

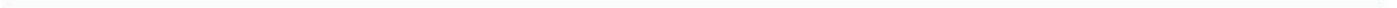


State of Oklahoma

Community Development Block Grant Disaster Recovery

**Office of Audit, Region 6
Fort Worth, TX**

**Audit Report Number: 2016-FW-1010
September 30, 2016**





To: Stan Gimont, Acting Deputy Assistant Secretary for Grant Programs, DG

//signed//

From: Tracey Carney, Acting Regional Inspector General for Audit, 6AGA

Subject: The State of Oklahoma Did Not Obligate and Spend Its Community Development Block Grant Disaster Recovery Funds in Accordance With Requirements

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 State of Oklahoma Community Development Block Grant Disaster Recovery program.

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: 2016-FW-1010

Date: September 30, 2016

The State of Oklahoma Did Not Obligate and Spend Its Community Development Block Grant Disaster Recovery Funds in Accordance With Requirements

Highlights

What We Audited and Why

We audited the State of Oklahoma because it received \$93.7 million in Community Development Block Grant Disaster Recovery (CDBG-DR) allocations for presidentially declared disasters that occurred in 2011, 2012, and 2013. The substantial amount of CDBG-DR funding required a review of the State's program. Our objective was to determine whether the State obligated and spent its grant in accordance with requirements.

What We Found

The State did not obligate and spend CDBG-DR funds in accordance with requirements. The State failed to support how it determined activity eligibility, existence, disaster event qualification, reasonableness of cost estimates, prioritization, and fund allocation as required. It routinely did not determine compliance with procurement and environmental requirements. Further, it routinely made payments based on incomplete, insufficient, or no supporting documentation.

The State believed that its procedures for obligating and spending Federal funds were its choice based upon its understanding of CDBG requirements. The State's failure to comply with requirements resulted in unsupported obligations and expenditures of more than \$11.7 million and \$4.3 million, respectively.

What We Recommend

We recommend that the Acting Deputy Assistant Secretary for Grant Programs require the State to (1) develop and implement policies and procedures to document and perform detailed review and testing to establish eligibility, existence, disaster event qualifications, reasonableness of cost estimates, prioritization, and fund allocation, both retroactively and prospectively, which would put \$81.9 million to better use; (2) support or properly obligate more than \$11.7 million in unsupported obligations; and (3) support or repay more than \$4.3 million in unsupported expenditures.

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Background and Objective

The Disaster Relief Appropriations Act of 2013 provided \$16 billion¹ in Community Development Block Grant Disaster Recovery (CDBG-DR) funds for necessary expenses related to presidentially declared disaster relief and long-term recovery for such disasters that occurred in 2011, 2012, and 2013. The President may designate a location as a disaster area, upon request by the State governor, for qualifying events. These declarations entitled the requesting State jurisdiction to various forms of Federal assistance. During this period, the State of Oklahoma experienced a number of presidentially declared disasters that were eligible to receive assistance under the Act.

Oklahoma's governor designated the Oklahoma Department of Commerce to manage its CDBG-DR funds. The Oklahoma Department of Commerce has also managed the State of Oklahoma's Community Development Block Grant (CDBG) program since the 1980s. The State received CDBG grants in the amount of \$13.1 million and \$12.6 million for fiscal years 2014 and 2015, respectively. The U.S. Department of Housing and Urban Development (HUD) required² the State to use its funds to meet one of three national objectives: (1) aid low- to moderate-income individuals, (2) prevent or eliminate slum and blight, or (3) address urgent need.

HUD provided two allocations of CDBG-DR funds to the State totaling \$93.7 million. HUD awarded the first allocation of \$10.6 million in CDBG-DR funding to the State on December 23, 2013, with a requirement to spend a minimum of \$3.22 million (30.4 percent) of this allocation in Cleveland County, OK. HUD allocated an additional \$83.1 million in CDBG-DR funding to the State, effective June 9, 2014, requiring the expenditure of a minimum of \$41.2 million (44 percent) of the total \$93.7 million allocation in Cleveland and Creek Counties in Oklahoma. HUD required³ the State to request and spend its CDBG-DR funds by September 30, 2017, and September 30, 2019, respectively. HUD also required⁴ the State to use at least 50 percent of the funds to meet the low- to moderate-income national objective. During the review period, generally from December 23, 2013, through December 31, 2015, the State had obligated and spent more than \$49 million and \$9 million of the \$93.7 million in CDBG-DR funds, respectively. As of June 30, 2016, the State had obligated and spent more than \$79.5 million and \$26.1 million, respectively.

Our objective was to determine whether the State obligated and spent its CDBG-DR funds in accordance with requirements.

¹ Reduced to \$15.18 billion after sequestration

² 24 Code of Federal Regulations (CFR) 570.483

³ 78 Federal Register (FR) 76154

⁴ 78 FR 14329

Results of Audit

Finding: The State Did Not Obligate and Spend CDBG-DR Funds in Accordance With Requirements

The State did not comply with requirements when it obligated and spent CDBG-DR funds. Specifically, for all 14 obligations reviewed, the State did not document its selection process to provide evidence of how it considered activity eligibility, existence, disaster event qualification, reasonableness of cost estimates, prioritization, or fund allocation.⁵ Further, the State failed to exercise due diligence in determining that activities met national objective criteria or ensure that subrecipients were registered and eligible to receive Federal funding. For expenditures, the State did not ensure that subrecipients complied with environmental⁶ and procurement regulations.⁷ Additionally, the State did not review and determine that subrecipients had supporting documentation for expenditures before payment. The State took an informal approach to operating its program because it believed it had the flexibility in interpreting the requirements, commonly known as maximum feasible deference. However, this requirement did not allow the State to inconsistently interpret the regulations or excuse it from developing and implementing procedures that were sufficient to ensure the appropriateness of obligations and expenditures.⁸ As a result, the State was not able to support more than \$11.7 million in obligations and more than \$4.3 million in expenditures. Due to the systemic weakness of controls and poor management of the funds, the State could not provide HUD with reasonable assurance that it would properly obligate or spend the remaining \$81.9 million in CDBG-DR funds.

