

RESOLUTION 930(19)


RESOLUTION APPROVING MAY 2019 COMMUNITY DEVELOPMENT BLOCK GRANT-DISASTER RECOVERY INTERNAL AUDIT REPORT

WHEREAS, the City has hired Deloitte to complete an internal audit for the Community Development Block Grant-Disaster Recovery

WHEREAS, Deloitte has provided an internal audit report for the months of December 2018 through March 2019 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 5th Day of August, 2019, at a regularly scheduled meeting of the governing body in compliance with the Open Meeting Act, 25 O.S. SS301-314 (2001).


VANESSA KEMP, CITY CLERK


GLENN LEWIS, MAYOR

Approved as to form and legality this 5th day of August, 2019


RANDY BRINK, CITY ATTORNEY





City of Moore CDBG-DR Internal Audit Report

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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June 11, 2019

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 December 1, 2018 through March 31, 2019 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.

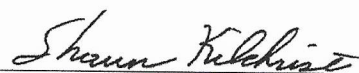
This report is intended solely for the information and use of City and is not intended to be, and should not be, used by any other party, with the exception of oversight agencies, for the performance of their oversight responsibilities.

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, 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 manage 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. Additionally, 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:

- Closeout Documentation – Assessment of Invoices, Contracts, Compliance (Section 3 and Davis Bacon weekly reports), and Financials (Duplication of Benefits, Project Memos, Reconciliations and Work Orders) for the following projects:
 - A-01 Community Development Services
 - A-02 General Administration
 - I-01 Kings Manor Street Repair
 - I-02 Plaza Towers
 - I-14 S. Broadway (Street & Water)
- Change Orders for Project I-15 Little River Drainage Improvement - Included was the evaluation of backup documentation, cost reasonableness, assessment of mathematical accuracy, and completeness of documentation.
- Assessment of Action Plan Amendments – Assessment of extension letter requests and templates for the Administration, Housing and Infrastructure projects. Area of focus included the evaluation of documentation to determine if there was adequate support for the activities performed and alignment with action plans.
- Royal Rock Redevelopment Project Procurement and Disposition and Development Agreement (DDA) - Areas of focus included the development of the request for proposal, notice of bidding, evaluation of the bids received, contract established, analysis of the RFP development process, bid assessment, bid tabulation, and invoicing.
- Transactions and activities for the period December 1, 2018 through March 31, 2019 were evaluated.

The objectives of our analysis consisted of assessing the appropriateness of the design and the effectiveness of internal controls for the aforementioned focus areas. In order to evaluate the internal controls, HUD CDBG-DR requirements were evaluated along with the City CDBG-DR

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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 May 14, 2019 and provided management action plans related to the observations and are included in this report.

Approach

The internal audit consisted of the following:

- **Step 1:** Held planning meeting 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.
- **Step 3:** Performed testing based on the activities, scope, and procedures as outlined in the internal audit planning narrative and in the Scope and Objectives section above. The methodology used for testing was:
 - **Closeout Documentation** – Analyzed contracts, change orders and financials for four infrastructure projects to determine if federal clauses were in place, if policies and procedures were followed for cost reasonableness and change orders, as well as the accuracy of financials. Assessed drawdowns represented in Disaster Recovery Grant Reporting System (DRGR), Project and General Ledgers to confirm accordance with the City of Moore CDBG-DR Policies and Procedures and HUD CDBG-DR requirements. A sample of sixty-eight invoices for four infrastructure projects were tested to assess the invoicing process and compliance items including Section 3 and *Davis Bacon*.
 - **Action Plan Amendments** – Reviewed Extension Letters requests and templates to compare HUD approved changes to the ledger and action plan.
 - **Procurement and Disposition and Development Agreement (DDA)** – Evaluated the procurement process for the Royal Rock (Curve Housing project) including requests for proposals and notices of bidding, evaluations of bids received, and three contracts to determine if policies and procedures were followed in accordance with the City of Moore CDBG-DR Policies and Procedures and HUD CDBG-DR requirements. A total of twenty-nine invoices that were in the folder were analyzed to assess the invoicing process. The Disposition and Development Agreement and backup documentation were also evaluated.
- **Step 4:** Conducted a closing meeting on May 14th, 2019 and discussed the observations and recommendations with City of Moore management.

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Summary of Observations

Below is a summary of observations identified. A detailed outline of the observations and recommendations are included in the **Observations and Recommendations** section of this report.

