

OKLAHOMA DEPARTMENT OF
COMMERCE – CDBG-DR
INTERNAL AUDIT
FOR QUARTER ENDING
March 31, 2019



**OKLAHOMA DEPARTMENT OF COMMERCE
CDBG-DR INTERNAL AUDIT REPORT – MARCH 31, 2019**

April 25, 2019

Brent Kisling, Executive Director
Oklahoma Department of Commerce
900 N. Stiles Ave
Oklahoma City, OK 73104

Mr. Kisling:

We are pleased to provide the attached Internal Audit Report for the period January 1, 2019 through March 31, 2019 with respect to the Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program funding the Oklahoma Department of Commerce (ODOC) received.

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 ODOC. It is further understood that ODOC is responsible for, among other things, identifying and ensuring compliance with laws and regulations applicable to ODOC's financial statement activities.

This report is intended solely for the information and use of ODOC 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 ODOC during the performance of this internal audit.

Sincerely,

A handwritten signature in cursive script that reads 'Arledge & Associates, P.C.'.

Arledge & Associates, P.C.

Scope and Objectives of Our Services

The areas of focus for this internal audit included:

- Program policies and procedures
- Review and follow-up on December 31, 2018 quarterly internal audit report
- CDBG-DR expenditures
- Subrecipient monitoring
- Review of project closeouts
- Review of HUD communications

In order to evaluate the internal controls in relation to CDBG-DR requirements, the following were reviewed along with the procedures noted below:

- CDBG-DR Action Plan (including revisions)
- Prior CDBG-DR Quarterly Reports
- CDBG-DR Monitoring Handbook
- OK CDBG-DR Policy and Procedure Manual Updated June 07, 2018
- CDBG-DR Monitoring Document
- DR Contracts to be Monitored
- Previous Internal Audit Reports

The objectives of our services were to obtain information and review selected accounting records as applicable to determine whether any recommendations are warranted regarding the design and the effectiveness of established internal control policies and procedures.

Program Policies and Procedures

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Conducted interviews with appropriate management and personnel to gain an understanding of the internal controls and processes surrounding the CDBG-DR program, focusing on any control or processes that have changed from the last quarter that was subjected to internal audit, quarter ending December 31, 2018, through the date of this report.
- Obtained and reviewed policy and procedure manuals and documents as noted in the Scope and Objectives section above, noting whether they appeared to set out appropriate policies and procedures in relation to HUD CDBG-DR and State of Oklahoma guidelines.
- Reviewed the ODOC CDBG-DR website <https://okcommerce.gov/about/reports-planning-documents/cdbg-disaster-recovery/> to determine that policy and procedure documents are posted to the website for public transparency.
- Obtained and reviewed the HUD Monitoring Review Report dated September 28, 2018.

Findings:

Based on our discussions with key ODOC CDBG-DR personnel, review of policy and procedure documents as listed above, review of ODOC CDBG-DR website and review of the September 28, 2018 HUD Monitoring Review Report, it appears as though ODOC has proper internal control policies and procedures in place related to the CDBG-DR program. It is further noted that ODOC appears to be properly posting their policy and procedure documents to a website open to the public to meet the transparency requirements.

Recommendations:

We have no recommendations at this time.

Review and Follow-up on December 31, 2018 Quarterly Internal Audit Report

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained and reviewed December 31, 2018 Quarterly Internal Audit Report noting the following open issues and/or recommendations:
 - ODOC is waiting on HUD to provide information related to the return of interest to HUD that subrecipients have earned.
 - ODOC is waiting on HUD to provide revised spreadsheets that reflect all the voucher adjustments.
 - ODOC should continue to review the progress of Deloitte & Touche's monitoring activities.
 - ODOC should continue to work towards the resolution of items noted within the HUD Monitoring Review Report dated September 28, 2018.
- Discussed with key personnel and reviewed applicable support for the above noted open issues and/or recommendations.

Findings:

- Based on our procedures performed and supporting documentation reviewed, as of the date of this report, ODOC has returned the majority of the interest required to be returned to HUD. As of the date of this report ODOC was working on finalizing the remaining amounts to be returned to HUD.
- ODOC has also provided HUD with revised spreadsheets to show reclassifications between Administrative Activities to Project Activities as Delivery Costs, however there is still some clean-up work to be done and HUD will need to approve prior to being officially completed.
- As it relates to subrecipient monitoring, see separate Subrecipient Monitoring section noted below.
- As it relates to the HUD Monitoring Review Report dated September 28, 2018, see separate HUD Communications Section noted below.