The State Failed To Evaluate or Support Obligations of Federal Funds

For all 14 activities reviewed, the State did not document its selection process to provide evidence of how it considered activity eligibility, existence, disaster event qualification, reasonableness of cost estimates, prioritization, or fund allocation.⁹ Once the subrecipients formally applied for the funds, the State performed a pass or fail threshold review. This threshold review did not provide sufficient documentation to show how selected activities met its requirements. The State further failed to exercise due diligence in determining that activities met national objective criteria. Finally, the State did not have evidence that it ensured subrecipients were registered and eligible to receive Federal funding. According to the State, it took an informal approach to evaluating and selecting proposed activities. The State used an approach known as “method of distribution” to obligate its CDBG-DR funds to units of general local government rather than administering its CDBG-DR funds directly. However, HUD required¹⁰ the State to keep records to document its funding decisions made under method of distribution.

⁵ State of Oklahoma Action Plans, dated March 23 and October 3, 2014

⁶ 24 CFR 58

⁷ 24 CFR 85.36 and State of Oklahoma CDBG Project Management Guide, Requirement No. 405

⁸ 24 CFR 570.480(c)

⁹ State of Oklahoma Action Plans, dated March 23 and October 3, 2014

¹⁰ 24 CFR 570.490(a)(2)

As described in three examples below, the State had multiple instances of noncompliance and poor management for sample items reviewed. Lastly, the State did not take appropriate corrective action when informed of deficiencies.

Example 1: City of Mannford, OK – Construction of a 40-Unit Elderly Complex

The State did not adequately plan when it obligated \$5 million for the City to build a 40-unit complex to house low-income elderly persons displaced by a 2012 wildfire disaster. The disaster destroyed 376 units in Creek County, OK, with an estimated 15 percent (57 units) of the loss population identified as elderly. Of the 376 units destroyed, approximately 100 units were rebuilt, leaving an estimated remaining 276 units destroyed with an estimated loss population of 40 units identified as elderly occupied. None of the destroyed housing was located in Mannford but, rather, in outlying areas of the County. Initially, the State wrongly asserted that the \$5 million obligation to the City met the limited clientele sub-objective of the low- to moderate-income benefit national objective.¹¹ However, the regulations did not permit new construction under the limited clientele sub-objective.

The City's pre-application narrative requested \$2.5 million of the \$5 million cost to construct the apartment complex, along with other disaster-related activities. In the City's official application, it included the entire \$5 million cost of the complex. Due to the State's informal planning process, the State could not support how it selected and approved the complex or an explanation of the differences between the pre-application and application requests. In addition to the lack of planning, the State performed a pass or fail threshold review to approve this activity. The threshold review did not have sufficient explanation or support for the procedures conducted. If the State had performed an adequate review of the activity, it may have been able to identify and correct the deficiencies.

According to its records, the State approved the construction of the complex under the limited clientele sub-objective.¹² This sub-objective did not allow for funding new construction. Therefore, the State used an ineligible sub-objective to obligate funds. The State further failed to require the City to support its stated objective of housing 100 percent low-income elderly persons displaced by the wildfire. During a site visit, City officials verbally stated they planned to occupy the complex with elderly-only residents at market rate rents, a significant departure from only low-income elderly people displaced due to the wildfires. After notification to the State of its error, the State conceded its failure to meet the limited clientele sub-objective criteria and changed its sub-objective to low- to moderate housing activities.¹³ This sub-objective required low- to moderate-income persons to occupy at least 51 percent of the units at affordable rents. However, the State still had a goal to ensure 100 percent low-income elderly persons displaced by the wildfire disaster occupied the complex. With an estimated qualifying population of 40 and the disaster having occurred almost 4 years earlier, the State agreed to meet this stringent goal. The State also did not conduct a beneficiary survey to determine eligible

¹¹ To be eligible for CDBG-DR funds, the activity must meet one of three national objectives as defined in 24 CFR 570.483.

¹² 24 CFR 570.483(b)(2)

¹³ 24 CFR 570.483(b)(3)

low-income elderly tenants displaced by the wildfire. Because the obligation did not meet a national objective or the more stringent State goal, the obligation was unsupported. As a result of the State's lack of planning, the complex may not meet a national objective.

Example 2: City of Sapulpa – Purchase of Fire Equipment

The State failed to establish disaster qualification, determine appropriateness of equipment, or determine national objective criteria before obligating funds for fire equipment. In August 2012, Creek County, OK, experienced a series of wildfires. The wildfires caused significant fire damage across unincorporated areas of the County. The limited road network and lack of a water distribution system across much of the County increased the extent of the damage. The State obligated approximately \$2.5 million for acquisition of fire equipment by the City of Sapulpa.¹⁴

The State failed to exercise due diligence in the obligation of approximately \$2.5 million for the purchase of fire equipment by the City. The State incorrectly relied on HUD email communications regarding waiver requests for a different entity as tieback to the wildfire disaster. The City's pre-application narrative and application narrative contained inconsistencies in fire vehicle terminology and capabilities. For example, the narrative stated that the City intended to replace old equipment and expand its service fleet as opposed to mitigation and resiliency against future wildfires. The State did not notice and follow up on the differences, require clarification, or require the City to tie back its request to fighting wildfires.

