

RESOLUTION 910(18)

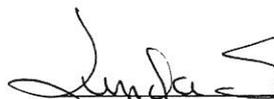
RESOLUTION APPROVING SEPTEMBER 2018 COMMUNITY DEVELOPMENT
BLOCK GRANT-DISASTER RECOVERY INTERNAL AUDIT REPORT

WHEREAS, the City has hired Deloitte to complete an internal audit for the Community Development Block Grant-Disaster Recovery

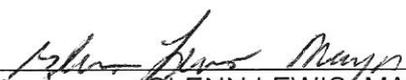
WHEREAS, Horne has provided an internal audit report for the months of February 2018 through June 2018 and the City has responded and prepared a course of action

NOW, THEREFORE, BE IT RESOLVED, by the Mayor and City Council of the City of Moore, Oklahoma, as follows:

ADOPTED, this 1st Day of October, 2018, at a regularly scheduled meeting of the governing body in compliance with the Open Meeting Act, 25 O.S. SS301-314 (2001).


LINDA STEWART, CITY CLERK




GLENN LEWIS, MAYOR

Approved as to form and legality this 1st day of October, 2018.


RANDY BRINK, CITY ATTORNEY



City of Moore CDBG-DR Internal Audit Report



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September 12, 2018

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, 2018 through June 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. 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

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:

- Procurement - Areas of focus included development of the request for proposals, notices of bidding, evaluation of the bids received, contracts established (e.g. inclusion of federal clauses, type of contract, etc.), invoicing, and compliance items (including Section 3 and Davis Bacon as examples). The testing sample included infrastructure, housing, public facilities, administration costs and planning costs. The following projects were evaluated:
 - Plaza Towers North
 - South Broadway (Streets and Water)
 - Royal Rock Redevelopment Project
 - Kings Manor Street Repair
 - Storm Water Management and Drainage Plan
 - Little River Spray Park
 - Little River Playground
 - Railroad Underpass Engineering
 - North Bryant Engineering
- Assessment of administrative and planning costs incurred by subcontractors and/or the City of Moore personnel in their capacity of managing the HUD CDBG-DR grant programs. Included was the capture of the internal time incurred, reporting in the City ledger, and ultimately in DRGR.

Transactions and activities for the period February 1, 2017 through June 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 August 3, 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 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 is below:
 - **Procurement** – tested nine requests for proposals, notices of bidding, evaluations of bids received, and contracts to determine if federal clauses were in place. A sample of twenty-five invoices were selected to assess the invoicing process and compliance items including *Section 3 and Davis Bacon*. *The invoices were selected as follows:*
 - *Nineteen invoices above \$200,000 were evaluated.*
 - *Six randomly selected invoices under \$200,000.00 from the April 1, 2018 to June 30, 2018.*
 - **Administrative Costs** – Assessed Project and General Ledgers, verified internal time recorded in invoices and compared Administrative Costs incurred from February 2018 to June 2018 with DRGR draws.
 - **Planning Costs** – Assessed Project and General Ledgers, verified time recorded in invoices and compared Planning Costs incurred from February 2018 to June 2018 with DRGR draws.
- **Step 4:** Conducted a closing meeting on August 16, 2018 and discussed the observations and recommendations with City of Moore management.

Summary of Observations

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

- **Change Orders and Cost Reasonableness analysis were not properly documented for infrastructure project I-01.**
- **Non-Bid Items and Cost Reasonableness were not properly documented for Project I-20**
- **Rate of pay for two laborers did not agree to the minimum pay rates established by Davis-Bacon Act for Project F-02**

Observations & Recommendations

| Observation Number | Observation Name | Observations/ Risks | Recommendations/Management Action Plans |
|--------------------|--|--|---|
| 1 | <p>Change Orders and Cost Reasonableness analysis were not properly documented for infrastructure project I-01.</p> | <p>Project I-01 Kings Manor – As specified in Work Order #I-01-W-LMA, the total value of the contract was \$2,474,482.15, with an initial budget of \$281,349.05 allocated for SW 11th Street (Telephone Road to Heather Lane). Two of the tested invoices had descriptions of work performed on SW 11th Street totaling \$307,679.64 (Silver Star Construction invoices 23648 for \$154,934.88 and 23604 for \$152,744.76). There were no change orders to support the additional fees incurred. The City performed an undocumented Cost Reasonableness analysis using the IRIP (Infrastructure Recovery and Implementation Plan).</p> <p>This could lead to potential questioned costs if not properly supported.</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 SW 11th came in over budget. The City will prepare a change order to explain and document the cost difference.</p> |
| 2 | <p>Non-Bid Items and Cost Reasonableness were not properly documented for Project I-20</p> | <p>Project I-20 – Plaza Towers – The scope of work for this project included various on-demand construction services.</p> <p>Rudy Construction Invoice number 2, totaling \$200,229.70, includes landscaping work with items not specified in Appendix A of the contract. According to contract, work orders submitted to the contractor should be based on the Unit Prices in Appendix A. Appendix A of the contract covers unit prices for paving, drainage, and emergency items.</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 evaluate if the landscaping items were unique and not subject to procurement. The cost reasonableness should also be evaluated.</p> |

| Observation Number | Observation Name | Observations/ Risks | Recommendations/Management Action Plans |
|--------------------|---|--|--|
| | | <p>The Purchase Order includes a non-bid item approval memo signed by the Project-Grants Manager explaining that landscaping items were not properly procured. The landscaping items were deemed to be non-standard and unique to the streetscape portion of the project. It was not specified how it was determined that these items were unique. The City performed an undocumented Cost Reasonableness analysis using the IRIP (Infrastructure Recovery and Implementation Plan). Total for landscaping was \$109,073.52.</p> <p>This could lead to potential questioned costs if not properly supported.</p> | <p>Management Action Plan</p> <p>The City will complete a cost analysis for the landscaping items.</p> |
| <p>3</p> | <p>Rate of pay for two laborers did not agree to the minimum pay rates established by Davis-Bacon Act for Project F-02</p> | <p>F-02 Little River Playground –Two invoices from The Playwell Group (invoices 2224-PRTL1 and 22855-PRTL3) included pay rates that were not in accordance with Davis-Bacon requirements. <i>“Executive Order (EO) 13658 established an hourly minimum wage of \$10.10 for 2015 that applies to all contracts subject to the Davis-Bacon Act...”</i> Payroll Reports included as part of the invoices tested show that rate of pay for two laborers did not agree to the minimum pay rates established by the Executive Order.</p> <p>Pay rates not in alignment with Davis-Bacon requirements may result in potential compliance issues and lead to potential questioned costs.</p> | <p>Recommendations</p> <p>The City should evaluate the invoice review process for the Davis-Bacon reconciliations performed. In addition, the City should contact the contractor and request the wage difference be paid to employees that were not paid minimum wage. Additionally, previous invoices paid should be evaluated for any potential Davis-Bacon issues.</p> <p>Management Action Plan</p> <p>The City has reviewed all Certified Payroll in all infrastructure projects and will work with the contractors to pay the money owed to those who were not paid at least the minimum wage.</p> |

Deloitte.