

RESOLUTION 900(18)

RESOLUTION APPROVING MAY 2018 COMMUNITY DEVELOPMENT BLOCK GRANT-DISASTER RECOVERY INTERNAL AUDIT REPORT

**WHEREAS**, the City has hired Horne, LLP to complete a quarterly internal audit for the Community Development Block Grant-Disaster Recovery

**WHEREAS**, Horne has provided an internal audit report for the months of November 2017 through February 2018 and the City has responded and prepared a course of action

**NOW, THEREFORE, BE IT RESOLVED**, by the Mayor and City Council of the City of Moore, Oklahoma, as follows:

**ADOPTED**, this 18th Day of June, 2018, at a regularly scheduled meeting of the governing body in compliance with the Open Meeting Act, 25 O.S. SS301-314 (2001).

  
LINDA STEWART, CITY CLERK

  
GLENN LEWIS, MAYOR

Approved as to form and legality this 18<sup>th</sup> day of June, 2018.

  
RANDY BRINK, CITY ATTORNEY



# City of Moore CDBG-DR Internal Audit Report

Deloitte & Touche LLP | May 30, 2018

This CDBG-DR Internal Audit Report is intended solely for the informational purposes and internal use of the City of Moore, and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner or for any purpose, on this CDBG-DR Internal Audit Report.



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May 30, 2018

Honorable Mr. Glenn Lewis  
Mayor  
City of Moore  
301 North Broadway  
Moore, OK 73160

Dear Mr. Lewis:

We are pleased to provide the attached Internal Audit Report for the period November 1, 2017 through February 28, 2018 with respect to the Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program funding the City of Moore (City) received. This work was performed based on the terms outlined in the engagement letter dated June 20, 2017. The areas covered during the analysis were jointly identified with the City based on a risk based planning process, and are outlined within this report.

Our services were performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA). However, our services did not constitute an engagement to provide audit, compilation, review, or attestation services as described in the pronouncements on professional standards issued by the AICPA, and, therefore, we will not express an opinion or other form of assurance with respect to our services.

In addition, our services did not constitute an examination or compilation of prospective financial information in accordance with standards established by the AICPA. We did not provide any assurance regarding the outcome of any future audit or regulatory examination or other regulatory action; nor did we provide any legal advice regarding our services; the responsibility for all regulatory and legal issues with respect to these matters resides with the City. It is further understood that the City is responsible for, among other things, identifying and ensuring compliance with laws and regulations applicable to the City's financial statement activities.

This report is intended solely for the information and use of City and is not intended to be, and should not be, used by any other party, with the exception of oversight agencies for the performance of their oversight responsibilities.

The accompanying pages of our report include an executive summary as well as detailed observations, recommendations, and management's responses. Although we have included management's responses to our findings and recommendations, we take no responsibility for their sufficiency or the effective implementation of any corrective action.

We appreciate the cooperation received from management and staff of the City during the performance of this internal audit.

Very truly yours,

Deloitte & Touche LLP

By: *Shawn Kilchrist*

Shawn Kilchrist  
Managing Director

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# Executive Summary

## Background

The City received two rounds of HUD CDBG-DR funding totaling \$52.2 million which are subject to federal compliance requirements. Based on the Capital Plan developed by the City the funds were allocated for infrastructure, housing, and public service projects. In order to oversee the spending and oversight of the grant funds received, the City has developed a CDBG-DR organization to manage the on-going spending of the funds received. As needed, contracted professionals are engaged to provide additional technical assistance. The City has developed a CDBG-DR Compliance Manual, established internal controls, and implemented systems to govern the use of the funds received.

## Scope & Objectives

The areas of focus for this internal audit included:

- Project closeout and financial reconciliation for the I-03 Little River Park Sanitary Sewer Interceptor project.
- Down Payment Assistance Program
- Low to Moderate (LMI) calculation process across the City of Moore CDBG-DR programs, specifically the H1- Redevelopment project
- Procurement process for the I-05 Telephone Road Resurfacing South, PF-2 Little River Playground, and Little River Spray Park Projects.

*Transactions and activities for the period November 1, 2017 through February 28, 2018 were evaluated.*

The objectives of our analysis consisted of assessing the appropriateness of the design and the effectiveness of the internal controls for the aforementioned focus areas. In order to evaluate the internal controls HUD CDBG-DR requirements were evaluated along with City CDBG-DR compliance manual, City procurement policies, and other relevant federal and state requirements related to the funding received.

We discussed the observations and recommendations with the City on April 17, 2018. Management provided management action plans related to the observations.

## Approach

The internal audit consisted of the following:

- **Step 1:** Performed interviews with personnel responsible for the managing and oversight of the CDBG-DR funds.
- **Step 2:** Developed an internal audit planning narrative that outlined the activities, scope and procedures to be performed for this CDBG-DR internal audit.