The State neglected to require adequate documentation from the City to support that at least 51 percent of the area population qualified as low- to moderate-income to meet the national objective criteria.¹⁵ While the State provided certain survey guidance, the City provided only summary figures and a color-coded map without references or supporting detailed data. The State failed to review and require correction of the City's low- to moderate-income submission before obligating the funds.

As with the other samples reviewed, the State's threshold review was unsatisfactory and provided no detail of State procedures performed to verify State-specified criteria for approval for either its task-specific or overall determination of pass or fail for grant approval. Due to the deficiencies cited, the State's obligation of approximately \$2.5 million was unsupported.

Example 3: Lincoln County – Resurface a Road Due to Tornado-Related Damage

The State failed to inspect and verify tornado-related damage before obligating more than \$268,000 in funds to resurface a road in Lincoln County. The County completed the activity under budget for more than \$228,000. The State recaptured the difference of more than \$39,000. Before obligating the funds, the State failed to verify the damage to this road. The State did not perform a site visit or obtain pictures before approving this activity. During our site visit, Lincoln County officials provided a picture of the road. While the picture showed apparent

¹⁴ CDBG-DR allowed for the acquisition of fire equipment to assist communities with mitigation and resiliency against future wildfires.

¹⁵ 24 CFR 570.483(b)(1)

tornado damage around a road, the road appeared to be unpaved. Without sufficient evidence of damage, the State should not have approved the activity. Therefore, the \$228,000 obligation was unsupported.

The State Failed To Remedy Defects in Obligations With Updated Documentation

After we notified the State of deficiencies and control weaknesses, it did not take effective action to address and correct deficiencies. The State provided updated documentation and information for selected deficiencies noted in its obligations. However, none of the additional documentation was adequate to support the obligations.

The State created an updated threshold review for the City of Mannford. This review included unverified and unsupported information. For instance, one section in the review was for cost estimates. The City submitted a one-page cost estimate for the \$5 million construction project. The State accepted the cost estimate without additional analysis. In addition, the State contended that the City had completed other CDBG activities as justification for the State's reliance on the City to oversee the activity. However, the State failed to support its statement with similar construction projects, continuity of experienced management, or other pertinent factors.

The State had the City of Sapulpa prepare a new activity narrative that the State entered into its official records. This activity narrative again failed to tie back requested fire equipment to the wildfire disaster with appropriate information, such as fire dates, fire locations, personnel requirements by fire, hours incurred, equipment used, equipment damaged or lost, and other departments assisted, despite detailed guidance provided to the State. Additionally, the State again failed to analyze the narrative for appropriateness of the requested equipment for fighting wildfires. Further, the State created a new threshold review for the City in a revised format but generally copied the narrative straight from other documents and inserted it into the new threshold review without review, amendment, or verification. The revised threshold review also failed to incorporate the guidance previously provided to correct noted deficiencies.

The State Failed To Review and Verify the Eligibility of Expenditures

The State did not always collect or review supporting documentation to ensure it spent funds for eligible purposes, resulting in more than \$4.3 million in questioned costs. HUD required¹⁶ the State to establish and maintain records necessary to facilitate audit by HUD. It also required the State to ensure its subrecipients complied with environmental¹⁷ and procurement regulations.¹⁸ In addition, the State had to review and determine that its subrecipients had proper supporting documentation for expenditures before remitting payment.

Before proceeding with an activity, each subrecipient needed to make an environmental determination. HUD required¹⁹ the State to review and approve the determination before releasing funds to its subrecipients. For 13 of the 14 activities reviewed, the State did not ensure

¹⁶ 24 CFR 570.490(a)(1) and Basically CDBG for States, Chapter 18.3.7

¹⁷ 24 CFR Part 58 and Basically CDBG for States, Chapter 18.3.8

¹⁸ 24 CFR 85.36 and State of Oklahoma CDBG Project Management Guide, Requirement No. 405

¹⁹ 24 CFR 58.22

its subrecipients performed adequate environmental reviews nor had appropriate supporting documentation for making environmental determinations. The remaining activity's environmental review was under State review and did not have the required documentation showing that the activity met environmental regulations.

In addition, for eight activities, the State did not

- Ensure subrecipients complied with procurement requirements,
- Review and analyze subrecipients' contracts, or
- Confirm that subrecipients verified their contractors were registered and eligible to receive Federal funding.²⁰

For two of the eight activities, subrecipients used an unapproved procurement method.²¹ For one activity, the subrecipient advertised in a local community paper for two different types of fire trucks. Not receiving a response to its advertisement, the subrecipient directly contacted two vendors. The subrecipient received a single bid for each fire truck from two different vendors. The State obligated more than \$340,000 for the purchase of these two fire trucks. While the State approved the sole-sourced procurement, the advertisement in a local community paper for a specialized product was not sufficient to ensure a competitive procurement process.

The State made payments for seven activities based on incomplete, insufficient, or no supporting documentation.²² For one subrecipient,²³ the State paid multiple requests for funds totaling \$810,000 without supporting documentation. The State's policy²⁴ required subrecipients to maintain certain financial information manually, including invoices. However, the State did not require subrecipients to submit invoices to the State for review before payment. Therefore, the only time that the State could review invoices was during a monitoring review.

Finally, the State's monitoring review for a subrecipient²⁵ had incorrect information and did not ensure it communicated the importance of following Federal guidelines to the subrecipient.²⁶ In November 2015, the State auditor and inspector issued a report for State-appropriated funds related to CDBG funds. The report stated, "...there is no review of actual projects, contractor invoices, or other documentation that would provide assurance that...funds are ultimately expended for intended purposes." While the State monitored CDBG-DR funds, it continued its practice of not reviewing or sufficiently reviewing supporting documentation that showed compliance with regulations before making payments. Without appropriate review, the State put itself at unnecessary risk and did not properly oversee or administer its CDBG-DR funds.

