

OKLAHOMA DEPARTMENT OF
COMMERCE – CDBG-DR
INTERNAL AUDIT
FOR QUARTER ENDING
June 30, 2019



**OKLAHOMA DEPARTMENT OF COMMERCE
CDBG-DR INTERNAL AUDIT REPORT – JUNE 30, 2019**

July 29, 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 April 1, 2019 through June 30, 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 the March 31, 2019 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 March 18, 2019
- 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 March 31, 2019, 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 March 31, 2019 Quarterly Internal Audit Report

Procedures Performed:

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

- Obtained and reviewed the March 31, 2019 Quarterly Internal Audit Report noting the following open issues and/or recommendations:
 - ODOC is working on finalizing the remaining amounts of interest required to be returned to HUD.
 - ODOC had provided HUD with revised spreadsheets showing reclassifications between Administrative Activities to Project Activities as Delivery Costs. Pending final clean-up work and HUD approval in order to officially resolve the issue.
 - 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 all of the interest required 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, and all adjustments have been made within DRGR. Final resolution is expected during HUD's next visit scheduled for August 2019.
- 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 communicate with HUD regarding the voucher adjustment spreadsheets in order to ensure final resolution of the corrections during HUD's visit scheduled for August 2019.

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 March 31, 2019 through the date of this internal audit report.
- Reviewed finalized monitoring files assembled from ODOC, Deloitte & Touche, LLP and subrecipient documents, on a sample of subrecipients where monitoring was completed during the quarter ending June 30, 2019.

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, 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 June 5, 2019 monitoring project status report. We further noted in discussions with ODOC personnel that ODOC staff have reviewed all subrecipient monitoring reports prepared by Deloitte & Touche, LLP and have closed out all Monitoring Reports for all subrecipients.

We selected a sample of completed subrecipient monitoring files to determine that ODOC processes appear to be within the requirements of the contracts between ODOC and Deloitte & Touche, LLP as well as resolving the finding from HUD's January 2017 Monitoring Report. The following is an example of the 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 have been performed in line with the requirements as outlined in the contract between ODOC and Deloitte & Touche, LLP. All required subrecipient monitoring has been completed and the finding from HUD's January 2017 Monitoring Report is considered resolved.

Recommendations:

We have no recommendations at this time.

Project Closeouts

Procedures Performed:

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

- Obtained a listing of projects closed out during the 2nd quarter of 2019.
- Discussed project closeout policies and procedures with key ODOC CDBG-DR personnel.
- Utilized OKGrants system to review a sample of projects closed out during the 2nd Quarter of 2019.

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 the 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. (*Note: Concern #1 as initially reported in the September 28, 2018 HUD Monitoring Review Report, has been changed to Finding #5, per HUD's Status Summary letter dated July 17, 2019*)
- 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.

During our review of the HUD Summary Status letter dated July 17, 2019, regarding the current status of the findings noted in the September 28, 2018 Monitoring Review Report, we noted the inclusion of one recommendation originally reported in the OIG Audit Report 2016-FW-1010; State of Oklahoma Community Development Block Grant Disaster Recover, but not reflected since the OIG audit. The recommendation was stated in the letter as:

- OIG Audit Finding Recommendation #1C: HUD should require the State to review its documentation of compliance with procurement, contract, and environmental requirements for its subrecipients.

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. Communication from HUD dated July 17, 2019 indicated the finding remains open pending submission of documentation showing that the State is in compliance with 78 FR 14334.
- As it relates to Finding #2, we reviewed support from within the system showing the adjustments made. Based on discussions with ODOC personnel, cleanup is complete, and they are awaiting final clearance of the finding, which is expected to occur during HUD's visit scheduled for August 2019.
- 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. Based on discussions with ODOC personnel, they are awaiting final clearance of the finding, which is expected to occur during HUD's visit scheduled for August 2019.
- 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. Communication from HUD dated July 17, 2019 indicated the finding remains open pending submission of documentation showing that the State is in compliance with 78 FR 14334.
- As it relates to Concern #1 (Now Finding #5), it is noted that as of this report date, the 2018 3rd and 4th quarter and the 2019 1st and 2nd quarter Quarterly Progress Report 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 the 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 procured the services of Deloitte & Touche, LLP in order to perform these services. 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 June 5, 2019 monitoring project status report. We further noted in discussions with ODOC personnel that ODOC staff have reviewed all subrecipient monitoring reports prepared by Deloitte & Touche, LLP and have closed out all Monitoring Reports for all subrecipients. Communication from HUD dated July 17, 2019 indicated the finding has been resolved.
- As it relates to the OIG Audit Finding Recommendation #1C, with respect to the State's oversight function for sub-recipient compliance with procurement, contract, and environmental requirements, the State must submit documentation showing: 1) Compliance with Environmental Regulations at 24 CFR 58.6 and NFIP requirements for CDBG-DR funds; 2) Subrecipient procurement contracts contain the applicable federal contract provisions found at Appendix II to 2 CFR 200 to include violation or breach of contract, termination for cause, and compliance with the (1) Clean Air and Water and (2) Anti-Kickback Acts. As well as, record retention and other *Federal Register* Notice requirements; 3) The use of the Houston-Galveston Area Council (H-GAC) Cooperative Purchasing Program constituted fair and open competition for the purchase of fire equipment; and 4) The subrecipients complied with the Oklahoma Statute, Title 11 Cities and Town provisions, for the purchase of fire equipment including the use of a purchasing intermediary and the dates of approval for use of a purchasing intermediary for each city/town which used the H-GAC Cooperative Purchasing Program.

Recommendation:

We recommend the following:

- In relation to Finding #1, we recommend that ODOC continue to work with HUD representatives in order to submit the necessary information needed to demonstrate compliance with 78 FR 14334.
- In relation to Finding #2, we recommend that ODOC continue to maintain communication with the appropriate HUD representatives in anticipation of resolving the finding during HUD's visit scheduled for August 2019.
- In relation to Finding #3, we recommend that ODOC continue to maintain communication with the appropriate HUD representatives in anticipation of resolving the finding during HUD's visit scheduled for August 2019.
- In relation to Finding #4, we recommend that ODOC continue to work with HUD representatives in order to submit the necessary information needed to demonstrate compliance with 78 FR 14334.
- In relation to Concern #1, now Finding #5, we recommend that ODOC continue to follow-up with HUD to resolve the open Action Plan items in order to submit the 2018 3rd and 4th quarter and the 2019 1st and 2nd quarter Quarterly Progress Reports and to continue to work with HUD in order to submit future Quarterly Progress Reports within the required time limits described in HUD's Status Summary letter dated July 17, 2019.
- In relation to OIG Audit Finding Recommendation #1C, we recommend that ODOC continue to work with HUD representatives in order to submit the necessary information needed to address the concerns described above.

August 5, 2019

Brent Kisling, Executive Director
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Oklahoma City, OK 73014

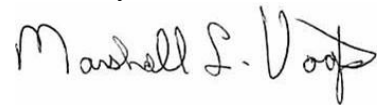
Dear Director Kisling:

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 June 30, 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