

Oklahoma Department of Commerce

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

March 2018

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 January 1, 2018 through March 31, 2018. The functions covered in this audit for the period are outlined, as follows:

- Follow-up on last quarter’s Internal Audit report
- Program policies and procedures
- HUD monitoring reports reviewed along with ODOC responses

My procedures were performed to:

- Evaluate the ODOC CDBG-DR 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 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
- Reviewed OKGrants Disaster Recovery

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 ODOC 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:

- ODOC did not meet the Disaster Recovery “cumulative Expenditure Schedule” goal for Round 9 ending March 11, 2018.
- Status on the issues in the December 2017 Internal Audit Report

II. Observations and Recommendations

1. ODOC did not meet the Disaster Recovery “cumulative Expenditure Schedule” goal for Round 9 ending March 11, 2018 of \$79,431,798.50. ODOC total was \$76,642,940.95. Therefore, the CDBG-DR funds were locked until HUD makes a determination on the State’s request for a waiver of the two-year expenditure requirement for the Oklahoma Department of Commerce’s remaining Rounds 9 through 12 contracts.

There seemed to be confusion on when to request the extension on Round 9. HUD understood that the expenditure rate would be met for March 11 deadline on Round 9. ODOC understood all the required accounting reconciliations were to be completed first.

The extension was requested for Rounds 9 to 12. ODOC is waiting for HUD to award the extension so the funds will be unlocked and payments can be processed to DR contractors.

ODOC comment:

Almost a year ago, HUD implemented the “Cumulative Expenditure Schedule” for the CDBG-DR program for States with the two-year expenditure program requirement, understanding that some activities were in need of extensions and the need to make draws from those contracts after the two-year contract program requirement as the regulation did not contain a process for the States to request

extensions for individual sub-recipient contracts but advised of only Round Extensions, which obviously does not work with most CDBG construction activities. To get around this, the HUD Disaster Recovery Team assisted the States with a process to adjust vouchers in the DRGR system for draws made in later rounds to cover earlier round draws not in compliance with each two-year Round Contract expenditure requirement. ODOC performed this task as instructed and in January were notified by HUD that we were advised incorrectly and that the process previously implemented was not approved by the HUD Office of Inspector General (OIG). The HUD Disaster Recovery Team was required to develop another process, OIG approved, and is now assisting States to correct the previous process and implement a new process. A HUD representative visited ODOC early February to provide assistance with making corrections from the previous task and assisting with the new process to be carried throughout the remainder of the program. It is anticipated that the construction of the remaining DR activities be completed this year, however, as suggested by HUD, the State requested a waiver of the 24-month expenditure deadline and program extension to 9/30/2022.

2. Status on the issues in the December 2017 Internal Audit Report:

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

Current Status is that the Internal Auditor still does not have access to review all CDBG-DR information in the OKGrants system. This is being addressed by the OKGrants Manager.

ODOC Comment

The OKGrants Manager has submitted a solution to the OKGrants contractor to be “pushed” through its system on Friday, April 20. The OKGrants developers have had to revise the default visibility access for the Internal Auditor role, and write a cleanup script to ensure that access carries over to all the DR contracts.

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

Current Status is a Monitoring Review spreadsheet was developed to determine that the OKGrants uploads of supporting documentation are all available, consistent, complete and are all signed. The staff has completed Monitoring Review spreadsheets for the 22 fire truck DR contracts. A group of staff continue to complete the spreadsheets on the remaining CDBG-DR contracts. These spreadsheets have not been reviewed yet.

Recommendation. The Monitoring Review spreadsheets on the 22 fire truck CDBG-DR contracts should be reviewed as soon as possible.

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

Current Status refer to the current status on Issue 1 above.

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

Current Status is that HUD staff came to ODOC on February 1 and 2 to provide the ODOC Community Development division with federal assistance in reconciliation. This reconciliation was a result of HUD on one of their earlier visits having ODOC collapse all the rounds of CDBG-DR funding. HUD OIG objected and forced this collapse to be redone back to rounds.

Phyllis Foulds from HUD met with ODOC CDBG-DR program staff and ODOC Financial Services staff to explain and clarify. To date Rounds 1 through 8 have been reconciled with vouchers done. As I understand, not all the vouchers have been accepted by HUD.

The \$300,000 administration funds have not been moved at this time. This process has been very tedious and time consuming.

Updates

1. The Disaster Recovery monitoring contract with Deloitte & Touche LLP was signed March 30, 2018. The contract period is April 1, 2018 through March 30, 2019.
2. According to the accountant in ODOC Financial Services all the vouchers have been created to expend the balances for Rounds 1 through 8 as requested by HUD. The administrative costs of \$300,000 need to be adjusted from Round 3 to Round 11.
3. The Action Plan for the quarter ending March 31 is planned to be submitted by mid-April.
4. HUD expressed concern about the uploads on supporting documentation so as Internal Auditor, I reviewed a sample of payments made from June 2017 through January 2018 and pulled at least one payment for each contractor and found that there is supporting documentation uploaded for each. Therefore, I have verified what the program staff has said which is that a desk review has been performed on each payment before the payment has been made.