles for Determining Allowable Costs, Appendix B:

8. ***Compensation for personal services.***

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

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

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

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

f. They must reflect an after the fact distribution of the actual activity of each employee,

g. They must account for the total activity for which each employee is compensated,

h. They must be prepared at least monthly and must coincide with one or more pay periods, and

i. They must be signed by the employee.

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

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

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

comparisons show the differences between budgeted and actual costs are less than ten percent; and

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

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
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3. The City should improve monitoring of charges between its departments.

CFDA Number and Title:	CFDA 81.128 ARRA – Energy Efficiency and Conservation Block Grant
Federal Grantor Name:	U.S. Department of Energy
Federal Award/Contract Number:	DE-EE0003573
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$205,622

Background

In 2013, the City of Seattle Office of Sustainability and Environment spent $7.4 million of U.S. Department of Energy's Energy Efficiency and Conservation Block Grant Program funded by the American Recovery and Reinvestment Act. Most of the money was spent on making residential and commercial spaces more energy efficient.

Almost one million dollars of the grant funded part of the City of Seattle Office of Housing's (Housing) program to improve energy efficiency of single and multi-family homes. Housing seeks cost reimbursement from the Office of Sustainability and Environment, which then seeks reimbursement from the Department of Energy.

Description of Condition

Based on current information it receives from Housing, the Office of Sustainability and Environment does not have adequate internal controls to ensure that it seeks Department of Energy reimbursement only for allowable costs.

We noted that Housing's invoices did not contain sufficient detail to allow the Office of Sustainability and Environment reviewer to determine whether costs were for allowable activities and were consistent with cost principles. For example, Housing invoices listed only the total amount of salaries and benefits billed to the Office of Sustainability and Environment, but did not provide sufficient detail such as employee names. To be allowable, payroll costs must be supported by timesheets or equivalent documentation. Housing's invoice did not have enough information to allow the Office of Sustainability

and Environment to trace payroll costs to specific individuals' record of time worked. We attempted to trace payroll costs to original supporting documentation and learned that Housing makes four different allocation calculations to charge payroll costs to Sustainability and Environment; neither the Office of Sustainability and Environment nor Housing could provide adequate documentation for the calculations so that we could verify them. We question the amount of Housing's salaries charged to the grant.

The Office of Sustainability and Environment currently accounts for interdepartmental payroll costs as inter-fund services, which obscures the payroll nature of the expenditures and results in inadequate accounting for grant expenditures. Accounting records should accurately reflect the nature of all transactions.

Other types of expenditures were also listed only in summary and no detailed cost support was received by the Office of Sustainability and Environment for review. For example, Housing invoice No. 2013-05 included a project that charged $36,273 to the grant with no explanation, description, or detail about the cost or whether it was incurred by Housing and paid to a contractor and why it was charged to the grant and not another funding source.

We found the Department lacks adequate documentation for employee time charged to the grant. We found some timesheets were completed and approved before the time was worked and thus the timesheet is not a reliable record of actual time worked. We question the grant charges for hours worked between the timesheet approval and payperiod end. We report questioned costs of $13,097 for salaries/wages and related benefits.

Additionally, Office of Sustainability and Environment lacked sufficient documentation to demonstrate that payroll costs which were initially charged to another funding source were appropriately transferred to this grant.

Cause of Condition

The Office of Sustainability and Environment did not require adequate supporting documentation from Housing.

Employees prepared timesheets before they worked, sometimes several days in advance. That is, instead of actual hours, employees' timesheets record estimated hours. Timesheets that contain estimated hours are not sufficient records for supporting payroll charges to grants.

While its employees maintained a record of time worked on specific activities, the Office did not maintain documentation to adequately support transferring related payroll costs to the grant.

Effect of Condition and Questioned Costs

Because the Office of Housing used more than 10% of total 2013 grant expenditures, the City is at risk of material noncompliance with grant requirements for activities allowed

and cost principles. In addition, payroll costs were transferred to the grant without adequate documentation. A material weakness exists in internal controls over allowable costs.

We report questioned costs of $114,076 related to interdepartmental charges, $78,449 related to transferred payroll costs, and $13,097 for labor costs recorded before time was worked. Questioned costs may be subject to recovery by the grantor.

Recommendation

To ensure only allowable costs are charged to the grant, the Office of Sustainability and Environment should improve internal controls over costs charged by other departments. This could be accomplished by requiring relevant and complete documentation to support each invoice from the other department. Alternatively, prior to external audit, the Office can perform compliance-focused monitoring of those departments' charges to its grant(s) to verify all charges are supported and allowable.

