

# Cover Letter

To: City of Moore Management,

HORNE LLP has completed its initial review of controls and risks for the Community Development Block Grant Disaster Recovery (CDBG-DR) program and associated funding for the City of Moore. We performed this initial review on May 14 and 15, 2015. Please find attached our report detailing the risks and controls identified, along with our recommendations for curative action.

The City of Moore personnel with whom we worked continue to conduct themselves in a responsive and professional manner. We believe that the team is committed to excellence in the CDBG-DR process..

If the City's management has any questions about our report, or would like to discuss further, we are available at management's convenience. HORNE thanks you for the opportunity to serve the City of Moore.

Sincerely,



Ann Cleland  
Partner  
HORNE LLP

**City of Moore**

**Internal Audit Report on Design and Operating  
Effectiveness of Internal Controls over CDBG-  
DR Transactions**

**June 2015**

## I. Executive Overview

### **Introduction**

We recently completed a review of functions outlined below with a primary objective of evaluating the process and significant control points for effectiveness, adequacy, and efficiency of operations for the CDBG-DR processes performed by City of Moore (the "City"). The audit was conducted in accordance with the terms of our engagement letter and applicable internal audit guidelines. This report is intended solely for the information and use of management and the City Council, and should not be used for any other purpose. The City's oversight authorities may be provided with a copy of this report in connection with fulfilling their respective responsibilities.

### **Audit Scope**

We completed an audit of several functions of the City's CDBG-DR functions in accordance with the terms of our engagement letter. The audit period covered January 1, 2015 through March 31, 2015. The functions covered in our audit for this period are outlined, as follows:

- Program policies and procedures
- Financial internal controls
- Eligibility of cost and procurement method

Our procedures were performed to:

- Evaluate the adequacy of internal controls in place to mitigate the identified risks,
- Evaluate the allowability of transactions,
- Evaluate newly developed policies and procedures as well as changes to policies and procedures following the February 2015 audit.

To accomplish this, we performed the following:

- Reviewed the following documents:
  - City of Moore CDBG-DR Policies and Procedures: Infrastructure and Public Facilities
  - City of Moore CDBG-DR Policies and Procedures: Housing Rehabilitation
  - City of Moore and Oklahoma City Interlocal Agreement

- City of Moore Infrastructure Repair and Implementation Plan (IRIP)
  - City of Moore Action Plan
  - City of Moore Action Plan Amendment
  - City of Moore CDBG-DR Compliance and Monitoring Manual
  - City of Moore RFP #1415-003, Master Planning for Property Located at SW17 Street and Janeway Avenue
  - Comprehensive Housing Market Analysis
  - City of Moore Comprehensive Risk Assessment of Infrastructure
  - City of Moore Purchasing Policy
  - Dawn Jourdan Professional Services Contract
  - MP RFP College Park
  - Moore 17<sup>th</sup> and Janeway RFP 10 01 2014
  - Project Open Packet I-01-W-LMI
  - NTP Signed I01
  - I02 Zip Packet
  - ARC GIS Website for Census Block Information
  - Procurement for NDRC Consulting
  - Procurement for Hazard Mitigation Engineering
  - National Disaster Resiliency Competition FAQ
  - City Council Meeting Agenda Packet for January 5, 2015
- Interviewed key personnel in each function's area
  - Reviewed all payroll as well as a random sample of CDBG-DR transactions up to March 31, 2015

It should be recognized that controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other personal factors. Control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data.

Further, the projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

### **Overview of Issues**

During the course of our work, we discussed our findings with management. Our detailed findings and recommendations for improving controls and operations are described in the

detailed issue matrix in Section II of this report. A separate listing of general enhancement opportunities not considered to be findings is described in section III of this report.