- **The project ledger for H-01 Royal Rock Development (The Curve) project ledger did not tie to the DRGR drawdown**
- **Variance in the number of housing units to be constructed between the Action Plan Amendment, RFP and Contract for H-01 Royal Rock Development**
- **Cost-plus language in a construction contract (I-02 Plaza Towers)**
- **Change Orders that exceed a certain threshold of the budgeted value should be reported to the City Council for proper oversight and transparency**

Observations & Recommendations

Observation Number	Observation Name	Observation/ Risk	Recommendation/Management Action Plan
1	<p>The project ledger for H-01 Royal Rock Development (The Curve) project ledger did not tie to the DRGR drawdown</p>	<p>The project ledger did not tie to the DRGR drawdown, and a difference of \$6,295 was identified. This related to project costs incurred but reimbursement was not claimed by the City from HUD. Unreconciled differences are difficult to track without documentation explaining the reasons for the variances. Even though The City has leveraged expenses to maximize the CDBG-DR Grant, whenever there is a variance between the ledgers the City should explain the reason why it happened.</p>	<p><u>Recommendations</u> A memo to the file should be developed to document the reasons for the variances between the project ledger and DRGR.</p> <p><u>Management Action Plan</u> The city concurs with this recommendation. A memo explaining that the project ledger, general ledger, and DRGR records should be reviewed along with reconciliation documents that are completed monthly has been created and inserted in the project memos and reconciliation folders of each disaster recovery activity.</p>

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Observation Number	Observation Name	Observation/ Risk	Recommendation/Management Action Plan
2	Variance in the number of housing units to be constructed between the Action Plan Amendment, RFP and Contract for H-01 Royal Rock Development	Action Plan amendment for the Housing program was approved by HUD for 244 units, however the RFP and contract with Belmont specifies that 280 units are to be built. Documentation was not available to explain the reason for the variance in the number of units.	<p><u>Recommendations</u> The city should write a memo to file to document the reason for the discrepancy between the RFP and the Amendment.</p> <p><u>Management Action Plan</u> The City will create a memo explaining the change in the number of units.</p>
3	Cost-plus language in a construction contract (I-02 Plaza Towers)	<p>The contract for Veolia Water – North America Central LLC contains cost plus language in the Scope Changes Section (Section 9). Specifically, in section 9.2 for change orders in scope written as cost-plus 10%. The federal guidance in 2 CFR 200.323 prohibits the use of cost-plus percentage in contracts.</p> <p>The contracts for Rudy Construction Co. and Silver Star Construction Co. for On-Demand Construction Services contain cost-plus language in the Section 2: Scope of Services. Specifically, in sections Roadway On-Demand Construction Services, Storm Water and Drainage Construction Services, and Emergency On-Demand Construction Services is written that the contractor shall be allowed an 8% markup on actual costs. The federal guidance in 2 CFR 200.323 prohibits the use of cost plus percentage in contracts.</p>	<p><u>Recommendations</u> The City should amend the Veolia Water – North America Central LLC, Rudy Construction Co. And Silver Star Construction Co. agreements to remove the cost-plus percentage language and review change orders and invoices submitted to determine if the cost-plus category was submitted for reimbursement.</p> <p>Cost-Plus language in contracts is a repeat finding and it was noted in the December 2017 Internal Audit Report. The City should perform an assessment to determine no other CDBG-DR contracts contain cost plus categories.</p> <p><u>Management Action Plan</u> The City will amend the contracts for Veolia Water – North America Central LLC, Rudy Construction, and Silver Star Construction to eliminate the cost plus language. The City will also review all contracts to make certain all cost-plus language has been eliminated.</p>

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Observation Number	Observation Name	Observation/ Risk	Recommendation/Management Action Plan
4	<p>Change Orders that exceed a certain threshold of the budgeted value should be reported to the City Council for proper oversight and transparency</p>	<p>Even though cost reasonableness analysis is performed when a change order is submitted for approval, City Council approval should be considered for change orders that exceed the original contracted amount by a certain threshold to provide oversight and transparency. Amounts may be spent that are not in accordance with the council's intent. This will provide greater visibility to changes as they occur.</p>	<p><u>Recommendations</u> The City should consider adding a clause to the Cost Estimating and Cost Reasonableness Procedures requiring change orders over a certain threshold of the original contracted value should be approved by the City Council.</p> <p><u>Management Action Plan</u> The City will consider amending its policy and procedure and setting a threshold percentage for change orders that would require City Council approval.</p>

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