²⁰ Subrecipients for six of the activities had not procured for services or products.

²¹ Oklahoma State law allowed counties to use a competitively bid nationwide purchasing program. These two subrecipients were cities, and the State did not provide support showing that cities could use the same program.

²² The State had not made payment for 7 of the 14 activities.

²³ City of Oklahoma City

²⁴ State of Oklahoma CDBG Project Management Guide, Requirement No. 406

²⁵ Lincoln County

²⁶ 24 CFR 570.492

The State Did Not Have Sufficient Evidence of Review for the City of Mannford Expenditures

The State failed to determine whether the City complied with environmental, procurement, and expenditure requirements. As of December 31, 2015, the State had spent approximately \$700,000 for the City's elderly apartment complex.

The City performed an environmental assessment for the apartment complex. However, the State approved the environmental assessment without sufficient supporting documentation, such as maps and other documentation to show flood area, wild and scenic rivers, and airport hazards. The City was also required to publish its environmental determination findings, and the State did not require proof of the publication.

The City procured 3 primary contractors and 36 subcontractors to construct the apartment complex. At the State's direction, the City did not submit contract files, such as bid notices, bid tabulations, contracts, and award notices. Without this documentation, the State could not review and determine the validity of the procurement process before making payment. City personnel stated that a State employee had been on the premises to review procurement documentation. However, the State failed to document this review, the procedures performed, and its determination.

After we notified the State of this deficiency in March 2016, the State required the City to enter procurement documentation into the State's official system of record. However, the City submitted only partial information to the State, and the State did not provide evidence showing why it accepted partial information. In June 2016, the State indicated it had collected this information in a different manner. The State still did not have evidence in its official system of record that it had collected and reviewed this documentation. Finally, the State failed to verify that the City documented contractor eligibility to receive Federal funds.

The City requested and the State had paid almost \$700,000 as of December 31, 2015, for expenditures associated with this activity. Payments made on requests for funds did not always match the amount of invoices submitted. In two instances, the State altered payment amounts from amounts billed based on undocumented verbal agreements with City personnel. In another two instances, the State failed to review submitted documentation and paid one invoice without investigation of an additional unreferenced subcontractor invoice included in the supporting documentation. Finally, in one instance, the State paid more than \$52,000 that was not supported by invoices due to its failure to review.

The State Did Not Critically Review City of Sapulpa's Expenditure Documentation

As with the City of Mannford, the State failed to ensure the City of Sapulpa complied with environmental, procurement, and expenditure processes. The City did not comply with all environmental requirements,²⁷ and the State failed to notice and require compliance. As of December 31, 2015, the City had spent more than \$2 million for the acquisition of fire equipment, which was unsupported due to its failure to enforce environmental requirements.

²⁷ 24 CFR 58.6 and State of Oklahoma CDBG Project Management Guide, Requirement No. 403

The State's procedures failed to support the method of acquisition. The City contracted with a purchasing intermediary for the acquisition of fire equipment, but the State did not approve the City to use a purchasing intermediary.

The acquisition was further unsupported as the method of procurement used by the intermediary was unclear (that is, competitive or sole source). The method of procurement appeared to be sole source. The State did not have evidence of its evaluation and approval of the sole-sourced procurement. Further, the State did not respond to a request for the documentation.

The State did not perform a critical review of the City's ordering and purchasing documents to assess the appropriateness of the fire equipment acquisitions. Specifically, the City acquired three fire vehicles (approximate cost): (1) Freightliner tanker (\$294,000), (2) Enforcer Aerial Ascendant 107' heavy duty ladder (\$953,500), and (3) Enforcer Aerial sky boom (\$817,000). Creek County is a rural county with a limited road network and water distribution system. The Freightliner tanker had wildfire-fighting capabilities due to its water-carrying capacity. The State may be able to support this purchase if it resolves the issues regarding the use of a purchasing intermediary and method of procurement. The two other ladder trucks had no discernable capabilities for fighting rural wildfires, given the trucks' need for a road network and water distribution system.

Finally, the City did not conduct a contractor eligibility check, and the State failed to notice and require compliance before award of the contract. By its failure, the State unnecessarily put itself at risk of making payments to prohibited contractors.

The State Disbursed Federal Funds to Lincoln County Without Adequate Supporting Documentation

The State paid more than \$228,000 for Lincoln County to resurface a road without adequate supporting documentation for its environmental determination, procurement process, and costs. The County made a more stringent incorrect environmental determination than required. The County did not have the needed documentation to support the appropriate and less stringent environmental determination. The State did not notice or correct this incorrect determination.

The State did not verify that the County properly procured its road-resurfacing activity. The activity description in the bid advertisement, bid packet, and contract had three different descriptions. In addition, the contract did not have all of the necessary provisions.²⁸ Some of the missing provisions included violation or breach of contract, termination for cause, record retention requirements, and compliance with the (1) Clean Air and Water and (2) Anti-Kickback Acts. The State also failed to ensure the County performed a valid contractor eligibility check. Without consistent activity descriptions, required contract provisions, and a valid contractor eligibility check, the State could not conclude that the County followed procurement requirements and had an enforceable contract.

²⁸ 24 CFR 85.36(i) and State of Oklahoma CDBG Project Management Guide, Requirement 407

The State paid the County based on an unlabeled spreadsheet. The spreadsheet did not identify the contractor, the entity responsible for payment, or the date. Without valid supporting documentation, the State put itself at unnecessary risk for potentially paying ineligible costs and could not support more than \$228,000 paid to Lincoln County.

