

Oklahoma Department of Commerce

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

December 2017

I. Executive Overview

Introduction

I 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 the Oklahoma Department of Commerce (the “Department”). This report is intended solely for the information and use of management and should not be used for any other purpose. The Department’s oversight authorities may be provided with a copy of this report in connection with fulfilling their respective responsibilities.

Audit Scope

I completed an audit of several audit procedures of the Department’s CDBG-DR functions. The audit period covered October 1, 2017 through December 31, 2017. The functions covered in this audit for the period are outlined, as follows:

- Program policies and procedures
- HUD monitoring reports reviewed along with ODOC responses

My procedures were performed to:

- Evaluate the newly developed policies and procedures following the HUD monitoring
- Evaluate the documentation uploaded onto the website
- Evaluate the supporting documentation uploaded onto the OKGrants computer system

To accomplish this, I performed the following:

- Reviewed the following documents:
 - CDBG-DR Action Plan

- CDBG-DR Monitoring Handbook
- OK CDBG-DR Policy & Procedure Manual –Updated 9-27-2017
- CDBG Disaster Recovery Monitoring Document
- DR Contracts to be Monitored
- CDBG Disaster Recovery website
- HUD monitoring reports
- ODOC’s monitoring responses
- DRGR B-13-DS-40-001 Budget Rounds as of May 7, 2017
- Interviewed key personnel in DR area

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 my work, I discussed my findings with management. The detailed findings and recommendations for improving

controls and operations are described in Section II of this report. A summary of key issues is provided below:

- Uploads to OKGrants of supporting documentation are not all available, consistent, complete, or all signed
- Payments are made without all supporting documentation being uploaded
- Documentation not consistently available indicating ODOC staff verified or reviewed the uploads before payment made or expenditures processed
- Coordinate with HUD the differences that occurred as a result voucher modifications

II. Observations and Recommendations

1. Uploads to OKGrants of supporting documentation are not all available, consistent, complete, or all signed.

Recommendation: I recommend that a checklist be prepared that includes a review of all uploads so that when a project is monitored each item is reviewed to verify that all uploads are available, consistent, complete and all signed.

2. Payments are made without all supporting documentation being uploaded.

Recommendation: I recommend that no payments are made without supporting documentation that has been verified for completeness and accuracy. The checklist addressed above would be a tool that could be used to insure consistency.

3. Documentation not consistently available indicating ODOC staff verified or reviewed the uploads before payment made or expenditures processed.

Recommendation: I recommend that the comments section be used to document that the uploads have been reviewed by ODOC staff complete with initials and dated.

4. Coordinate with HUD the differences that occurred as a result of voucher modifications.

Recommendation: I recommend the Department perform the reconciliations as soon as possible. Some accounting differences occurred when the multiple funding rounds began to be consolidated. The Department needs to reconcile these differences before this process is continued. When the Department asked for assistance from HUD in August, HUD asked for the differences to be reconciled. HUD stated that “some time ago, ... a large number of voucher adjustments were processed in order to meet one of the expenditure deadlines. A number of those adjustments did not appear to be correct.”

In summary, ODOC has been monitored by both HUD and OIG. The program division has made adjustments with each monitoring visit. The policy had been to maintain the supporting documentation at the local subgrantee level. However, OIG wanted ODOC to maintain the supporting documentation so adjustments were made to be able to have the subgrantee upload the supporting documentation to OKGrants. Since ODOC is currently working with OMES to award the subgrantee

monitoring contract, I would encourage ODOC to develop a checklist for these uploads so that when the monitoring is performed on each project the required supporting documentation can be reviewed to insure consistency, accuracy and completeness. The Department is still on track to wind up the program by the end of March, 2019 to give them six months to close out.