A summary of key issues is provided below along with the following information:

- Relative Risk is an evaluation of the severity of the concern and the potential impact on the operations. Items rated as "High" are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" could escalate into operational issues, but can be addressed through the normal course of conducting business.
- Resolution Level of Difficulty is an evaluation of the estimated level of difficulty and potential cost to resolve the concern based on our experience. Items rated as "High" are considered to be difficult to resolve and/or will require a significant amount of planning and management involvement/oversight in order to obtain resolution. Items rated as "Moderate" are not as difficult to resolve and/or do not require a significant amount of planning, but may be time-consuming to resolve. Items rated as "Low" are items that are not complex and/or do not require significant amounts of planning and time to resolve.

<b>Summary of Results</b>			
<b>Issue Description</b>	<b>Page</b>	<b>Relative Risk</b>	<b>Resolution Level of Difficulty</b>
2015-5-15 Compliance with CDBG-DR income requirements	6	High	Moderate
2015-5-15 Tying NDRC to community development objectives	7	Low	Low
2015-5-15 Lack of clarity on performing procurement procedures in compliance with internal procurement requirements	8	High	Low
2015-5-15 Inconsistent coding between overtime and regular salary payments.	9	Low	Low
2015-5-15 Reimbursement expenses consistent with GSA guidelines	10	Low	Low
2015-5-15 Approving travel request and software invoice prior to payment	11	High	Moderate

Opportunities for enhancement are described in Section III of this report, were noted in the following functions:

- Internal controls
- Program design

- Transaction classification

## Conclusion

Audit ratings, as defined below, were assigned based on the identification of the key findings summarized above, as well as other less significant comments that can be addressed by management in the normal course of business.

<b>Ratings</b>	<b>Conditions</b>
<b>Satisfactory</b>	No significant issues noted. Controls are considered adequate and findings, if any, are not significant to the overall unit.
<b>Needs Improvement</b>	Some improvement is needed to bring the function to satisfactory status. If the deficiency continues without attention, it could lead to further deterioration and an unsatisfactory status.
<b>Unsatisfactory</b>	Significant deficiencies exist which could lead to financial loss or embarrassment to the City.

The following is a summary of the assigned rating for each function:

<b>Ratings</b>	<b>Conditions</b>
<b>Internal Controls –Design Effectiveness</b>	Satisfactory
<b>Program Design</b>	Needs Improvement
<b>Internal Controls – Operating Effectiveness</b>	Needs Improvement