The State's Monitoring Review of The County Was Deficient

The State performed a monitoring review of the County on August 6, 2015. The monitoring report had incorrect information and lacked sufficient documentation to support conclusions. For instance, the monitoring report determined that the road-resurfacing purchase order was dated after the unlabeled, undated spreadsheet. It was unclear how the State came to its conclusion. In addition, it determined that the purchase order and the unlabeled spreadsheet were the same amount, which was not correct.

The State also claimed that it verified the selected contractor as the lowest bidder by referencing County board minutes. While the minutes stated the contractor was the lowest bidder, the minutes did not show the bid amounts of the other potential contractors. While the County had the bid tabulation sheet, the State failed to collect and use it as proper supporting documentation. The State's monitoring included only reviewing that the County's contract contained some, not all, of the required contract provisions. In at least one instance, the monitoring report stated the County had included a contract provision when it did not.

Finally, the State determined that the County had performed a contractor eligibility check. However, the date of the eligibility check was a day after the State's monitoring report and about 4 months after the signed contract. A County representative stated that the County had lost the original eligibility check. According to the new eligibility check, the contractor had not registered to receive Federal funds. Therefore, the contractor was not eligible to receive Federal funds.

Updated Documentation Was Inadequate To Support Expenditures

The State asked its subrecipients to submit expenditure information that included purchase orders, invoices, canceled checks, bids, contracts, and environmental review documentation. Two of the subrecipients did not include all of the necessary updated documentation to support its expenditures. The State also did not have evidence that it reviewed the updated information to ensure eligibility and completeness.

Conclusion

The State's admitted informal approach to evaluating and selecting proposed activities resulted in its inability to support more than \$11.7 million in obligations. Since the State did not do damage verification or activity cost reasonableness, the State did not have support for its activity selections. In addition, the State did not ensure its subrecipients followed environmental requirements and procurement policies. Of the more than \$11.7 million in unsupported obligations, the State also made more than \$4.3 million in payments based on incomplete, insufficient, or no supporting documentation. The State also did not develop and implement policies and procedures to obligate, spend, and monitor funds appropriately. Finally, the State did not ensure it reviewed and maintained appropriate documentation to support its decisions and

conclusions. Without needed changes that will provide the State with assurance of properly supporting its obligations and expenditures, the State has the potential to misspend the remaining \$81.9 million in CDBG-DR funds.

Recommendations

We recommend that the Acting Deputy Assistant Secretary for Grant Programs require the State to

- 1A. Develop and implement policies and procedures to document and perform detailed review and testing to establish eligibility, existence, disaster event qualifications, reasonableness of cost estimates, prioritization, and fund allocation, both retroactively and prospectively, which would put \$81,982,712 to better use.
- 1B. Support or properly obligate \$11,717,288 in unsupported obligations.
- 1C. Review and document State determination of compliance with procurement, contract, and environmental requirements for its subrecipients.
- 1D. Collect, review, and verify supporting source documents for all requests for funds to ensure it supports the expenditure as appropriate for the activity in question.
- 1E. Document all State procedures performed to verify the appropriateness and accuracy of all subrecipient documentation submitted for payment of program expenditures.
- 1F. Support or repay \$4,394,552²⁹ in unsupported expenditures.

²⁹ The more than \$4.3 million in unsupported expenditures are included in more than \$11.7 million in unsupported obligations. Different issues resulted in the multiple unsupported classifications of these obligations and expenditures. If the State supports the obligations, it will still need to provide support for the expenditures. To avoid duplicate counting, we did not include the unsupported expenditures in appendix A.

Scope and Methodology

Our review period was from December 2013 through January 2016. We performed our audit work from January through July 2016 at the State's offices at 900 North Stiles, Oklahoma City, OK.

To accomplish our audit objective, we

- Reviewed relevant Federal and State laws, regulations, policies, and procedures;
- Interviewed HUD and State personnel;
- Reviewed the State's action plans for its CDBG-DR funding allocations;
- Visited three selected subrecipient sites to observe four of our six initially selected activities; and
- Reviewed an internal audit related to the State's regular CDBG program.

Sample Selection

As of December 31, 2015, the State had obligated funds for 79 activities totaling more than \$49 million.³⁰ We selected six activities for review of obligations and expenditures. We selected

- Two activities due to the amount of funds the subrecipient needed to spend within a short amount of time,
- One activity because it was a housing development in a smaller city,
- Two activities because they were mitigation-resiliency activities near completion, and
- One activity because it was complete and the State had monitored the subrecipient.

During our initial review, we noted issues surrounding the purchase of fire trucks in Creek County, OK. The State had subrecipients that were located in Creek County that were direct subrecipients. The State relied on information addressing Creek County and its indirect subrecipients for the direct subrecipients. As of January 31, 2016, the State had obligated funds for 99 activities totaling more than \$59 million.³¹ We selected all activities, an additional eight, which related to the purchase of fire trucks in Creek County, OK, for direct subrecipients. We reviewed the obligations and expenditures related to these eight activities. We did not project our sample to the universe population.

³⁰ The majority of activities had associated administrative obligations. The State listed the activity and administrative obligations as separate activities.

³¹ Ibid.