We further recommend that interdepartmental payroll costs are accurately recorded in the proper accounts that reflect the payroll nature of those costs.

We also recommend the Office of Sustainability and Environment maintain adequate record of time its employees work on grant funded activity and adequate documentation for all costs transferred to the grant.

City's Response

Thank you for your feedback. Here are our responses to the three issues you highlighted above.

> *1) $114,076 related to interdepartmental charges for HomeWise program support*
>
> *Thank you for bringing this to our attention. We will put processes in place for better documenting charges related to interdepartmental agreements. For capital project costs, Office of Sustainability and Environment (OSE) will document a process for and require HomeWise to support project summary pages with signed contractor bids and final invoices from contractors. For HomeWise staff time, OSE will work with HomeWise to develop a clear policy detailing how staff time is charged to the Grant, and ensure this is reflected on invoices to OSE.*
>
> *2) $78,449 related to transferred payroll costs between Org X1107, Org X1108, and Org X1109.*
>
> *These transactions relate to staff costs for two Temporary Employment Services (TES) positions. These positions were paid for by multiple funding sources, including USDOE grants, a grant from the Institute for Market Transformation, and OSE's general fund budget. Payroll processes require TES employees to charge time to only one Org. In this case, because of restrictions on the grant*

orgs (X1108 and X1109), OSE was required to charge the full employee's time to OSE's general fund (X1107), and then request reimbursement from the grant sources for allowable grant-related work hours. In the case of three of the questioned transactions, the employees worked full-time on grant-approved work, therefore, the approved timesheets document all grant-related work. In one transaction, the employee worked part-time on the grant project. The employee kept track of grant hours and non-grant hours, and this was used to determine the costs charged to X1109. OSE has the employee's documentation of the work hour breakdown. OSE maintains internal records at the activity level of all expenses, and transfers between orgs are done in accordance with these records. Moving forward, OSE will require TES employees to sign semi-annual certifications for their time worked on grants, and will require supervisors to sign off on this form, in addition to the primary timesheet.

3) $13,097 for labor costs recorded before time was worked

The contract between USDOE and the City requires the City to "comply with applicable federal, state, and municipal laws, codes, and regulations for work performed under this award." OSE reviews and approves timesheets per standard City procedures and policies. Although timesheets are sometimes submitted before the end of the pay period, per City policy, the OSE Director and other management staff have the ability to correct timesheets after the pay period to reflect actuals (if an employee left early, was sick, etc). Reimbursement for the grant is sought at least one month after payroll charges occur with adequate time for these corrections to be made. As a result, we are confident that these costs are allowable under the Grant. This finding highlights for us that, while we have a procedure in place to review and control for appropriate expenditures, we can improve the documentation of this procedure and will add this to the OSE employee handbook. Additionally, we will require supervisors to not approve timesheets before the last day of the time period.

Auditor's Remarks

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

Applicable Laws and Regulations

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

> The auditee shall:
>
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of

contracts or grant agreements that could have a material effect on each of its Federal programs.

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

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

10 CFR §600.127 Allowable costs, states in part.

(a) General. For each kind of recipient, there is a set of Federal principles for determining allowable costs. Allowability of costs shall be determined in accordance with the cost principles applicable to the entity incurring the costs. Thus, allowability of costs incurred by State, local or federally-recognized Indian tribal governments is determined in accordance with the

provisions of OMB Circular A-87, "Cost Principles for State and Local Governments."

Office of Management and Budget Circular No. A-87, 2 CFR 225*, General Principles for Determining Allowable Costs,* Attachment B, states in part*:*

8. ***Compensation for personal services.***

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

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

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

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

k. They must reflect an after the fact distribution of the actual activity of each employee,

l. They must account for the total activity for which each employee is compensated,

m. They must be prepared at least monthly and must coincide with one or more pay periods, and

n. They must be signed by the employee.

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

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

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

comparisons show the differences between budgeted and actual costs are less than ten percent; and

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

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
King County
January 1, 2013 through December 31, 2013

4. The City did not comply with time and effort requirements for payroll costs charged to the Homeland Security Grant Program.

CFDA Number and Title:	97.067 Homeland Security Grant Program
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	Multiple
Pass-through Entity Name:	King County, Military Department, Port of Tacoma, Pierce County
Pass-through Award/Contract Number:	Multiple
Questioned Cost Amount:	$51,066

Description of Condition

Homeland Security Grant Program (HSGP) funds are used to prevent, deter, respond to and recover from threats and incidents of terrorism, and to enhance regional preparedness for security incidents. In 2013, the City spent $3,882,350 in federal funds under this program, mostly on training, supplies and equipment.

