



City of Moore Disaster Funding, Moore, OK

Community Development Block Grant Disaster Recovery Capacity Review



To: Bill D. Bright, Director, Community Planning and Development, 6ID

//signed//

From: Gerald R. Kirkland, Regional Inspector General for Audit, 6AGA

Subject: The City of Moore, OK, Generally Had the Capacity To Expend Its Community Development Block Grant Disaster Recovery Funds

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Moore, OK's Community Development Block Grant Disaster Recovery funding capacity review.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



Audit Report Number: 2015-FW-1003

Date: August 7, 2015

**The City of Moore, OK, Generally Had the Capacity To Expend Its
Community Development Block Grant Disaster Recovery Funds**

Highlights

What We Audited and Why

We reviewed the City of Moore, OK, because it received \$52.2 million in Community Development Block Grant Disaster Recovery (CDBG-DR) funding in response to the tornado that struck Moore on May 20, 2013. Further, the City only recently became a CDBG entitlement grantee, and there was a substantial increase between its regular CDBG funding and its CDBG-DR funding. Also, our annual audit plan placed a priority on reviewing entities that received disaster funding. Our objective was to determine whether the City had the capacity to expend its CDBG-DR funds in accordance with rules and regulations.

What We Found

With minor exceptions, the City generally demonstrated the capacity to expend its CDBG-DR funds in accordance with requirements. However, it did not always maintain supporting documentation for its small purchase quotes or verification of contractor eligibility. In addition, it did not always include required provisions in its contracts. The City was unaware of the need to maintain supporting documentation and include certain contract provisions. It corrected these exceptions during the review. Also, the City had not submitted its required quarterly reports. The City had to reopen its action plan, which prevented it from submitting its quarterly reports. The U.S. Department of Housing and Urban Development (HUD) corrected this issue, giving the City access to submit its quarterly reports. If the City continues to follow its procedures and progresses with its plans, it should have the capacity to expend its CDBG-DR funding appropriately.

What We Recommend

We recommend that HUD require the City to (1) continue implementing the financial system upgrade and (2) submit its quarterly reports to HUD in a timely manner.

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Background and Objective

The City of Moore, OK, was incorporated as a town in 1893. It became a city in 1962 and has a council-manager form of government. In 2010, the City became a Community Development Block Grant (CDBG) entitlement grantee. On average, the City received \$280,000 per year in CDBG funding.

On May 20, 2013, a mile-wide EF-5 tornado¹ devastated Moore. The tornado damaged or destroyed numerous structures, including 2 schools, a hospital, 90 businesses, and more than 2,400 housing units. Public Law 113-2 appropriated funding for natural disasters that occurred in fiscal year 2013; therefore, the City qualified for CDBG Disaster Recovery (CDBG-DR) funding.

The U.S. Department of Housing and Urban Development (HUD) allocated \$26.3 million in CDBG-DR funding to the City on December 16, 2013, and another \$25.9 million on June 3, 2014. In total, HUD allocated \$52.2 million to the City for disaster recovery activities. As of June 1, 2015, the City had obligated \$1.2 million and expended more than \$370,000 from its first allocation.

HUD required the City to use at least 50 percent of its CDBG-DR funding to benefit the low- to moderate-income community.² The City must obligate all of its CDBG-DR funds by September 30, 2017, and expend them by September 30, 2019.³

Our objective was to determine whether the City had the capacity to expend its CDBG-DR funding in accordance with rules and regulations.

¹ Under the Enhanced Fujita scale, an EF-5 tornado has wind speeds of more than 200 miles per hour.

² 78 Federal Register (FR) 14329

³ 78 FR 76154

Results of Audit

Finding: The City Generally Had the Capacity To Expend Its CDBG-DR Funding

The City generally had adequate procurement, financial, and action plan implementation processes to expend its CDBG-DR funding in accordance with requirements. However, it did not always maintain supporting documentation for its small purchase quotes or verification of contractor eligibility. The City also did not always include required provisions in its contracts. In addition, it had not submitted its required quarterly reports. These conditions occurred because the City was unaware of its contract requirements and a minor system issue prevented it from submitting its required quarterly reports. The City took appropriate steps to correct the exceptions regarding procurement, and HUD corrected the system issue. If the City continues to follow its procedures and progresses with its plans, it should have the capacity to expend its CDBG-DR funding appropriately.

The City's Procurement Process Was Adequate Except for Minor Exceptions

Of the two contracts reviewed, the City's procurement process was adequate. However, the City did not always maintain documentation to support its small purchase quotes or verification of contractor eligibility. The City provided documentation for three recent small purchases to demonstrate that it had begun documenting its efforts to obtain quotes and determine contractor eligibility. However, it stated that it planned to use its general funds for any future small purchases related to CDBG-DR activities. The City also had updated its procedures to include maintaining documentation supporting that it verified contractor eligibility.