II. Observations and Recommendations

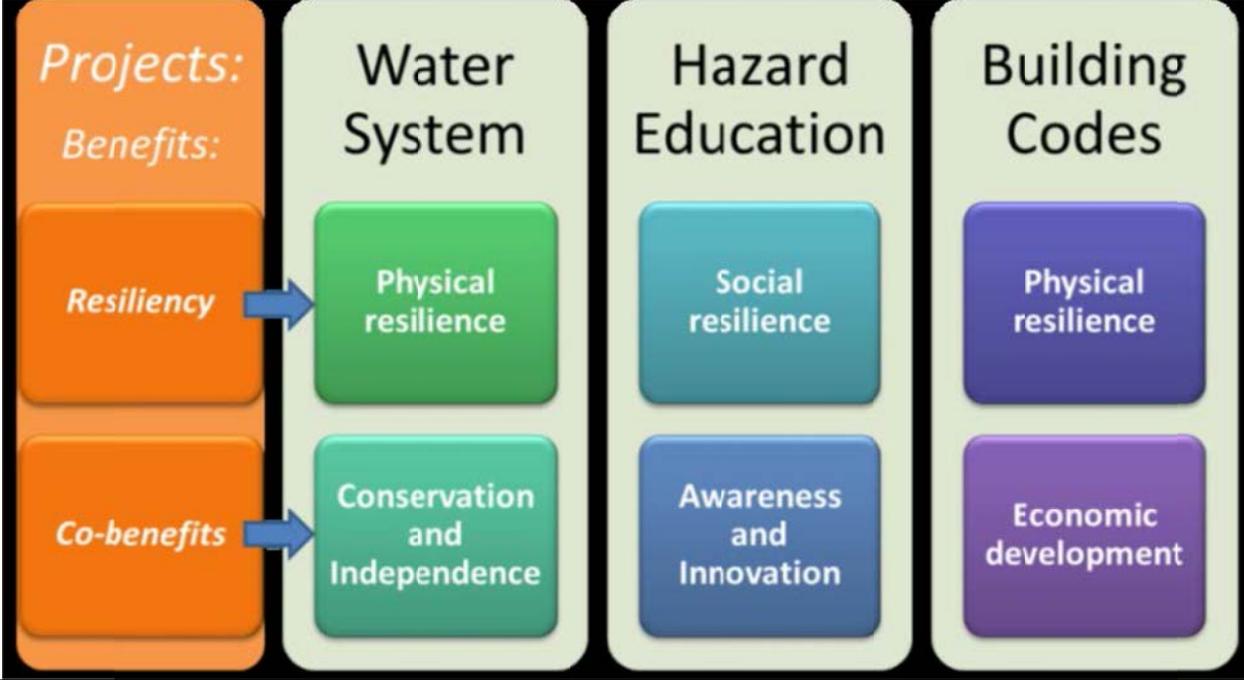
**Program Design**

Observation	Recommendation
<p><b>1. Current projects do not demonstrate compliance with HUD income requirements.</b></p>	
<p>We observed that infrastructure projects currently identified for bid serve a population in census tracts with a low-to-moderate income (LMI) percentage below 50%.</p>	<p>We recommend the City track the estimated LMI population served for each project and devise a strategy to bring the cumulative total for dollars spent on LMI beneficiaries to 50% or greater. Infrastructure projects alone will likely not serve to meet this target; housing assistance should be considered in type and anticipated demand in order to devise a comprehensive plan for reaching the overall income target.</p>
<p><b>Management Response:</b>                      The City of Moore is a recognized exception community. The City of Moore’s LMI percentage is 49.54%. Three of the seven projects identified thus far will be located in an LMI neighborhood that meets Moore’s LMI percentage. The City will be kicking off a Housing Rehab program on July 7, 2015 that will run for ninety days. The City is hopeful that it will be able to fund LMI individuals through this program. The City is also in the early planning and development of a Down Payment Assistance Program for LMI individuals in Moore. Finally, the City is moving toward the acquisition of land for a redevelopment project in an LMI area. The proposed redevelopment would consist of mixed income housing and mixed use commercial.</p>	
<p><b>Auditor Clarification:</b> In response to management feedback, we clarify that the aggregate of funds expended on infrastructure projects and individual housing assistance in compliance with criteria under §570.208(a) or under §570.208(d)(5) or (6) for benefiting LMI persons must total 50% or more of grant funds.                      As the City of Moore qualifies under the “upper quartile” exception for LMI area benefit, infrastructure projects should be prioritized in residential areas in the upper quartile census tract(s) with 49.54% or more LMI population. Furthermore, we recommend the City take a strategic approach to reach compliance with the 50% requirement for LMI benefit by calculating funding targets for LMI households within each individual household assistance initiative.</p>	

Observation	Recommendation
<p><b>2. No clear rationale tying resiliency projects proposed in the National Disaster Resiliency Competition (NDRC) application to community development objectives.</b></p>	
<p>We observed that activities proposed in the NDRC application appear to tie-back to the tornado event of 2013, but do not clearly tie to the broader community development objectives.</p>	<p>We recommend that the City add a memo to the NDRC project file that clearly states the rationale tying proposed resiliency projects to community development objectives. This requirement is stipulated in HUD issued guidance for the NDRC.</p>

**Management Response:**

The City’s tie-back to community development objectives was addressed by the City in the Phase 1 application for NDRC. We propose a concept of resiliency that is within the context of our recovery needs, focused on threats from recurring hazards, and provides the best potential for the co-benefits shown in Figure 1. This includes economic development benefits from infrastructure construction projects, reduction of economic losses from water outages, and innovation sparked from new solution development.



