

RESOLUTION 923(19)

**RESOLUTION APPROVING DECEMBER 2018 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 July 2018 through November 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 4th Day of March, 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


CITY OF MOORE
Corporate
SEAL
MOORE, OKLAHOMA


GLENN LEWIS, MAYOR

Approved as to form and legality this 4th day of March, 2019.


RANDY BRINK, CITY ATTORNEY



City of Moore CDBG-DR Internal Audit Report



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February 15, 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 July 1, 2018 through November 30, 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 through Grant number B-13-MS-40-0001. 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 assurance regarding the outcome of future audit or regulatory examination or other regulatory action; nor did we provide legal advice regarding our services; the responsibility for 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 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 & Touché 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:

- Procurement and Expenditures - Areas of focus included the development of the request for proposal, notice of bidding, evaluation of the bids received, contracts established (e.g. inclusion of federal clauses, type of contract), invoicing, and compliance items (including Section 3 and Davis Bacon as examples.) In addition, included was the analysis of the RFP development process, bid tabulation, notices of bidding, and bid assessment. The following projects were evaluated:
 - I-03 Little River Sewer Interceptor
 - I-15 Little River Park & Channel
- Planning and Administrative Costs - Assessment of administrative and planning costs incurred by the subcontractors and/or the City of Moore resources in their capacity of managing the HUD CDBG-DR grants. Included was the capture of the time incurred, reporting in the City ledger, and ultimately in DRGR.
- Updates to Internal Audit Risk Assessment - Update of the Internal Audit Risk Register based on the results of the most recent four internal audits, DRGR disbursements, and expenditures records.
- Transactions and activities for the period July 1, 2018 through November 30, 2018 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 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 13, 2018. Management 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:
 - **Procurement** – Tested two requests for proposals and notices of bidding, seven evaluations of bids received, and three contracts to determine if federal clauses were in place. A sample of seven invoices for the only active infrastructure project was analyzed to assess the invoicing process and compliance items including Section 3 and Davis Bacon. Invoices for the period July 1, 2018 through November 30, 2018 were evaluated.
 - **Administrative and Planning Costs** – Assessed drawdowns represented in Disaster Recovery Grant Reporting System (DRGR), Project and General Ledgers, verified internal time recorded in invoices and compared Administrative Costs and Planning Costs incurred from February 2018 to June 2018 with DRGR draws.
 - **Risk Register** – Evaluated previous audit reports from Dec 2017 to September 2018 and updated register based on the number of findings, the potential impact of the finding in the overall grant management process, project spend, level of complexity, financial cost and management input.
- **Step 4:** Conducted a closing meeting on December 20th, 2018 and discussed the observations and recommendations with City of Moore management.

Summary of Observations

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

- **Change Orders and Cost Reasonableness analysis were not properly documented for infrastructure project I-15.**

Observations & Recommendations

Observation Number	Observation Name	Observation/ Risk	Recommendation/Management Action Plan
1	Change Orders and Cost Reasonableness analysis were not properly documented for infrastructure project I-15.	<p>The estimate for Project I-15 Little River Park & Channel – Line item "Structural Concrete for Bridge B" was \$94,680. The vendor invoiced \$95,000, which was \$320 above the agreed upon budget. The city is in the process of resolving this discrepancy with the vendor.</p> <p>Unsupported costs incurred above an originally agreed upon project budget could lead to potential risk of questioned costs by regulatory agencies.</p>	<p><u>Recommendations</u></p> <p>Costs incurred above contractual and budgeted amounts should be formally documented in a change order to support the costs and reasonableness of the costs incurred.</p> <p>The city should write a memo to file to document the cost reasonableness methodology used to accept the increase of cost for the scope of work and develop a change order for the additional fees incurred above the budgeted and contractual amounts.</p> <p><u>Management Action Plan</u></p> <p>The City will work with the contractor to determine why the cost for the "Structural Concrete for Bridge B" line item came in over budget. The City will prepare a change order to explain and document the cost difference.</p>

Deloitte.