

Washington State Auditor's Office
Federal Single Audit Report

City of Seattle
King County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004361

Issue Date
September 30, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 30, 2010

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 federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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**City of Seattle
King County
January 1, 2009 through December 31, 2009**

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Federal Summary

City of Seattle
King County
January 1, 2009 through December 31, 2009

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

An unqualified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information.

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 reported 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 reported no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the City's compliance with requirements applicable to 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> |
|-----------------|---|
| 14.218 | Community Development Block Grant – Entitlement Grants |
| 14.253 | ARRA – Community Development Block Grant Cluster – Entitlement Grants (Recovery Act) |
| 16.543 | Missing Children Assistance |
| 16.800 | ARRA – Internet Crimes Against Children Task Force Program (Recovery Act) |
| 17.259 | WIA Cluster – Workforce Investment Act Youth Activities |
| 17.259 | WIA Cluster – ARRA – Workforce Investment Act Youth Activities (Recovery Act) |
| 20.205 | Highway Planning and Construction |
| 20.205 | ARRA – Highway Planning and Construction (Recovery Act) |
| 20.507 | Transit Cluster – Federal Transit Formula Grants |
| 20.507 | ARRA – Transit Cluster – Federal Transit Formula Grants |
| 66.468 | ARRA – Capitalization Grants for Drinking Water State Revolving Funds (Recovery Act) |
| 93.044 | Aging Cluster – Title III, Part B – Grants for Supportive Services and Senior Centers |
| 93.045 | Aging Cluster – Title III, Part C – Nutrition Services |
| 93.053 | Aging Cluster – Nutrition Services Incentive Program |
| 93.705 | ARRA – Aging Cluster Home Delivered Nutrition Services for States (Recovery Act) |
| 93.707 | ARRA – Aging Cluster Congregate Nutrition Services for States (Recovery Act) |
| 93.778 | Medical Assistance Program (Medicaid) |
| 97.067 | Homeland Security Grant Program |
| 97.071 | Metropolitan Medical Response System |
| 97.008 | Urban Areas Security Initiative |

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, 2009 through December 31, 2009**

1. City's controls are inadequate to ensure only allowable costs are charged to federal grants.

| | |
|---------------------------------------|--------------------------------------|
| CFDA Number and Title: | 20.507 Federal Transit Formula Grant |
| Federal Grantor Name: | Federal Transit Administration |
| Federal Award/Contract Number: | WA-95-X024-00 |
| Pass-through Entity Name: | NA |
| Pass-through Award/Contract | NA |
| Questioned Cost Amount: | \$160,822 |

Background

During 2009, the City spent \$5,400,118 of Federal Transit Administration (FTA) Formula Grant money. The purpose of the federal program is to assist in financing the planning, acquisition, construction, preventative maintenance, and improvement of facilities and equipment in public transportation services. The Seattle Department of Transportation spent about \$3.5 million of the award, including \$2.3 million on the King Street Station renovation project.

We selected the FTA Formula Grant for audit because our prior audits had identified issues with this program. In 2006, 2007 and 2008, we issued findings to the City for control deficiencies and noncompliance with federal requirements.

- The 2008 finding was for inaccurately reporting program expenditures on its financial statements.
- The 2007 finding covered standard reports for use of disadvantaged businesses.
- The 2006 finding was for another City department's use of program funds.

The related audit reports can be found using the audit report search function of our website at:

<http://www.sao.wa.gov/EN/Audits/Pages/Search/AuditReportSearch.aspx?mcag=0433>

Our testing of compliance with federal grant requirements focuses on the compliance areas identified by the U.S. Office of Management and Budget (OMB) in Circular A-133. Grantees are expected to have sufficient controls over and ensure full compliance with all applicable requirements. Further, grantees are expected to administer federal

awards in an efficient manner. The auditor is required to report deficiencies if internal control is likely to be ineffective in preventing or detecting all noncompliance.

Description of Condition

We focused our audit in part on charges related to the Seattle Department of Transportation's King Street Station remodel project. We determined the Department did not have controls to prevent or detect one ineligible contractor invoice totaling \$185,921 that was inappropriately charged to the grant. The grant reimburses the City for 86.5 percent of the project costs. Therefore, when the City submitted \$185,921 for reimbursement, the grant paid \$160,822.

The Department did not have effective internal controls to monitor grant charges and ensure only eligible costs were charged to the grant.

Cause of Condition

The Department had planned to use non-federal funds to pay for this invoice. It charged the ineligible contractor invoice to the grant in error and did not detect the error due to a lack of adequate controls to monitor charges to federal grants.

The Seattle Department of Transportation's information system is not able to generate clear and timely periodic reports of detailed charges to federal grants. As a result, it does not have effective monitoring controls for ensuring that only eligible costs are claimed for federal reimbursement.

