

Schedule of Federal Audit Findings and Questioned Costs

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

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