

# Cover Letter

To: City of Moore Management,

HORNE LLP has completed its quarterly review of controls and risks for the Community Development Block Grant Disaster Recovery (CDBG-DR) program and associated funding for the City of Moore. The review period was from October 1, 2014 through December 31, 2014. We performed this quarter's review on January 12, 2015 through January 13, 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 conducted themselves with the utmost professionalism during our visit. They continue to exhibit a clear dedication to making the CDBG-DR program as beneficial as possible to the City of Moore.

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 Effectiveness**  
**and Allowability of Transactions**

**February 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"). We also reviewed the cost and procurement eligibility of transactions performed related to the CDBG-DR function. 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 October 1, 2014 through December 31, 2014. The functions covered in our audit for this period are outlined, as follows:

- Program policies and procedures in relation to prior recommendations
- Financial internal controls
- Eligibility of cost and procurement method of transactions

Our procedures were performed to:

- Evaluate the adequacy of internal controls in place to mitigate identified risks,
- Evaluate the allowability of transactions,
- Evaluate changes made to policies and procedures following the October 2014 initial report.

To accomplish this, we performed the following:

- Reviewed the following documents:
  - CDBG-DR Procedures PF & Infrastructure DRAFT
  - CDBG-DR Duplication of Benefits Policy 01.30.2015
  - Purchasing Policy – Final 2014
- Interviewed key personnel in each function's area
- Reviewed CDBG-DR transactions up to December 31, 2014

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, as well as addressing the allowability of expenditures, 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.

| SUMMARY OF ISSUES  |      |               |                                |
|--|------|---------------|--------------------------------|
| Issue Description  | Page | Relative Risk | Resolution Level of Difficulty |
| 2015-2-19 Written documentation in support of various functions.           | 4    | High          | Moderate                       |
| 2015-2-19 Development of forms for monitoring and communication protocols. | 5    | High          | Moderate                       |

|   |   |      |     |
|---|---|------|-----|
| 2015-2-19 Adoption of housing guidelines.                             | 6 | High | Low |
| 2015-2-19 Guidelines cite programs not outlined in the DR Action Plan | 7 | High | Low |

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>FUNCTIONS</b>            | <b>RATINGS</b>           |
|-----------------------------|--------------------------|
| <b>Internal Controls</b>    | <b>Needs Improvement</b> |
| <b>Program Design</b>       | <b>Needs Improvement</b> |
| <b>Transaction Function</b> | <b>Satisfactory</b>      |

## II. OBSERVATIONS AND RECOMMENDATIONS

### Internal Controls – Design Deficiencies

| Observation  | Recommendation   |
|--|--|
| <b>1. The City is continuing to develop written documentation supporting all CDBG-DR functions and processes.</b>  |  |
| The City is continuing to develop written documentation supporting the following functions and processes: <ul style="list-style-type: none"> <li>• Workflows</li> <li>• Reporting</li> </ul> | We recommend completing the development and Council approval of policies supporting key CDBG-DR functions. |
| <b>Management's Response:</b> No management response as of September 30, 2015.   |  |

| Observation  | Recommendation   |
|--|--|
| <p><b>2. The forms supporting monitoring procedures and communication protocols have not been developed.</b></p>                                 |  |
| <p>The City does not appear to have developed the forms and checklists supporting monitoring procedures and related communication protocols.</p> | <p>We recommend development and Council approval of forms and procedures supporting the required CDBG-DR monitoring functions.</p> |
| <p><b>Management's Response:</b> No management response as of September 30, 2015.</p>  |  |

| Observation   | Recommendation  |
|---|---|
| <p><b>3. Housing guidelines have not been adapted or adopted for City use.</b></p>  |   |
| <p>The City intends to use the housing guidelines developed by Oklahoma City. These guidelines have not been adapted for the City or adopted by the City Council.</p> | <p>We recommend these policies be adapted for the City and approved by the Council.</p> |
| <p><b>Management's Response:</b> No management response as of September 30, 2015.</p>   |   |

**Program Design – Design Deficiencies**

| Observation  | Recommendation   |
|--|--|
| <b>4. Housing guidelines cite programs not included in the Action Plan.</b>  |  |
| The Action Plan, as approved by HUD, governs CDBG-DR program design and operation. The proposed Housing Guidelines include programs not referenced in the Action Plan and therefore not approved by HUD. | We recommend that the proposed Housing Guidelines be adapted for the City and approved by the Council. |
| <b>Management's Response:</b> No management response as of September 30, 2015.   |  |

**III. ENHANCEMENT OPPORTUNITIES**

| Observation   | Recommendation   |
|---|--|
| <b>1. While processes appear to be in place and operating, formal written documentation may not currently exist for all CDBG-DR functions.</b>  |  |
| <p>Formal, written documentation does not appear to be in place for the following areas:</p> <ul style="list-style-type: none"> <li>• The cross referencing from the 2004 building codes used by Oklahoma City for building inspections to the 2009/2011 codes in use by Moore.</li> <li>• Items 3 and 4 on page 5 of the Monitoring Manual.</li> <li>• Segregation of duty and custody of assets within the disbursement cycle.</li> </ul> | <p>We recommend that the City continue to develop processes and workflows for areas of responsibility in CDBG-DR program implementation. We also recommend that the City address the documentation gaps as identified.</p> |
| <p><b>Management's Response:</b> No management response as of September 30, 2015.</p>   |  |

| Observation  | Recommendation  |
|--|---|
| <p><b>2. We observed that the City is in the process of revising the accounting system.</b></p>                                  |   |
| <p>There appear to be certain challenges within the accounting system in tracking the transactional requirements of CDBG-DR.</p> | <p>We recommend that the City continue its revision process of the accounting system.</p> |
| <p><b>Management's Response:</b> No management response as of September 30, 2015.</p>  |   |

| Observation   | Recommendation  |
|---|---|
| <b>3. Reimbursed expenses should be consistent with current U.S. General Services Administration guidance.</b>                            |   |
| We observed that certain reimbursed travel expenses exceeded the recommended limits provided by the U.S. General Services Administration. | 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. |
| <b>Management's Response:</b> No management response as of September 30, 2015.  |   |

| Observation  | Recommendation   |
|--|--|
| <b>4. Job code classifications for CDBG-DR purchases should be internally consistent.</b>                  |  |
| We observed that job code classifications of purchases may not be consistently applied by all departments. | We recommend that the City review the job code classifications of CDBG-DR purchases and provide uniform guidance for classification to all employees serving in relation to CDBG-DR functions. |
| <b>Management's Response:</b> No management response as of September 30, 2015.                             |  |