



City of Moore Quarterly CDBG-DR Internal Audit Report



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The 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 February 1, 2017 through June 30, 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 plan, 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.

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 of Moore (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.

Our Scope & Objectives

The areas of focus for this internal audit included evaluation of a the request for proposal for a developer and a draft vendor agreement for the Royal Rock Redevelopment project, construction change orders, duplication of benefits, professional service providers, and reporting of CDBG-DR activity in the City's financial system and to HUD. Transactions and activity for the period February 1, 2017 through June 30, 2017 were evaluated with the exception of Duplication of Benefits, Professional Services Contracts, and Change Orders which included samples from calendar year 2016.

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 the City of Moore CDBG-DR compliance manual, City of Moore procurement policies, and other relevant federal requirements related to the funding received.

We discussed the observations and recommendations with the City of Moore on July 28, 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 risk assessment used to develop focus areas for the quarterly internal audit procedures to be performed.
- **Step 3:** Performed the following testing procedures:
 - **Request for Proposal/ Documentation for the Royal Rock Redevelopment Project**
 - Assessed the Request for Proposal to evaluate required federal compliance clauses
 - Evaluated the draft documentation for a professional services firm related to providing legal advice and guidance
 - Identified potential improvement opportunities and developed recommendations for consideration
 - **Professional Service Contracts**
 - Assessed the RFP and bid review evaluation process
 - Evaluated contracts established for required Federal clauses
 - Assessed purchase order process related to work performed
 - Evaluated a sample of six invoices and purchased orders related to the contracts evaluated
 - Assessed labor, equipment, and other charges based on contract and mathematical accuracy of the invoices
 - Evaluated the invoice review processes
 - Assessed Section 3 reporting documentation
 - Identified potential improvement opportunities and developed recommendations for consideration
 - **Construction Change Orders**
 - Reviewed the 18 change orders executed to date for construction contracts
 - Assessed the current change order policies and procedures
 - Evaluated the change orders based on the scope, quantities, and pricing established in the original contracts
 - Assessed the change order approval process based on the policies and procedures established
 - Evaluated to determine if cost reasonableness was performed for the changes and additions
 - Assessed the mathematical accuracy of the change orders
 - Evaluated the overall change order monitoring process
 - Identified potential improvement opportunities and developed recommendations for consideration
 - **Duplication of Benefits**
 - Judgmentally selected a sample of 10 projects
 - Assessed the duplication of benefits policies and procedures
 - Evaluated the activities performed to determine if there are duplication of benefits
 - Assessed the process to calculate duplication of benefits

- Identified potential improvement opportunities and developed recommendations for consideration
- **Expenditures**
 - Evaluated the drawdowns represented in Disaster Recovery Grant Reporting System (DRGR) for June 2017
 - Obtained general and project ledgers for June 2017
 - Selected 14 line items and obtained supporting detail for the line items – evaluated allowability, allocability, supportability, reasonability, and necessity
 - Evaluated the documentation to the project ledger amounts posted
 - Identified potential improvement opportunities and developed recommendations for consideration
- **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 identified and recommendations for management are included in the **Observations and Recommendations** section of this report.

Professional Service Contracts

- Cost plus language in a professional services contract
- Section 3 documentation for a professional services vendor not on file

Invoice Review Work Flow

- Inconsistency in the design and implementation of the City's invoice review process

Cost Reasonableness

- Cost Reasonableness support for change order additions not maintained in project file
- Minor calculation errors and missing descriptions in change order forms

Duplication of Benefits

- Lack of use of total project cost in duplication of benefits reporting

Project Ledger Reconciliation

- Incorrect project code used on invoice for Project P-9
- Incorrect project coding used on supporting invoices related to Project I-10

Observations & Recommendations

Observation Number	Observation Name	Observation	Recommendations/Management Action Plans
1	<p>Cost plus language in a professional services contract</p>	<p>The contract rate schedule for Poe & Associates contains a cost plus category. Specifically, the Rate per Hour for Outside Consultants and Laboratories is written as cost plus 10%. The federal guidance in 2 CFR 200.323 prohibits the use of cost plus percentage in contracts.</p> <p>Based on an analysis of two invoices for Poe & Associates the cost plus category was not invoiced. There is a risk that mark-up percentage may not be reimbursable if submitted for reimbursement through DRGR.</p>	<p><u>Recommendations</u></p> <p>The City should amend the Poe & Associates agreement to remove the cost plus percentage language and review invoices submitted to determine if the cost plus category was submitted for reimbursement.</p> <p>The City should perform an assessment to determine no other CDBG-DR contracts contain cost plus categories.</p> <p><u>Management Action Plans</u></p> <p>After review the City had one contract with cost plus language within the contract. The new contact does not contain cost plus language. All invoices have been reviewed and no cost plus charges have been invoiced to the City.</p>
2	<p>Section 3 documentation for a professional services vendor not on file</p>	<p>Per the City's Policies and Procedures manual, vendors are required to submit an initial Section 3 report and associated progress reports weekly. Based on an evaluation of the Poe & Associates project file, Section 3 documentation for Poe & Associates could not be found. As a result, the City may not have on the required documentation on file to show progress towards meeting the Section 3 goals.</p>	<p><u>Recommendations</u></p> <p>Section 3 documentation from Poe & Associated should be added to their project file.</p> <p>The City should assess the completeness of Section 3 documentation on file for vendors.</p>