Effect of Condition and Questioned Costs

The City received \$160,822 in federal reimbursement for unallowable activities. We are questioning this amount. In response, the Department has reduced the amount of its July 2010 claim for reimbursement by that amount, thereby correcting the noncompliance.

Recommendation

We recommend the City:

- Improve monitoring controls over charges to the Federal Transit Formula Grant and all other federal funding sources. Detail of project costs charged to federal grants should be specifically identified in the general ledger to allow project managers to have simple and easy-to-use expenditure reports.
- Notify the Federal Transit Administration of the City's repayment of 2009 questioned costs.

City's Response

The City agrees that it received \$160,822 in reimbursements for ineligible costs in 2009 due to miscoding of one invoice to a contractor. The grantor was notified of the error and the error was corrected by a corresponding adjustment to a grant billing in July 2010.

As an interim measure, the City will further strengthen its current grant review processes to prevent similar errors from occurring. In addition, due to the auditor's work and in light of impending new reporting requirements, the City commits to a systemic review of accounting, billing and reporting processes for federal grants. When the review is complete, the City will develop a plan to implement accounting processes to ensure transparency and full compliance with federal requirements.

The City does not agree with the auditor's assertion that the cause of condition is that the Department's information system "is not able to generate clear and timely periodic reports of detailed charges to federal grants". The department's internal procedures include a combination of automated and manual processes. Although all financial transactions are maintained in the accounting system, some balances are combined when billed to the grants, and some Activity-based grant records are not used exclusively for grant transactions. Due to this lack of transparency, the Department supplements automated system reports with subsequent queries to extract detail grant information for review by staff.

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-87, *Cost Principles for State, Local and Indian*

Tribal Governments (2 CFR Part 225), Appendix A, Section C, states in part:

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

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

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

(j) Be adequately documented.

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

The auditee shall:

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

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

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

Schedule of Prior Federal Audit Findings

**City of Seattle
King County
January 1, 2009 through December 31, 2009**

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: 2008 | Report Reference No: 32347 | Finding Reference No: 1 | CFDA Number(s): 20.507 |
| Federal Program Name and Granting Agency: Federal Transportation Formula Grants, Federal Transit Administration | | Pass-Through Agency Name: NA | |
| Finding Caption: The City of Seattle Department of Transportation (SDOT) does not have adequate internal controls to ensure it requests reimbursement from the federal grantor only for allowable costs. | | | |
| Background: Department accountants rely on project managers' approval of contractor invoices for payment to ensure only allowable costs are paid and sought for reimbursement. However, in this case, the project manager approved the invoices for payment even when they included unallowable costs. | | | |
| Status of Corrective Action: (check one) <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 | | | |
| Corrective Action Taken: <i>SDOT's project managers, finance analysts, contractor payment staff and accounting have conducted a comprehensive review of the procedures and best practices have been implemented accordingly. Reviews are occurring at several different levels to ensure that all costs billed to grants are allowable for reimbursement from granting agencies.</i> <i>Our 2009 audit identified questioned costs resulting from significant deficiency in internal controls reported in federal finding No. 1.</i> | | | |

| | | | |
|--|--------------------------------------|---|---|
| Audit Period: 2008 | Report Reference No: 32347 | Finding Reference No: 2 | CFDA Number(s): 97.004, 97.071, 97.067 |
| Federal Program Name and Granting Agency: Homeland Security Cluster, U.S. Department of Homeland Security | | Pass-Through Agency Name: Military Department | |
| Finding Caption: The City of Seattle did not comply with federal procurement requirements and did not have adequate internal controls in place to ensure compliance. | | | |

Background:

The Seattle Police Department did not retain documentation to show consulting contracts were competitively awarded, the rationale for vendor selection, or how the price was determined.

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

The Seattle Police Department took immediate action to comply with federal procurement requirements. Internal procedures for consultant contracting were revised to require competitive selection of consultant vendors irrespective of contract amount. The revisions in procedure are being documented with changes to the Department's Contracting Manual as well as the Department Directive. While fully compliant with City of Seattle Contracting Standard Operating Procedures, which requires competitive vendor selection only when the projected contract exceeds \$44,000, the Department has nevertheless revised its contracting procedures to require a competitive selection for any contract amount, documentation that describes the vendor selection criteria, and how the contract price was determined.

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Seattle
King County
January 1, 2009 through December 31, 2009**

Mayor and City Council
City of Seattle
Seattle, Washington

COMPLIANCE

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 are applicable to its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, 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.

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 deficiencies, significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1. *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.

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

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record

and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 27, 2010



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 in cooperation 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 our 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 continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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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