Also, the City did not always include the required provisions in its contracts.⁴ One of the contracts did not include the "access to records" clause as required. After the City became aware of the required contract provisions, it and its contractor amended the contract to include the "access to records" provision.

The City Did Not Submit Required Quarterly Reports

As of May 2015, the City had not submitted any of the three required quarterly reports in HUD's Disaster Recovery Grant Reporting (DRGR) system.⁵ The City's action plan had been opened in DRGR, which prevented it from completing and submitting its quarterly reports. HUD corrected the issue, and the City gained access to complete and submit the reports. HUD provided the City with step-by-step instructions to aid it in completing and submitting its quarterly reports.

⁴ 24 CFR (Code of Federal Regulations) 85.36(i)

⁵ Grantees use DRGR to submit action plans, draw down funds, and report program income.

The City's Financial Process Was Adequate

The City had documentation supporting the eligibility of the 10 expenditures and 8 payrolls reviewed. Also, the City planned to upgrade its financial software to better report its expenditures in DRGR. It expected to implement the upgrade by January 2016.

The City contracted with an external auditing firm to perform internal auditing services for its CDBG-DR funding. The firm reviewed the City's operating procedures and made recommendations for the City to implement. In addition, the City contracted with the firm to perform quarterly audits from October 1, 2014, through September 30, 2015, to include reviewing

- Compliance with applicable Federal regulations and HUD national objectives,
- Status of low- to moderate-income service targets,
- Project status in relation to fair housing,
- Consistency with approved action plan and program policies and procedures,
- Identification and prevention of duplication of benefits, and
- Program progress relative to established program timelines.

The City's Action Plan Implementation Process Was Adequate

HUD awarded the City two allocations of CDBG-DR funding that totaled \$52.2 million. HUD approved the City's action plans for the two allocations. The City's first allocation was for \$26.3 million. The City planned to use \$16 million for housing, \$3 million for infrastructure, and more than \$2 million for resiliency.⁶ The remaining \$5.2 million was for planning and administrative costs. The City planned to give funding priority to benefit low- to moderate-income areas. As of February 2015, the City had received \$1.2 million from this allocation.

For the City's largest allocation under the first grant, the City originally planned to help homeowners rehabilitate their homes. However, the City changed its plans to focus on providing downpayment assistance instead of rehabilitation. The City planned to give priority to low- to moderate-income individuals and areas. In addition, it planned to build a 300-400 unit multifamily complex for mixed-income affordable housing. The site for this complex was formerly a mobile home park damaged by the tornado. The City had started the appraisal and environmental review process to purchase the 14.4 acres of land and the request for proposal process for a master planner to develop the plans and manage the development progress. According to the City's action plan, at least 51 percent of the new units must be affordable for low- to moderate-income families. As of May 11, 2015, the City was in final negotiations with the owner of the property.

The City's second allocation was for \$25.9 million. The City planned to use \$15 million for infrastructure, \$2 million for public facilities, and more than \$3.7 million for

⁶ The City's primary goal for resiliency was to reduce the potential for loss of life in a future tornado or storm. The City planned to offer rebates to selected and approved applicants that installed a storm shelter or a safe room.

resiliency. The remaining \$5.1 million was for planning and administration costs. The City had received no funds from this allocation.

The infrastructure projects the City planned to complete under the second allocation included bikeways/trails, drainage, gateway/streetscape, sewer, sidewalks, and streets. The City had contracted with an engineering team to develop plans and determine how to use its CDBG-DR funding for infrastructure projects. During the assessment, the engineering team gave weight to projects in the City's low- to moderate-income area. The engineering team identified about \$160 million in needed infrastructure work in Moore. The City planned to complete approximately \$18 million in infrastructure projects with its first and second allocation of CDBG-DR funding. As of May 2015, the City had started six infrastructure projects.

To increase the City's capacity to administer its CDBG-DR funds, the City planned to add five new positions to its staff. As of May 11, 2015, the City had filled three of those positions. It hired a CDBG-DR project manager, one CDBG-DR inspector, and a compliance specialist. It planned to hire two additional CDBG-DR inspectors. Four of the positions will last for the duration of the CDBG-DR funding allocation. The CDBG-DR project manager will be a permanent position.

The City had consultants to help it plan and use its CDBG-DR funding appropriately. The consultants were contracted to help with technical assistance, expenditure and process review, and planning for infrastructure projects. The City was contracting with a consultant that would develop plans and manage development progress for a multifamily complex. The consultants should lessen the burden on City staff and help the City ensure it follows the necessary rules and regulations.

Conclusion

While the City had minor exceptions in its procurement process, it generally had the capacity to expend its CDBG-DR funds in accordance with rules and regulations. The City had taken steps to increase its capacity and had corrected the minor procurement exceptions identified. The City needs to continue its financial system upgrade and complete and submit its outstanding quarterly reports to HUD for review. If the City continues to build upon its capacity, implements its action plans, and follows the necessary rules and regulations, it should be able to expend its CDBG-DR funds appropriately.