Observation Number	Observation Name	Observation	Recommendations/Management Action Plans
			<p><u>Management Action Plans</u></p> <p>The City will verify completeness of Section 3 documentation including initial and weekly reports on file for professional services vendors by September 30, 2017.</p>
3	<p>Inconsistencies in the design and implementation of the City's invoice review process</p>	<p>City's policy states that invoices should be reviewed by the Compliance Specialist before moving to the Accountant II for review. The process flow within the accounting system is configured to where the Accountant II reviews the invoice before the Compliance Specialist. The workflow is inconsistent with the policy.</p>	<p><u>Recommendation</u></p> <p>Update the system workflow so that it aligns with the policies and procedures developed.</p> <p><u>Management Action Plan</u></p> <p>The City will update the policy and charts to align them with current practice.</p>
4	<p>Cost Reasonableness support for change order additions not maintained in project file</p>	<p>While the cost reasonableness certification form exists within change orders which indicates vendors have evaluated changes for cost reasonableness, the supporting documentation related to cost reasonableness used for their conclusions was not present within the change order documentation. In addition, for added items "Sole Sourced" was indicated on the cost reasonableness forms. The lack of supporting documentation makes it difficult to determine the method and depth of the cost reasonableness assessment performed to determine if the changes are allowable and reasonable.</p>	<p><u>Recommendations</u></p> <p>Require vendors to provide back-up within the change order documentation for the cost reasonableness performed.</p> <p>Evaluate the use of "Sole Sourced" on the change order forms for appropriateness.</p> <p>Perform additional training with vendors on the required back-up needed for change order requests.</p> <p><u>Management Action Plans</u></p> <p>The City will work with its contracted engineers to complete and submit cost reasonableness documentation for change orders.</p>
5	<p>Lack of support for cost</p>	<p>Cost reasonableness forms for Project H-04 were not included the project file and a cost reasonableness</p>	

Observation Number	Observation Name	Observation	Recommendations/Management Action Plans
	<p>reasonableness activities performed</p>	<p>evaluation was not performed for additions to the original scope of work. The lack of documentation makes it difficult for the City to properly support the added costs for the housing project.</p>	<p><u>Recommendation</u> Request documentation from the City of Oklahoma City to justify the costs were reasonable and required. Going forward, the City should determine vendors perform cost reasonableness on change orders and provide supporting documentation.</p> <p><u>Management Action Plan</u> The City of Oklahoma City will provide a comment sheet to justify the costs reasonableness for H-04-W-LMA work order changes. Going forward, the City will determine vendors perform cost reasonableness on change orders and provide supporting documentation.</p> <p>The City of Moore will work with the City of Oklahoma City to complete the documentation needed for the change order.</p>
<p>6</p>	<p>Minor calculation errors and missing descriptions in change order forms</p>	<p>Change orders had several minor mathematical errors in calculating the correct amounts for changes in quantity (e.g. Project I-07 Item 812-01). In addition, the reasoning behind changes in quantity and additional items for several of the items were missing (e.g. Project I-10). Projects I-10 and H-03 had decreases in the budgeted amount, but the change order amount was not displayed as a negative number. Errors in changes orders could potentially result in unwarranted or unsupported expenditures.</p>	<p><u>Recommendations</u> Assess the change orders to correct the minor mathematical errors for accuracy proper classification of changes as positive or negative.</p> <p>The City should add a description field for changes in quantity and new items to provide additional documentation for the changes.</p>

Observation Number	Observation Name	Observation	Recommendations/Management Action Plans
			<p><u>Management Action Plans</u></p> <p>City Staff has implemented a new workbook to show the positive and negative changes from change order to change order. The change order form has a description field for the changes. Staff will complete the new workbook for all complete change orders so all will have the same documentation.</p>
7	<p>Lack of use of total project cost in duplication of benefits reporting</p>	<p>Per federal guidance (Federal Register 76 No. 221), it is required to assess duplication of benefits using the total project cost. Several of the Duplication of Benefits forms evaluated had calculation worksheets that did not have the total project cost listed.</p>	<p><u>Recommendation</u></p> <p>The total cost of the project should be evaluated when performing the duplication of benefits calculation to reconcile to the total project cost.</p> <p><u>Management Action Plan</u></p> <p>Review the city's duplication of benefit (DOB) procedures, Federal Register 76 No. 221, and Title 2 CFR 200, subpart E. Consult with Deloitte while updating procedures and clarifying information reported on the DOB form.</p>
8	<p>Incorrect project code used on invoice for Project P-9</p>	<p>Project I-13 was combined with Project P-9 due to insufficient funds needed for construction in December 2016. The change was not communicated with the vendor and the vendor continued to submit invoices with the I-13 project code. The contractor should use the proper coding in order for the invoices to match the project ledger.</p>	<p><u>Recommendation</u></p> <p>Provide guidance to the vendor regarding coding invoices to the appropriate project codes and update the invoices accordingly.</p> <p><u>Management Action Plan</u></p> <p>Project was moved from "Infrastructure" to a "Planning" project. The project number has now been changed by the vendor for any additional work completed on this project.</p>

Observation Number	Observation Name	Observation	Recommendations/Management Action Plans
9	<p>Incorrect project coding used on supporting invoices related to Project I-10</p>	<p>Change orders and a decrease in mobilization cost percentage changed the dollar amounts for several invoices associated with Project I-10. The changes were made manually by the City instead of having the vendor resubmit the correct invoice. The total completed, total completed and stored to date, and total earned less retainage amounts on the invoice did not reconcile to the City ledger.</p>	<p><u>Recommendation</u> Request the vendor to resubmit the invoice with the appropriate amounts so the invoice and City systems and reconcile.</p> <p><u>Management Action Plan</u> The vendor has resubmitted the invoice with the appropriate amounts.</p>

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