Recommendations:

We recommend that ODOC continue to finalize returning the remaining interest as required by HUD. We recommend ODOC continue to communicate with HUD in relation to the return of interest and voucher adjustment spreadsheets to determine that there are no further procedures required by HUD.

CDBG-DR Expenditures

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained and reviewed policies and procedures related to expenditures/procurement.
- Discussed expenditures with key ODOC CDBG-DR personnel.
- Utilized OKGrants system to review a sample of expenditures.

Findings:

- All expenditures tested appear to be appropriately supported and in compliance with the applicable policies and procedures as understood through our procedures performed as noted above.

Recommendations:

We have no recommendations at this time.

Subrecipient Monitoring

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained and reviewed policies and procedures related to subrecipient monitoring.
- Discussed monitoring policies and procedures with key ODOC CDBG-DR personnel.
- Reviewed monitoring and compliance service agreements with Deloitte & Touche, LLP.
- Reviewed communications between Deloitte & Touche, LLP and ODOC.
- Reviewed CDBG-DR Monitoring Status Reports from December 31, 2018 through the date of this internal audit report.
- Reviewed the finalized monitoring documents prepared from ODOC, Deloitte & Touche, LLP and subrecipients on sample of subrecipients where monitoring was completed.

Findings:

Through the procedures noted above, we identified an open finding from HUD related to the monitoring of subrecipients. This open finding is discussed further in the HUD Communications section below. As noted in the December 30, 2018 internal audit report, it was noted that ODOC had contracted with Deloitte & Touche, LLP to help aid in meeting the CDBG-DR monitoring requirements. We noted that as of the date of this report, all projects have had monitoring visits performed by Deloitte & Touche, LLP as noted on the April 12, 2019 monitoring project status report. We further noted in discussions with ODOC personnel that ODOC staff have reviewed all subrecipient reports prepared by Deloitte & Touche, LLP and surveys completed by the subrecipients. ODOC has also provided all 16 subrecipients with monitoring letters and provided those subrecipients with deadlines to respond to any issues/findings noted within their letters. As of the date of this report, ODOC has cleared monitoring concerns for 12 subrecipients and are in the process of receiving and reviewing the remaining 4 subrecipient responses. We select a sample of completed subrecipient monitoring files to determine that ODOC processes appear to within the requirements of the contracts between ODOC and Deloitte & Touche, LLP as well as progressing towards meeting the resolution of the open finding from HUD's January 2017 Monitoring report. The following is an example of types of documents observed in our review:

- ODOC introduction to Deloitte & Touche LLP letter sent to subrecipient
- Sub-Recipient Monitoring Checklist
- Monitoring Visit Letter sent to subrecipient – to determine best date to perform site visit
- Deloitte & Touche, LLP signed monitoring report related to subrecipient
- ODOC letter to subrecipient related to the Deloitte & Touche, LLP monitoring report requesting response related to observed findings and recommendations
- Signed response letter from subrecipient
- ODOC letter to subrecipient accepting response and accepting referenced contracts as completed projects.

Per our review of the above noted documents, subrecipient monitoring appears to be in line with the requirements as outlined by the contract between ODOC and Deloitte & Touche, LLP as well as progressing towards meeting the resolution of the open finding from HUD's January 2017 Monitoring Report within the timelines as established within the contract between ODOC and Deloitte & Touche, LLP.

Recommendations:

We recommend that ODOC continue to work with the 4 remaining subrecipients to obtain responses from them and work towards reviewing and clearing the subrecipient responses.

Project Closeouts

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained a listing of projects closed out during 2019 1st Quarter.
- Discussed project closeouts policies and procedures with key ODOC CDBG-DR personnel.
- Utilized OKGrants system to review a sample of projects closed out during 2019 1st Quarter.

Findings:

- All project closeouts tested appear to be appropriately supported and in compliance with the applicable policies and procedures as understood through our procedures performed as noted above.

Recommendations:

We have no recommendations at this time.

HUD Communications

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained and reviewed the HUD Monitoring Review Report dated September 28, 2018.
- Obtained and reviewed ODOC's response to the HUD Monitoring Report.
- Obtained and reviewed ODOC's communications with HUD since prior quarterly report as deemed appropriate.