We found that due to an administrative error, the City inappropriately charged the entire salaries of two grant administrators to the Homeland Security Grant Program while they also worked on other grants. Salary costs for that portion of their time should not be charged to the Homeland Security Grant Program. The amount inappropriately charged to HSGP is about $51,000 or about 1 percent of total 2013 grant expenditures.

Cause of Condition

The City mistakenly relied on semi-annual time and effort certifications to rationalize charging these two employees' salaries to the HSGP. Semi-annual certifications are only allowed when employees work on only one federal grant.

Effect of Condition and Questioned Costs

Because the salary cost amount described above exceeds $10,000 we must report $51,066 as questioned costs. Questioned costs may be subject to recovery by grantor.

Recommendation

To ensure that all salary costs charged to HSGP are appropriate, we recommend the City maintain adequate documentation of time spent working on each federal grant.

City's Response

The FY2013 Homeland Security Grant Programs (HSGP) and the FY2013 Port Security Grant Program (PSGP) both play an important role for implementation of the National Preparedness System by supporting the building, sustainment, and delivery of core capabilities essential to achieving the National Preparedness Goal of a secure and resilient Nation. The Urban Area Security Initiative Grant (UASI) is a signature HSGP program. The Seattle Police Department (SPD) has been awarded UASI Grants every year since 2004 for grant awards in excess of $16,000,000. In 2011, SPD was awarded a PSGP grant in the amount of $2,430,196; in 2013, SPD was awarded a PSGP grant in the amount of $1,500,000.

The Seattle Police Department's Grants and Contract Section is comprised of a small staff consisting of a Manager III, and three Sr. Planning & Development Specialists. The UASI grant has funded the personnel costs for two of the three Sr. Planning & Development Specialist positions in SPD's Grants & Contract Section for more than 10 years. In 2013, one Sr. Planning & Development Specialist spent approximately 10 percent of his time working on the Port Security Grant and a second employee spent approximately 40 percent of his time on the Port Security Grant. Both employees continued to charge 100 percent of their salary costs to the UASI Grant, however, both employees indicated on the bi-annual wage certification reports that they each spent a percentage of their time working on both the UASI Grant Program and the Port Security Grant Program.

Effectively immediately, both Sr. Planning & Development Specialists will code the appropriate Summit Financial Management System project assigned codes on their timesheets for the actual time worked to administer the Port Security Grant and will also code the appropriate Summit Financial Management System project assigned code for the actual time worked to administer the UASI Grant. In addition, SPD has obtained budget authority from the federal Port Security Grant Program Analyst for reimbursement of the actual salary and benefit costs for all work performed to manage and administer the Port Security Grant starting January1, 2014.

Auditor's Remarks

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

Applicable Laws and Regulations

Office of Management and Budget Circular No. A-87, 2 CFR 225, General Principles for Determining Allowable Costs, Appendix B, Paragraph 8:

8. ***Compensation for personal services.***

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

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

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

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

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (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:

p. They must reflect an after the fact distribution of the actual activity of each employee,

q. They must account for the total activity for which each employee is compensated,

r. They must be prepared at least monthly and must coincide with one or more pay periods, and

s. They must be signed by the employee.

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

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

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

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

Schedule of Prior Federal Audit Findings

City of Seattle
King County
January 1, 2013 through December 31, 2013

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.

Audit Period: 2012	**Report Ref. No.:** 1010624	**Finding Ref. No.:** 1	**CFDA Number(s):** 81.042
Federal Program Name and Granting Agency: Weatherization Assistance for Low-Income Persons, U.S. Department of Energy		**Pass-Through Agency Name:** NA	
Finding Caption: The City did not have adequate internal controls in place to ensure it complied with Weatherization Assistance for Low-Income Persons grant requirements.			
Background: Audit report disclosed significant deficiency in internal control over activities allowed, eligibility, procurement, and ARRA reporting compliance areas.			
Status of Corrective Action: ☐ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☒ Finding is considered no longer relevant			
Corrective Action Taken: *This grant substantially ended in 2012 with only small amount of expenditures in 2013, thus this finding is not relevant to City's material compliance with OMB Circular A-133 during the audit period.*			

Audit Period: 2012	**Report Ref. No.:** 1010624	**Finding Ref. No.:** 2	**CFDA Number(s):** 14.235
Federal Program Name and Granting Agency: Supportive Housing Program, U.S. Department of Housing and Urban Development		**Pass-Through Agency Name:** NA	
Finding Caption: The City's internal controls were inadequate to ensure payments to subrecipients were supported and the subrecipients' activities were adequately monitored.			
Background: 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.			