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- **Step 3:** Performed the following testing procedures based on the activities, scope, and procedures identified in the internal audit planning narrative:
  - **Closeout Process** - Evaluated the closeout process for the I-03 Little River Park Sanitary Sewer Interceptor project, including analysis of required project file documentation and financial reconciliations in accordance with City of Moore CDBG-DR policies and procedures and HUD CDBG-DR requirements.
  - **Down Payment Assistance Program** – Evaluated the one completed/approved application and five in progress applications. The application documents were assessed in accordance with the City of Moore down payment assistance policies and procedures and CDBG-DR requirements.
  - **LMI Evaluation** – Assessed National Objective Determination Checklists, LMI area maps and documentation used for LMI calculations for H1 - Redevelopment Project, three housing projects (H-02, H-03, H-04), and three infrastructure projects (I-01, I-05, I-08).
  - **Procurement** – Assessed the request for proposal, notice of bidding, evaluation of bids received, and contracts established (e.g. inclusion of federal clauses, type of contract) in accordance with City of Moore CDBG-DR policies and procedures and HUD CDBG-DR requirements for the following projects:
    - I-05 Telephone Road Resurfacing South Project
    - PF-02-W-LMA Little River Playground
    - PF-03-W-LMA Little River Spray Park Projects
- **Step 4:** Conducted a closing meeting and discussed the observations and recommendations with management.

### Summary of Observations

Below is a summary of the observations identified through our internal audit. A detailed outline of the observations and recommendations for management are included in the **Observations and Recommendations** section of this report.

#### Not fully established Low to Moderate Policies and Procedures

- LMI/LMA policies and procedures have not been fully established. The City has identified this as an area of potential risk and it has begun to formalize policies and procedures to ensure compliance, consistency and continuity in the process.

#### DRGR to Project Ledger Reconciliation

- The project ledger for I-03 Little River Park Sanitary Sewer Interceptor did not tie to the DRGR drawdown. There was an undocumented variance of \$4,332.23 not submitted to HUD for reimbursement.

#### Approved down-payment application does not meet approval requirement

- A down-payment application should not have been approved per policy based on the debt to income ratio of the applicant.

# Observations & Recommendations

Observation Number	Observation Name	Observation	Recommendations/Management Action Plans
1	<p><b>Not fully established Low to Moderate Policies and Procedures</b></p>	<p>LMI/LMA policies and procedures have not been fully established. The City has identified this as an area of potential risk and it has begun to formalize policies and procedures to ensure compliance, consistency and continuity in the process.</p>	<p><b><u>Recommendations</u></b> The city should continue working on the policies and procedures for LMI/LMA that are currently in the process of being developed.</p> <p><b><u>Management Action Plan</u></b> The City will work with the selected Developer to establish LMI policy and procedure for the redevelopment project.</p>
2	<p><b>DRGR to Project Ledger Reconciliation</b></p>	<p>The project ledger did not tie to the DRGR drawdown. A difference of \$4,332.23 was identified. This related to project costs incurred but not eligible for reimbursement by HUD. Without documentation regarding differences between the project ledger and DRGR, it is difficult to understand the reasons for this difference.</p>	<p><b><u>Recommendations</u></b> The city should document in a memo to the file that it will not request reimbursement for \$4,332.23 associated with the project. The City should document the reason for discrepancies between the project ledgers and DRGR.</p> <p><b><u>Management Action Plan</u></b> Project reconciliation has been completed for each DR project that clarifies amounts expended, drawn, leveraged and/or reclassified to another project. In addition to the reconciliation, a Memo for each project has been completed explaining the software conversion time-line and methods of reconciliation used as a result. The memo is included in the 'memo file' as well as attached to the final reconciliations.</p>



Observation Number	Observation Name	Observation	Recommendations/Management Action Plans
3	<p><b>Approved down-payment application does not meet approval requirement</b></p>	<p>The monthly debt-to-income ratio for a complete and approved application evaluated was 42.1%, which exceed the 42% limit established by policy.</p> <p>According to the Down Payment Assistance (DPA) Manual Appendix D the limit for debt-to-income ratio should not exceed 42% of income.</p> <p>There is the risk that the applicant is potentially not eligible based on their debt-to-income ratio.</p>	<p><b>Recommendations</b></p> <p>The application review process should be enhanced to identify instances where applicant ratios exceed the limits as established by policy.</p> <p>For the applicant that was awarded down payment assistance even though the debt to income ratio was greater than established policy, the City should determine if any remedial actions are necessary.</p> <p><b>Management Action Plan</b></p> <p>The City will amend its policy and procedure to include de minimis scenarios and will include file memos to explain de minimis situations.</p>

**Deloitte.**