Findings:

During our review of the HUD Monitoring Review Report dated September 28, 2018, we noted four findings and one concern presented by HUD. These were stated in the report as:

- Finding #1: Internal Audit. The State has not provided for an internal audit function as required by the March 5, 2013, *Federal Register* Notice.
- Finding #2: Grant expenditures are not properly allocated within the grant's DRGR Action Plan.
- Finding #3: Grant funds are not properly categorized within the DRGR Action Plan.
- Finding #4: Not all required contract provisions regarding procurements are provided.
- Concern #1: Grantee has not met the QPR submission deadline for the past two quarters.
- Open Finding from January 2017 HUD Monitoring Report: Subrecipient oversight function is inadequate.

The HUD Monitoring Review Report dated September 28, 2018 related to HUD's monitoring visit May 21-25, 2018.

Our internal audit noted the following related to the above matters:

- As it relates to Finding #1, ODOC has procured the services of an external accounting firm, Arledge & Associates, P.C. to perform the internal audit function for the CDBG-DR program. Internal audit procedures are being performed on a quarterly basis. The internal audit and any related recommendations are being issued in report format and communicated directly to the Executive Director and Secretary of Commerce and Tourism. Pending any further communication from HUD, this is expected to resolve Finding #1.
- As it relates to Finding #2, we reviewed support from within the system showing the adjustments made. Based on discussions with ODOC personnel, there is still some clean-up necessary and they are additionally awaiting approval from HUD of the adjustments currently made.
- As it relates to Finding #3, we obtained the letter from ODOC, dated January 25, 2019, as sent to Ms. Celeste L. Washington, CPD Specialist with HUD related to their progress on Finding #3. Per review of the correspondence and discussions with key ODOC personnel, it was noted that it appears ODOC has fully implemented their corrective action plan related to this finding. ODOC appears to have appropriately reclassified items previously listed as Administration under “Activity Type” in the DRGR system and have formally associated those in the DRGR system to match their respective project activities. Pending any further communication from HUD, this is expected to resolve Finding #3.
- As it relates to Finding #4, ODOC has worked with Deloitte & Touche, LLP and there is a new fully executed Addendum 2 to the contract addressing this finding. This addendum has also been uploaded on the ODOC CDBG-DR website. Pending any further communication from HUD, this should resolve Finding #4.
- As it relates to Concern #1, it is noted that as of this report that the 2018 3rd and 4th Quarter Progress Reports submissions have been delayed. In review of communications between ODOC and HUD as well as per discussions with key ODOC personnel, it is noted that there appears to be two main reasons for this delay. First, there was a change in the HUD Headquarters Representative to the State’s DR program (Celeste Washington replaced former HUD HQ Representative Clark Williams). Second, as ODOC is working with HUD on a few Action Plan related items, the quarterly report cannot be closed out and submitted while the Action Plan is open. It is noted that we reviewed correspondence between ODOC and HUD related to both the change in representative as well as open action plan, noting that HUD appears to be fully aware of the delay and cooperating with ODOC in delaying the submission until the Action Plan is fully completed and closed out.
- As it relates to the open finding from the January 2017 HUD Monitoring report, as noted above, ODOC solicited bids from entities in order to provide monitoring and compliance services related specifically to the CDBG-DR program. ODOC has procured the services of Deloitte & Touche, LLP in order to perform these. It is noted that as of the date of this report all site visits appear to have been completed. As noted above in the Subrecipient Monitoring section above, one program site has gone through the full process of monitoring through to providing responses to the findings/recommendations noted through the monitoring process. ODOC is continuing to work with Deloitte & Touche as well as with the subrecipients to work towards compliance with HUD requirements.

Recommendation:

We recommend the following:

- In relation to Findings #2, we recommend that ODOC continue to maintain communications with the appropriate HUD representatives to continue to resolve these.
- In relation to Concern #1, we recommend that continue to follow-up with HUD to resolve the open Action Plan items in order to submit the 2018 3rd and 4th Quarter Progress Reports and to continue to work with HUD in order to submit future Quarterly Progress Reports within the required time limits.

- In relation to the open finding from the January 2017 HUD Monitoring report, we recommend that ODOC continue to work with Deloitte & Touche, LLP and subrecipients to meet HUD requirements for subrecipient monitoring.

May 7, 2019

Brent Kisling, Executive Director
Oklahoma Department of Commerce
900 N. Stiles
Oklahoma City, OK 73014


Dear Director Kisling:

The CDBG-DR staff in ODOC Community Development Services (ODOC/CDS) has reviewed the Internal Audit Report prepared by Arledge & Associates, P.C. for the quarter ending March 31, 2019.

ODOC/CDS concurs with the recommendations offered in the report and will continue to work with HUD to address and resolve any remaining issues.

Please let me know if you have any questions.

Sincerely,



Marshall Vogts

Cc: Stacie Willis
Celeste Washington
Earl Cook