Scope Limitation³²

We encountered several instances that limited the scope of this audit. We notified the State of missing, incorrect, or inadequate information as discovered during the course of the audit. The State's handling of these matters raised questions on the accuracy, completeness, and reliability of audit evidence. Specific instances include

- The State's HUD-approved action plan, dated October 3, 2014, included risk assessments for a number of potential casualty events. The individual who prepared the action plan copied the information from an Oklahoma Emergency Management report but amended certain narrative information to increase the probability of occurrence, the magnitude of severity, or both for several risks. The State was unaware of this incorrect and inflated information. The State corrected this information in its action plan without notifying HUD, making it appear that the document was correct from the beginning. It is unknown whether this was a single instance or the State had other inaccuracies in its action plans or made other changes.
- The State prepared threshold reviews to support its selection of activities. These documents failed to include support for State approval of the grant. After we discussed this deficiency with the State, it prepared new threshold reviews in a revised format and removed the original inadequate reviews that were used to approve the grant from its official record. The State should not remove its documentation trail. The extent of the documents removed is unknown, which limited our ability to rely upon the accuracy and completeness of the State's data.
- The monitoring review for Lincoln County contained incorrect information. The State performed its monitoring review on August 6, 2015, and noted that the County had appropriately ensured the contractor was eligible. However, the State collected documentation, dated August 7, 2015, which was 1 day after the monitoring review. The August 7, 2015, documentation showed the contractor had not registered and was not eligible to participate in the program. After a meeting with the State, we performed an onsite review of the County. The County representative appeared to have been warned of the problem. When asked, the County representative stated that the County had lost the documentation of the original contractor eligibility review. However, the County maintained documents in triplicate, and this appeared to be the only documentation missing. The State should not prepare subrecipients for auditor's visits.

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.

³² Government Auditing Standards, 2011 Revision, paragraphs 6.09 and 7.11

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.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The State did not have adequate controls, policies, or procedures in place to ensure it planned and managed CDBG-DR obligations in accordance with requirements to support activity eligibility, existence, disaster event qualification, reasonableness of cost estimates, prioritization, or fund allocation (finding).

- The State did not have adequate controls in place or perform adequate procedures to oversee CDBG-DR expenditures in accordance with requirements to determine compliance with procurement requirements or ensure disbursements of Federal funds were appropriate and supported by source documentation (finding).
- The State did not have adequate controls to ensure subrecipients performed adequate environmental reviews and supported those reviews with documentation for making environmental determinations (finding).
- The State did not have adequate policies and procedures in place to monitor compliance with Federal administrative requirements for grants as set forth in law and regulation (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A		\$81,982,712
1B ³³	\$11,717,288	
Totals	11,717,288	81,982,712

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, the issues identified were systemic in nature and not limited to sample items tested. The State should recognize cost savings of more than \$81.9 million by implementing the necessary and required controls for obligating and spending funds included in this report.

³³ The more than \$4.3 million in unsupported expenditures are included in more than \$11.7 million in unsupported obligations. Different issues resulted in the multiple unsupported classifications of these obligations and expenditures. If the State supports the obligations, it will still need to provide support for the expenditures. To avoid duplicate counting, we did not include the unsupported expenditures in appendix A.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG
Evaluation

Auditee Comments

OKLAHOMA
DEPARTMENT OF COMMERCE

September 19, 2016

Ms. Tracey Carney, CPA
Acting Regional Inspector General
HUD-OIG
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102

Dear Ms. Carney:

Enclosed are the comments and attachments prepared by the Oklahoma Department of Commerce in response to the draft audit report issued by the Office of the Inspector General concerning the State of Oklahoma Community Development Block Grant Disaster Recovery program.

As you will note, the State of Oklahoma disagrees with the findings in the draft report and is presenting information to support the State's planning, management, and administration of the program.

Please let us know if you have any questions or need any additional information.

Sincerely,



Vaughn Clark
Director of Community Development

Auditee Comments

Comment 1

September 19, 2016

Comments and Attachments Submitted by the State of Oklahoma
Concerning the Draft Audit Report Issued by the Office of Inspector General
on The State of Oklahoma Community Development Block Grant Disaster Recovery Program

EXECUTIVE SUMMARY RESPONSE

The State (Oklahoma Department of Commerce) (ODOC) has reviewed the findings as noted in the Draft Office of Inspector General Report (OIG) "State of Oklahoma Community Development Block Grant Disaster Recovery." The OIG reviewed a total of fourteen obligations (14) indicating the State failed to "Evaluate and Support Obligations of Federal Funds" and "failed to Review and Verify the Eligibility of Expenditures."

Based on the Draft Report, the ODOC undertook an extensive review and has responded to each finding in the Draft Report. The enclosed comments detail the ODOC's response with respect to its compliance with applicable Community Development Block Grant regulations and Federal Register Notices. All comments and attachments make up the full response by the ODOC and supersedes all previous discussions (written or verbal) between the ODOC and the OIG.

The December 16, 2013, Federal Register notified the State of Oklahoma that the first allocation of Community Development Block Grant-Disaster Recovery (CDBG-DR) funds had been approved for \$10.6 million. Subsequently, in the June 3, 2014, Federal Register a second allocation of \$83.1 million was awarded to the State of Oklahoma. Since the Community Development Block Grant program is administered by the Oklahoma Department of Commerce, the Division of Community Development (ODOC/CD), was assigned the responsibility for the Disaster Recovery funds.