Status of Corrective Action: (check one)			
☐ Fully Corrected	☒ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid

Corrective Action Taken:
HSD changed practices in CY2012 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 Community Support and Assistance Division (CSA) set up training for Grants and Contracts specialists with our internal fiscal specialist to focus on fiscal requirements and financial documentation for desk monitoring, on-site monitoring and invoicing. Corrective action has already taken place for the 2012 contract year and new standards are currently in place and practiced for invoice documentation for 2013 and beyond. In CY 2013, the department also implemented very specific process steps by reorganizing the finance team assigned to McKinney. The CSA finance analyst and assistant finance analyst are now housed with division staff on the same floor making them more accessible for direct assistance with invoicing and contracting questions.

In CY2012, the department convened cross departmental core work teams to begin work on improvements to contract and monitoring practice. The work from these core teams was planned for launch in 2014. Specific deliverables included revised policy manuals for contract processes and contract monitoring that articulate expectations, including internal controls and monitoring framework that would also be a training tool for staff and external partners. The work is underway and projected for publication in December 2014.

The 2012 and 2013, staff continued to strategically seek monitoring support from the Office of Housing due to similarity of funding sources and use of funds. Both departments fund operations specifically and the monitoring requirements are very similar. The collaboration of monitoring was with purpose, strategically increasing monitoring capacity until HSD increased staffing levels to meet monitoring needs. At the time HSD Grants and Contract Specialists were maximizing capacity during a time of high need. CY 2013 HSD hired two additional Grants and Contract specialists to directly assist with McKinney contracting responsibilities. Since that time, program staff developed a program specific monitoring process and on-site monitoring is underway for CY 2014. Approximately 20 projects have been visited in the 2013-2014 time period and staff continues to work with the Office of Housing.

Audit Period:	**Report Ref. No.:**	**Finding Ref. No.:**	**CFDA Number(s):**
2012	1010624	3	97.056

Federal Program Name and Granting Agency:	**Pass-Through Agency Name:**
Port Security Grant Program, U.S. Department of Homeland Security	Port of Tacoma and Marine Exchange of Puget Sound

Finding Caption:
The City did not have consistently applied internal controls to ensure it complied with Port Security Grant equipment requirements.

Background:
Audit report disclosed significant deficiency in internal controls over compliance requirements related to equipment.

Status of Corrective Action:

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

Corrective Action Taken:

Seattle Police Department:

- *Procedures were changed so that Fiscal staff will instruct vendors when, ordering property related items, to ship the goods to the Quartermaster location.*
- *Quartermaster staff will open the items and affix the property tags to all fixed assets or internally tracked items received in their shop.*
- *Our internal fixed asset procedures were updated to reflect these changes.*
- *It was determined that pdf documents can be attached to the fixed asset records. The Tech III responsible for fixed asset entry will attach a copy of the hand receipts for items transferred to other agencies.*
- *The City requires a bi-annual physical inventory of all Department fixed assets (items costing $5,000 or more) including grants.*
- *A physical inventory of fixed assets was taken at the end of 2013.*
- *The asset management system has been updated with corrections noted in the fixed asset inventory.*
- *Assets entered for grants are at 100% funded. Any items not 100% funded would be entered with different funding sources with notes explaining the funding split.*

Seattle Fire Department:

- *The Seattle Fire Department (SFD) has reviewed and corrected equipment records found previously by the SAO to be inconsistently inventoried. Corrections were updated in both the asset management system and department inventory system to consistently report the equipment information required, and identification numbers affixed.*
- *Upon this review, the SFD has revised its business practices for achieving consistent internal controls to comply with inventory management. All equipment is processed for receipt at the department's centralized warehouse where inventory management records are initiated. Department inventory now includes the required information fields and can be easily linked by asset id to Summit asset records for financial data required. Implementation is in process and being tested. When finalized, a property management check list will be developed and used for all equipment requiring Federal reporting.*
- *Additionally, the SFD has corrected and developed an internal process to comply with the City's biennial physical equipment inventory. The most recent physical inventory of fixed assets was completed at the end of 2013.*

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, 2013 through December 31, 2013

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, 2013. 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.

