



City of Moore CDBG-DR Internal Audit Report



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February 23, 2018

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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 July 1, 2017 through October 31, 2017 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

A handwritten signature in cursive script that reads "Shawn Kilchrist".

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 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. 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 an analysis of activities including project close-out, mobilization costs, contractual penalty clauses, financial reconciliations, the down payment assistance program, and the master developer bidding process for the Royal Rock Redevelopment project. Transactions and activity for the period July 1, 2017 through November 30, 2017 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 December 15, 2017. 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.
- **Step 3:** Performed the following testing procedures based on the activities, scope, and procedures identified in the internal audit planning narrative:
 - **Down Payment Assistance Program** – Evaluate the one application processed where down payment assistance was provided. The application documents were assessed in accordance with the City of Moore down payment assistance policies and procedures and CDBG-DR requirements.

- **Royal Rock Redevelopment Project Master Developer Selection** – Assessed the process to select a master developer including advertising, scoring, and selection based on City of Moore CDBG-DR policies and procedures and CDBG-DR requirements.
 - **Plaza Towers North Street Repair Project (I-02)** – Evaluated the close-out process 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.
 - **Plaza Towers Streetscape and Bridge Box Project (I-20)** – Assessed vendor invoices received, payments, and the reconciliation to City of Moore financial ledgers and DRGR.
 - **South Broadway Streets and Water Project (I-14)** – Evaluated construction vendor contracts, invoices, and payments for mobilization costs. In addition, cost reasonableness was assessed along with the City of Moore CDBG-DR policies and procedures, HUD CDBG-DR requirements, and Oklahoma Department of Transportation mobilization cost guidance.
 - **Telephone Road Resurfacing South Project (I-05)** – Assessed the construction vendor contractual penalty clauses in accordance with City of Moore CDBG-DR policies and procedures and HUD CDBG-DR requirements.
- **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.

Project Ledger to DRGR Reconciliation Discrepancies

- Incomplete data transfer during accounting system migration
- Accounting system journal entry error
- Amounts in project where reimbursement was not requested in DRGR

Mobilization Costs Invoiced as Cost Plus

- Mobilization was invoiced as a percentage of the total monthly invoiced amounts.
- HUD CDBG-DR requirements do not allow cost plus language in contracts or invoicing.

Observations & Recommendations

Observation Number	Observation Name	Observation	Recommendations/Management Action Plans
1	<p>Project Ledger to DRGR Reconciliation Discrepancies</p>	<p>The City of Moore Project ledger for project I-02 (Water and Streets) did not reconcile to the amount drawn down in DRGR.</p> <p>The amount expended in the Munis project ledger for project I-02 (Water and Streets) was \$3,728,590.29. The amount drawn from DRGR was \$3,774,411.72. There was \$45,012.87 that was drawn from DRGR that was not recorded in Munis. The discrepancies related to the following:</p> <ul style="list-style-type: none"> Expenses in the prior accounting system (Incode) were not migrated to the new accounting system (Munis) totaling \$52,229.99. Overage recorded in Munis should be reversed for I-02 Water totaling \$5,600. <p>Note: Part of the difference included \$808.56 that was on the project ledger for payroll expenses that were appropriately not requested to be drawn down.</p>	<p><u>Recommendations</u></p> <p>The discrepancies identified should be corrected so that the I-02 project ledger reconciles to the amount drawn down in DRGR.</p> <p>In addition, other projects should be evaluated to determine that project ledgers reconcile to the amount drawn down in DRGR.</p> <p><u>Management Action Plan</u></p> <p>Discrepancies between the Munis project ledger (PL) and Disaster Recovery (DR) funds drawn and recorded in DRGR occurred as a result of a general ledger (GL) journal entry to remove a leveraged expenditure of \$5,600.00 not being attached to the project string, expenditures being recorded in Incode PL not recorded in the Munis PL, and undrawn expenditures for payroll removed from the DR Fund in the GL remaining in the PL to demonstrate amounts leveraged for a specific project.</p> <p>The Incode PL is two-tiered and will not convert to the 4-tiered Munis PL. It is not cost-effective to manually enter the Incode entries. Reconciliation of expenditures drawn from both project ledgers and any amounts remaining in those ledgers to demonstrate leverage with</p>

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			<p>DRGR recorded draws will be performed after project completion for clarification.</p> <p>Journal entry in Munis PL has been performed to record the GL journal entry that removed the \$5,600.00 leveraged expenditure from DR Funds on project I-02.</p> <p>Additionally, a 'memo to file' will be completed for each project recorded in both Incode and Munis software in explanation of the above, and identifying the dates of transition to Munis.</p>
2	<p>Mobilization Costs Invoiced As Cost Plus</p>	<p>Mobilization costs invoiced by a vendor were requested for reimbursement as a monthly percentage of total invoiced costs (7%) on each monthly invoice for the South Broadway Street and Water Project (I-14). As presented, the mobilization costs appeared to be billed as cost plus. For HUD CDBG-DR contracts cost plus is not an allowable method of reimbursement.</p> <p>Note: Cost reasonableness for the 7% mobilization fee was performed by an engineering firm and the costs were in alignment with Oklahoma Department of Transportation guidance.</p>	<p><u>Recommendations</u></p> <p>Mobilization costs should not be reimbursed as a percentage of total monthly invoice costs. The mobilization amount should be determined up front and reimbursed as a fixed fee in either one payment or two payments (when mobilization commences and is substantially completed).</p> <p>Guidance should be provided to vendors regarding the requirement that cost plus reimbursement should not be included in HUD CDBG-DR related invoicing.</p> <p>Additionally, the City of Moore should evaluate all construction contracts and amend as necessary to remove cost plus items.</p>

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Management Action Plan

The City will amend the current contracts to eliminate the 7% mobilization fee and have mobilization as a fixed cost in the budget of the project.

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