From the time of the first award notification to present, the U. S. Department of Housing and Urban Development (HUD) Oklahoma City Office has been providing hands-on oversight and guidance to the ODOC CDBG team. During the initial planning phase, [REDACTED] the HUD CPD Director facilitated several training sessions for the ODOC staff and assigned the consultant group TDA to provide technical assistance in the preparation of the Disaster Recovery State Plan. At each step in the planning and implementation process, ODOC has requested and received approval from HUD before taking any definitive action. The Disaster Recovery Plan and Certification of Proficient Financial Controls, Processes, and Procedures were submitted in a timely fashion to HUD and were both approved. When [REDACTED] was reassigned to another HUD office, she was replaced by [REDACTED] as the CPD Director. Soon after his appointment to the HUD OKC office, [REDACTED] made contact with ODOC and began regular meetings with the CDBG-DR staff. Together HUD and ODOC reviewed and agreed upon many procedures necessary to meet stringent HUD timeliness guidelines. It became clear that the HUD OKC office staff did not have any experience with Disaster Recovery grants. Therefore, at the suggestion of ODOC, HUD gained approval to hire a Disaster Recovery staff person, [REDACTED]. At the time of his employment, unfortunately, [REDACTED] did not have extensive experience in the implementation of HUD Disaster Recovery grants, although he has now received applicable training. The State of Oklahoma is certainly appreciative of the Disaster Recovery awards and has made every effort to identify only eligible projects in the most disaster-impacted areas. However, data related to the unmet needs in the affected Oklahoma counties has been difficult to obtain. ODOC requested specific details on what data HUD utilized to determine that the State qualified for a total of \$93.7 million to address unmet needs. The State believes that access to this data would have greatly assisted the State in the preparation of its State Plan.

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Auditee Comments

Comment 2

On January 4, 2016, ODOC was notified by HUD that OIG was initiating a survey of CDBG-DR funds allocated to the State of Oklahoma. Eight months later on August 31, 2016, ODOC was provided with the OIG Draft Audit Report. In the interim, OIG held two meetings with ODOC staff to discuss preliminary concerns so that additional supporting documentation could be provided. Additionally, during the time frame of January 4 – August 31, 2016, ODOC made procedural changes at the direction of the OIG. ODOC is now requiring all sub-recipients submit “source” documentation (all procurement, invoices, purchase orders, complete environmental review record, inspection reports, etc.) directly to ODOC as well as being filed at the unit of local government. Also, ODOC is implementing additional written internal procedures that mirror the OKGrants grants management system, and is re-working its Compliance Monitoring Handbook to more readily reflect the day to day internal operations of project management.

Comment 3

During the last week of June, 2016, HUD Headquarters sent a team of Technical Assistance advisors to ODOC to review the CDBG-DR program. Since the HUD TA team advised ODOC that it had discussed the preliminary findings of the OIG team with the OIG staff, ODOC stated that its expectations for appropriate technical assistance would be for the HUD TA team to help ODOC staff with recommendations to specifically address the issues raised by the OIG. While at its exit meeting, the HUD TA team did provide some verbal comments about the ODOC processes and procedures, at this point, ODOC has not yet received any report or recommendations from the HUD TA team.

Comment 4

ODOC requested additional time to respond to the Draft OIG Report that was received by ODOC on August 31, 2016. The requested extension was from September 15, 2016 to October 7, 2016. In response the OIG extended the deadline from September 15, 2016 to September 19, 2016, two (2) additional business days. Due to the extremely short time period ODOC was provided for response to the Report from the OIG, ODOC reserves the right to supplement its response and provide additional information and documentation at the request of the United States Department of Housing and Urban Development or other interested parties.

As required, the State has utilized Disaster Recovery guidance provided in the Federal Registers dated December 16, 2013, and March 5, 2013. The December 16, 2013 Federal Register which provided the State’s initial allocation of CDBG-Disaster Recovery funds incorporates the March 5, 2013 Federal Register at Section V. 1. In this regard, according to the March 5, 2013, Federal Register, we wish to highlight several sections as follows:

Section VI. Applicable Rules, Statutes, Waivers and Alternative Requirements states in part, “Except as described in this Notice, statutory and regulatory provisions governing the State CDBG program shall apply to any State Receiving an allocation under this Notice, while statutory and regulatory provisions governing the Entitlement CDBG program shall apply to New York City. Applicable statutory provisions can be found at 42 U.S.C. 5301 *et seq.* Applicable State and entitlement regulations can be found at 24 CFR part 570.”

Section VI. Applicable Rules, Statutes, Waivers and Alternative Requirements, Part A Grant Administration, 1 b: Funds awarded to a State, “A State’s Action Plan, or partial Action Plan, shall describe the specific programs or activities the State will carry out directly, and/or how it will distribute funds to UGLGs (i.e., its method of distribution).”

Section VI: A. Grant Administration 4. Direct grant administration and means of carrying out eligible activities, Part (a) Requirements applicable to State grantees, it states in part, “Requirements at 42 U.S.C. 5306 are waived to the extent necessary, to allow a State to directly carry out CDBG-DR activities eligible under this Notice, rather than distribute all funds to UGLGs”.

The Federal Register clearly indicates that the State has two options for administering the CDBG-DR funds: Direct Administration or Method of Distribution to UGLGs. From the time of the award notification, the State of Oklahoma has indicated to HUD that it would be using the Method of Distribution to UGLGs. Therefore, any review of our planning and implementation should be accountable to the State CDBG program at 42 U.S.C. 5301 *et seq* and 24 CFR Part 570.480 Subpart I State Community Development Block Grant Program. Furthermore Section 570.480 (c) ... "the Secretary will give maximum feasible deference to the State's interpretation of the statutory requirements and the requirements of this regulation provided that these interpretations are not plainly inconsistent with the Act." Following submission of required documents to HUD, in support of the State Administrative capabilities, HUD sent ODOC a Certification of Proficient Financial Controls, Processes, and Procedures for Community Development Block Grant Disaster Recovery (CDBG-DR) Funding, a copy of which is attached.