Recommendations

We recommend that the Director of the Oklahoma City Office of Community Planning and Development require the City to

- 1A. Continue the process for the financial system upgrade and implement it.
- 1B. Complete and submit its outstanding quarterly reports to HUD for review and submit future quarterly reports in a timely manner.

Scope and Methodology

Our review period was from December 2013 through May 2015. We performed our fieldwork from January through May 2015 at the City's office at 301 North Broadway, Moore, OK, and our office in Oklahoma City.

To accomplish our objective, we

- Reviewed relevant Federal, State, and local policies and procedures;
- Interviewed HUD and City staff;
- Reviewed the City's action plans for its CDBG-DR funding;
- Toured the disaster area and observed areas of planned development;
- Reviewed the City's fiscal years 2013 and 2014 audit reports; and
- Reviewed the City's two internal audit reports regarding its CDBG-DR funding.

We also selected for review a random sample of contracts, expenditures, and payroll transactions from the City's first allocation of CDBG-DR funding. The City had eight contracts for its CDBG-DR funding. We selected two contracts to review: an engineering contract because it was the largest dollar amount and a consultant contract in which HUD used the same consultant through its technical assistance program.

The City had 38 expenditures related to its CDBG-DR funding at the time of the sample selection. We assigned a random number to each expenditure and then sorted on the random number from largest to smallest. We selected the first 10 expenditures for review. The City provided three other expenditures to demonstrate how it had implemented a recommendation to ensure that it documented its efforts in contacting an adequate number of sources for small purchases and contractor eligibility to receive Federal funds. The City decided that it would use its general fund for small purchases and use CDBG-DR funds for major projects.

The City had four employees who charged time to CDBG-DR funding at the time of the sample selection. One of the employees had 27 pay periods of biweekly payroll transactions, and another had 26 pay periods of biweekly payroll transactions. The remaining 2 employees had 15 pay periods of biweekly payroll transactions. We assigned a random number to each payroll transaction for each employee. We sorted on the random number from largest to smallest and selected the top two payroll transactions for each employee.

Throughout our review, we obtained and reviewed computer-processed data, including data from the City's financial and payroll systems. However, we tested only transactional details to meet our objective and form conclusions. We identified no reportable differences between the computer-processed data and the underlying supporting documentation. We did not assess the reliability of the computer-processed data since these data were needed to accomplish our objective.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the City's internal control as a whole.


Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



July 27, 2015

Gerald R. Kirkland
Regional Inspector General for Audit, 6AGA
U.S. Department of Housing and Urban Development
Office of Audit (Region 6)
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102-6195

RE: Written Response to Draft Audit Report

Dear Mr. Kirkland:

This letter is in response to the draft audit report dated July 9, 2015 reviewing the capacity of the City of Moore, Oklahoma in regards to the Community Development Block Grant Disaster Recovery funding. Please find below our written comments to the recommendations and statements contained within the report.

Recommendation 1: Documentation for small purchases and contractor eligibility

The City has provided documentation for its most recent small purchases to demonstrate the City's effort of obtaining proper quotes and determining contractor eligibility. The City has also updated its procedures to include the proper documentation for the verification of contractor eligibility. However, the City has decided to use its general funds for any future small purchases.

Recommendation 2: Include the required provisions on contracts

The City is now aware of the required contract provisions and has amended its contract to include the missing provisions. The City is creating a contract checklist that will be used when creating future contracts.

Recommendation 3: Complete and submit its outstanding quarterly reports to HUD for review and submit future reports in a timely manner

The City's action plan had been open in Disaster Recovery Grant Reporting (DRGR) system which prevented the submission of the required quarterly reports. HUD has corrected the issue and the City will complete and submit the three quarterly reports. The City will submit all future quarterly reports in a timely manner.

Recommendation 4: Continue the process for the financial system upgrade and implement it

Comment 1

Comment 1

Comment 2

**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

The City will start the implementation of its new financial system on October 1, 2015. The first phase of implementation will include project accounting ledger which will be used to monitor the Community Development Block Grant Disaster Recovery funding.

The City of Moore thanks the U.S. Department of Housing and Urban Development and U.S. Department of Housing and Urban Development Office of Inspector General for the opportunity to improve its procedures and implement the information given to all future funded projects. The City looks forward to working together on the Disaster Recovery program.

Sincerely,



Jared Jakubowski
Grants Manger

OIG Evaluation of Auditee Comments

- Comment 1 We acknowledge the City for updating its policies and creating a checklist to aid it in the use of its CDBG-DR funds.
- Comment 2 We acknowledge the City for taking the necessary steps to submit quarterly reports on time and continue its financial system upgrade implementation.