Basis for Qualified Opinion on CFDA 14.267 Continuum of Care Program

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding its Continuum of Care Program for allowable costs, matching, program income, reporting and subrecipient monitoring. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 14.267 Continuum of Care Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 its Continuum of Care Program for the year ended December 31, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the accompanying Federal Summary for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures also disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2, 3 and 4. Our opinion on each of the other 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 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 30, 2014

Corrective Action Plan for Findings Reported Under OMB Circular A-133

City of Seattle
King County
January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Seattle.

Finding ref number: 1	**Finding caption:** The Seattle Human Services Department should improve the way it monitors service providers.
Name, address, and telephone of auditee contact person: Abdiwali Mohamed 700 Fifth Avenue, Suite 5800 P.O. Box 34215 Seattle, WA 98124-4215 206-684-4167	
Corrective action the auditee plans to take in response to the finding: *The Human Services Department recognizes and acknowledges the challenges noted in the State Auditor's report regarding the findings for the U.S Department of Housing and Urban Development (HUD) grant in three program areas: Supportive Housing Program, Continuum of Care Program, and Community Development Block Grant Program.* *The Department understands there are three primary concerns. These concerns have resulted in $622,182 in "known questioned costs", and an additional $2,651,703 in "likely questioned costs". The concerns are:* 1. *Inconsistency with the back-up documentation required from contract providers* 2. *Inconsistency with the Department's practice in verifying the information submitted by providers for reimbursement* 3. *Inadequate monitoring of other city departments charges to HUD grant* *The Department takes its role as a public funder very seriously. Additionally, the Department is charged with managing investments for the city's most vulnerable citizens, a fact that further heightens the importance of accountability and strong public stewardship.* *In response to the Auditor's above noted concerns, the Department is taking the following immediate and long-term actions:*	

Immediate Actions Steps: (complete by January 2015)

- *Verify the "known questioned costs" and pursue recovery of funds as appropriate*
- *Verify the "likely questioned costs" and pursue recovery of funds as appropriate*
- *Launch a new Contract Manual to provide policy and practice guidance to staff*
- *Ensure alignment of expectations for contract compliance within staff work plans*
- *Complete skill assessment for all staff assigned to work with contracts*
- *Examine current staffing capacity and determine if additional staff resources are needed*
- *Establish Department expectations of adequate backup documentation.*
- *Focus the internal auditor's work plan on verifying adequate documentation exists within the Department's daily workflow.*

Long-term Actions Steps: (January 2015 through December 2016)

- *Develop and implement a new monitoring practice and policy manual, for how the Department will ensure both compliance and service quality expectations for its contracts*
- *Develop and implement a strategy for streamlining contracts that includes consolidating the number of contracts and moving to multi-year contracts where appropriate*
- *Develop and implement a strategy for continued separation of job functions such as the re-assignment of staff based on skill and competency*
- *Develop and implement a plan for increasing internal fiscal/compliance monitoring and oversight that aligns with Auditor expectations*
- *Work with the City Department of Human Resources to examine current job classifications and determine ways for increased alignment between the classification and recruitment needs*
- *Develop a business case for securing additional staff to support the Department's capacity increase achieving increased fiscal/compliance oversight*
- *Participate in citywide initiatives (i.e. Summit Re-implementation) to ensure alignment between the city's infrastructure and Department priorities for contract efficiencies*

Anticipated date to complete the corrective action: December 31, 2016

Finding ref number: 2	Finding caption: The City did not comply with all requirements for charging payroll and benefits to the Aging Cluster of programs

Name, address, and telephone of auditee contact person:
Abdiwali Mohamed
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P.O. Box 34215
Seattle, WA 98124-4215
206-684-4167

Corrective action the auditee plans to take in response to the finding:
The Human Services Department (HSD) will instruct its employees to enter time on their timesheets only after the hours are worked to ensure recorded hours accurately reflect the time worked. In addition, the HSD will also instruct its managers and supervisors to approve timesheets only after the pay period end. Timekeeping system controls allowability of recording time only after the time worked will need to come from City Personnel Department.

The HSD will ensure appropriate benefits are charged to the grant by comparing the actual costs charged through each labor overhead rate to adopted rates by performing reconciliations at the end of each quarter and correct any overcharges before quarter/year-end.

Anticipated date to complete the corrective action: December 3, 2014

Finding ref number: 3	Finding caption: The City should improve monitoring of charges between its departments.

