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**Department of Commerce (COM)**

**Agency: 103**

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**Audit Report:** 2011 F

**Finding Number:** 010

**Finding:** The Department of Commerce does not ensure the funding it provides to sub-recipients is reported and audited in accordance with federal regulations.

**Resolution:** The Department partially concurs with the finding. The Department agrees five sub-recipients did not submit audit reports as required, and this oversight was not caught. In June 2012, the Department contacted the five subrecipients and verified compliance with federal regulations by obtaining copies of audit reports.

Subrecipient contract terms and conditions identify the requirement that organizations receiving in excess of \$500,000 in federal funds must have an audit in accordance with federal regulations and submit copies to the Department. The Department has increased periodic reviews of subrecipients with expenditures of federal funds provided by the Department of \$500,000 or more by refining specific audit requirements and reporting functionality in its tracking systems to better follow up on delinquent reports. In July 2012, the Department added specific audit requirements and reporting functionality to its Contract Management System (CMS) to calculate, by contractor, all Department payments to contractors within the contractor's fiscal year. Any contractors receiving at or above \$500,000 in federal resources are flagged as requiring an audit. While the Department recognizes the audit requirement is for funds expended by the contractor, the amount disbursed to contractors is used as a trigger for the flag. The Department also created several reports to enhance follow up on delinquent reports and increase periodic review.

Since it is possible for subrecipients to receive less than \$500,000 from the Department plus additional funds from other sources to exceed the threshold for requiring an audit, the Department intends to remind subrecipients of this requirement; however, it has no method to determine when this threshold is met. During July 2012, the Department sent subrecipients a general reminder about the threshold for requiring an audit. The Department is satisfied that program funds expended during this period were appropriate and correct through the monthly invoice verification process, the required documentation review, and on-site monitoring conducted for each subrecipient.

The Department does not agree that it has the responsibility to ensure subrecipients are reporting all federal program funds in their Schedules of Expenditures of Federal Awards. Further, the Department does not believe it is required to re-audit an audit prepared by the subrecipient's certified public accountant. Generally accepted accounting principles and federal regulations enumerate many financial statement disclosure requirements with which auditees and auditors must comply. If the state auditors have concerns about the quality of an audit report, there are procedures for notifying the State Board of Accountancy of those concerns. The Department does not have the expertise to make such judgments.

## Status of Resolution of Audit Findings

December 2012

The Department believes timely and appropriate corrective action was completed for the four subrecipient audit findings. There are instances where the Department made the decision to accept the subrecipient's original response to the audit finding and, consequently, has not required any follow up. This course of action is within the Department's purview. The Department has refined specific corrective action and management decision documentation and reporting functionality in CMS to better centrally document timely and appropriate audit review and corrective action for subrecipient audit findings. By December 2012, the Department intends to implement central documentation and review of corrective action activities in CMS and update procedures.

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Department of Commerce (COM)

Agency: 103

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**Audit Report:** 2011 F

**Finding Number:** 022

**Finding:** The Department of Commerce, Community Services and Housing Division, did not comply with period of availability requirements for its Community Services Block Grant program.

**Resolution:** The Department concurs with the finding. Department program staff did not properly review the pre-coded payment documentation to ensure costs were within the proper period of availability. Subrecipients used an out-of-date pre-coded payment document template with closed 2009 award year coding. Neither program staff nor fiscal staff verified or corrected the old coding. As a result, \$57,072 was paid beyond the period of availability for 2009. Commerce fiscal staff did not properly review costs transferred from one grant year to another grant year to ensure costs were within the proper period of availability. Program staff inadvertently chose items outside the period of availability when requesting a transfer. Fiscal staff reviewing the work of newly trained fiscal staff did not properly verify backup documentation for the transfer. As a result, \$90,350 transferred was not properly identified within the period of availability for the 2009 award year.

In February 2012, fiscal and program staff reviewed and corrected the \$147,422 questioned 2009 grant year costs by transferring to the correct grant year per the period of availability. Appropriate costs within the period of availability for the 2009 grant were identified and subsequently transferred, resulting in zero net impact to the Community Services Block Grant 2009 award year.

The Department concurs with the auditor's recommendations to review payment costs for proper period of availability and stop providing pre-coded payment documents to subrecipients. The Department has reiterated document review and approval expectations with program and fiscal staff. During April 2012, all pre-coding was removed from payment document (invoice) templates and a request was sent to contractors asking them to stop using old pre-coded templates.

Understanding a federal program may have awards with overlapping/concurrent periods of availability, in January 2012 the Department added award tracking to its Contract Management System (CMS), including award first-in-first-out (FIFO) functionality to help reduce or eliminate cost transfers at award end. In June 2012, the Department began entering Community Services Block Grant awards in CMS using the FIFO functionality.

In July 2012, the Department added CMS system edits to notify users when attempting to use coding not associated with the contract. By March 2013, the Department intends to add additional CMS system edits to notify when an award end date is past, prior to allowing payment, and an edit to prevent payment 45 days beyond the award end date.

State of Washington

## Status of Resolution of Audit Findings

December 2012

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