**Internal Controls – Operating Effectiveness**

<b>Observation</b>	<b>Recommendation</b>
<b>3. The contractor who was procured for the NDRC Application project is not with consistent the highest-rated contractor on the associated procurement bid selection scoring sheet.</b>	
We observed that the City followed requisite procedural steps for procurement, but ultimately awarded the NDRC application contract to the second highest scoring contractor.	We recommend adding a memo to the procurement file to specify additional criteria considered in the selection process beyond the bid scoring sheet and pricing.
<b>Management Response:</b> This memo was created on May 19, 2015. City staff failed to file in the procurement file. City staff will file in the correct procurement file and will include like memos in the procurement files in the future.	

Observation	Recommendation
<b>4. Inconsistent coding between overtime and regular salary payments.</b>	
We observed hours worked by city staff beyond 40 hours in one work week were incorrectly coded as regular payment in the payroll report.	We recommend reviewing payroll classifications for the period to determine whether opportunities exist for reclassification.
<p><b>Management Response:</b>  Regular salaries and Overtime for employees is correctly coded in the general ledger (code 5010 being regular salary and code 5012 being overtime).</p> <p>The Project Ledger had been incorrectly set up to split the salary and overtime as line items. This is unnecessary as the account code records the separation.</p> <p>The Project Ledger has been corrected to show salary and overtime as one line item under projects, correctly coded separately using the general ledger account code.</p> <p>Changes were made to improvement to the way Overtime was being allocated to the grant. It had not been determined exactly how to decide what portion of overtime should be assigned to the grant. The time-entry system has been updated procedure to include instruction advising grant employees to use 'auto-allocate' for overtime and comp time. The financial software system will automatically divide over/comp time by percentages between time worked on grants and time work on City projects.</p>	

Observation	Recommendation
<p><b>5. Reimbursement expenses should be consistent with current U.S. General Services Administration guidelines.</b></p>	
<p>We observed that certain reimbursed travel expenses exceeded the recommended limits provided by the U.S. General Services Administration.</p>	<p>We recommend that authorized travel expenses in excess of recommended limits set by the U.S. General Services Administration be reimbursed from City funds separate from CDBG-DR.</p>
<p><b>Management Response:</b>  The City has put this recommendation into practice. With the most current travel, only the U.S. General Service Administration recommended limits were charged to CDBG-DR, the remaining balance was charged to the City’s general fund. The City of Moore will continue to use this practice for future travel expenses.</p>	

Observation	Recommendation
<b>6. Approving payments without written approval of the corresponding invoice mechanism.</b>	
We observed two instances where items were paid without the approval of the corresponding invoice mechanism.	We recommend that the City conduct additional internal training on payment authorization procedures to ensure that staff adhere to documented procedure.
<p><b>Management Response:</b>  City staff will go through additional training on payment authorization procedures. City has established the invoice be approved by both the Accountant II and the Grants Manger prior to payment.</p>	

III. Enhancement Opportunities

Observation	Recommendation
<p><b>1. Provide all program participants with a forum to place formal complaints and develop procedure for handling housing applicant complaints.</b></p>	
<p>We observed that the City does not currently have a formal process for receiving and responding to housing applicant complaints.</p>	<p>We recommend creating a web link on the City website that provides all program participants with contact information for the HUD Fair Housing office. Applicants should also have the option to contact the City by phone or email to address complaints.</p>
<p><b>Management Response:</b>                      The Housing Rehabilitation (HR) program to be launched in July includes a Grievance Policy and Procedure specific to the HR program. The HR Grievance Policy is scheduled for adoption by Council on July 7<sup>th</sup>. The City currently forwards all fair housing complaints to Metropolitan Fair Housing (MFH). Moore contracts with MFH every year to intake complaints and supply fair housing education information to Moore’s residents. In addition, the City staff is currently designing and developing a website for the CDBG-DR, CDBG Entitlement, and NDRC programs and will list the contact information for any complaints.</p>	