Name, address, and telephone of auditee contact person:
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Corrective action the auditee plans to take in response to the finding:
We appreciate the issues brought to our attention related to monitoring charges between departments and between funds. We've divided our response into three sections to highlight the actions we will take related to each.

1) $114,076 related to interdepartmental charges for HomeWise program support

We will put processes in place for better documenting charges related to interdepartmental agreements. For capital project costs, OSE will document a process for and require other departments to support project summary pages with signed contractor bids and final invoices from contractors. For staff time, OSE will work with HomeWise to refine and clarify their policy detailing how staff time is charged to the Grant, and ensure this is reflected on invoices to OSE.

2) $78,449 related to transferred payroll costs between Org X1107, Org X1108, and Org X1109.

These transactions relate to staff costs for two Temporary Employment Services (TES) positions. These positions were paid for by multiple funding sources, including USDOE grants, a grant from the Institute for Market Transformation, and OSE's general fund budget. City payroll processes require TES employees to charge time to only one Org. In this case, because of restrictions on the grant orgs (X1108 and X1109), OSE was required to charge the full employee's time to OSE's general fund (X1107), and then request reimbursement from the grant sources for allowable grant-related work hours. In the case of three of the questioned transactions, the employees worked full-time on grant-approved work, therefore, the approved timesheets document all grant-related work. In one transaction, the employee worked part-time on the grant project. The employee kept track of grant hours and non-grant hours, and this was used to determine the costs charged to X1109. OSE has the employee's documentation of the work hour breakdown. OSE maintains internal records at the activity level of all expenses, and transfers between orgs are done in accordance with these records. Moving forward, OSE will require TES employees working solely on a single Federal award to sign semi-annual certifications for their time worked on grants, and will require supervisors to sign off on this form in addition to the primary timesheet. Additionally, OSE will require TES employees working on two or more cost-objectives to document their work according to the distribution of their salaries or wages through monthly Time and Effort logs that include a description of the activities conducted under the federal award, reflect actual activity of each employee, and account for the total activity for which an employee is compensated. This documentation will be prepared monthly and signed by the employee and supervisor.

3) $13,097 for labor costs recorded before time was worked

OSE reviews and approves timesheets per standard City procedures and policies. Although timesheets are sometimes submitted before the end of the pay period, per City policy, the OSE Director and other management staff have the ability to correct timesheets after the pay period to reflect actuals (if an employee left early, was sick, etc). Reimbursement from the grant is sought at least one month after payroll charges occur with adequate time for these corrections to be made. As a result, we are confident that these costs are allowable under the Grant. This finding highlights for us that, while we have a procedure in place to review and control for appropriate expenditures, we can improve the documentation of this procedure and will add this to the OSE employee handbook. Additionally, we will require supervisors to not approve timesheets before the last day of the time period. This is a step we put in place immediately upon learning of the auditor's finding.

Anticipated date to complete the corrective action:

1. RE: Interdeparmental transfers to HomeWise: The earlier of the following: (a) before any new interdepartmental agreements or transfers are initiated, or (b) the end of 2014 if no new agreements or transfers are planned in advance of this date.

2. RE: Payroll transfers between orgs: Semi-annual certifications requirements and time and

effort logs for TES employees who cannot charge time directly to the grant are required, effective immediately for future work. TES employees who must compile documentation to retroactively certify their time for work that has already occurred in 2014 will have until the end of October to do so.

3. RE: recording labor costs before the end of the pay period: we have already communicated the requirement for supervisors to not approve timesheets before the end of the payroll period (Wednesdays). We will better document our procedure for correcting timesheets in our employee handbook by October 15.

Finding ref number: 4	**Finding caption:** The City did not comply with time and effort requirements for payroll costs charged to the Homeland Security Grant Program.
Name, address, and telephone of auditee contact person: Valarie Douglas Anderson 610 Fifth Avenue, Fifth Floor P.O. Box 34986 Seattle, WA 98124-4986 (206)733-9315	
Corrective action the auditee plans to take in response to the finding: *Effectively immediately, both Sr. Planning & Development Specialists will code the appropriate Summit Financial Management System project-assigned codes on their timesheets for the actual time worked, to administer the Port Security Grant and will also code the appropriate Summit Financial Management System project-assigned code for the actual time worked, to administer the UASI Grant. In addition, the Seattle Police Department has obtained budget authority from the federal Port Security Grant Program Analyst for reimbursement of the actual salary and benefit costs for all work performed to manage and administer the Port Security Grant starting January 1, 2014.*	
Anticipated date to complete the corrective action: Immediately	