There are administrative differences between the State and Entitlement CDBG programs. The ODOC is not "directly" implementing projects but enters into sub-recipient agreements or contracts with units of local government. Relevant State CDBG Program administrative requirements are contained in 24 CFR 570.489. As outlined in these regulations a state has considerable latitude in establishing its own administrative procedures and standards. A notable difference between the State CDBG program and the CDBG Entitlement program is that the uniform administrative requirements of Part 85 are not automatically applicable to the State Program. Similarly, only Subpart I of 24 CFR 570 is automatically applicable to the State CDBG program. Further under "State Records" the content of records maintained by the State shall be jointly agreed to HUD to make the determinations prescribed at 570.493 (HUD Review Audits). Under 24 CFR 570.492" the State shall establish recordkeeping requirements for units of general local government governments that are sufficient to facilitate reviews and audits (State Review Audits)."

The OIG is holding the State to those requirements that should be applied to States using Direct Administration or Entitlements Communities. This was apparent early on when the OIG referenced HUD publication, Managing CDBG, A Guidebook on Sub Recipient Oversight. This publication is for the use of CDBG Entitlement Communities and those State's using Direct Administration of the program and not State administered CDBG programs described under 24 CFR 570.480 Subpart I.

It is our belief that the State is indeed meeting the intent of the CDBG-DR requirements and that we have utilized CDBG-DR funds to ensure that only eligible applicants participated in the program, funds were spent only for eligible activities that showed direct tie back to Presidentially declared disasters, and that we have monitoring procedures in place. Attached are specific comments to the Findings noted in the Draft Report.

A very important overarching item that is missing from the Draft OIG Report is the very crucial and ongoing role of the assistance and technical assistance provided by the United States Department of Housing and Urban Development to the staff of the Oklahoma Department of Commerce in all stages of the administration of the CDBG-DR award.

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Comment 7

ODOC COMMENTS

Below are the official comments from the ODOC in response the HUD OIG Report. We have organized the comments by addressing individual headings in the Report.

Page 4: "The State Failed to Evaluate or Support Obligations of Federal Funds"

The State does not agree with this finding from the OIG

ODOC Comment 1: The State asserts that all 14 projects reviewed showed a direct tie back to the appropriate disaster; was an eligible CDBG activity and met a National Objective. Threshold review sheets document that a comprehensive review was completed. The review mirrors the Disaster Recovery Plan that was approved by HUD and developed by the designated HUD TA provider. More detailed information regarding the reviewed application criteria is addressed under "Recommendations" below.

Page 5: "Example 1: City of Mannford, OK – Construction of a 40-Unit Elderly Complex"

The State does not agree with this finding from the OIG

ODOC Comment 1: It is incorrect for the OIG to use the term "pre-application." ODOC clearly stated both verbally as well as through documentation provided to the OIG that the earlier request was a result of a general survey conducted by ODOC to help identify remaining disaster damage. The information was needed in order to develop a disaster recovery plan to HUD. It did not constitute any official request nor were the cost estimates considered official and final. The following language is taken directly from the ODOC survey. "THIS SURVEY IS FOR STATE DISASTER PLAN DEVELOPMENT PURPOSES ONLY AND DOES NOT SERVE AS AN OFFICIAL APPLICATION FOR DISASTER RECOVERY FUNDING! THE PRELIMINARY PROGRAM INFORMATION CONTAINED IN THIS SURVEY DOCUMENT IS NOT INTENDED TO BE USED AS FINAL PROGRAM GUIDANCE! The allocation amounts and cost estimates contained in this survey document are approximate at this time and do NOT necessarily reflect absolute and final funding/allocation amounts. Once a CDBG-DR Action Plan is developed and approved by HUD, ODOC/CD will electronically accept application submissions through OKGrants."

ODOC Comment 2: The corrected Low Mod Housing (LMH) designation will meet the national objective. The housing category of Low to Moderate Income (LMI) benefit national objective qualifies activities that are undertaken for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by LMI households. Under this objective, the apartment complex will provide dwelling units to LMI households at affordable rents, where at least 51 percent of the units will be occupied by LMI households. The key here is that the LMH objective is met when at least 51 percent or greater of the units will be occupied by LMI households. This is realized upon occupancy and not a preliminary survey as the OIG believes. At this time the units are not occupied by rental tenants.

Page 6: "Example 2: City of Sapulpa – Purchase of Fire Equipment"

The State does not agree with this finding from the OIG

ODOC Comment 1: It is incorrect for the OIG to use the term "pre-application." ODOC clearly stated both verbally as well as through documentation provided to the OIG that the earlier request was a result of a general survey conducted by ODOC to help identify remaining disaster damage. The information was needed in order to develop a disaster recovery plan to HUD. It did not constitute any official request. The following language is taken directly from the ODOC survey. "THIS SURVEY IS FOR STATE DISASTER PLAN DEVELOPMENT PURPOSES ONLY AND DOES NOT SERVE AS AN OFFICIAL APPLICATION FOR DISASTER RECOVERY FUNDING! THE PRELIMINARY PROGRAM INFORMATION CONTAINED IN THIS

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SURVEY DOCUMENT IS NOT INTENDED TO BE USED AS FINAL PROGRAM GUIDANCE! The allocation amounts and cost estimates contained in this survey document are approximate at this time and do NOT necessarily reflect absolute and final funding/allocation amounts. Once a CDBG-DR Action Plan is developed and approved by HUD, ODOC/CD will electronically accept application submissions through OKGrants."

It should be noted that the survey was in no way binding toward a particular project nor did it serve in any official capacity.

ODOC Comment 2: The State has continuously worked to update the narrative to meet the expectation of the OIG request. The State has made every effort possible to appropriately answer the OIG inquiry. ODOC believes that the fire equipment in question does provide the appropriate level of tieback and firefighting capability that can be used in fighting wildfires.

ODOC Comment 3: The City of Sapulpa has sent a LMI survey summary sheet and LMI survey field survey sheets to ODOC. Both documents have been uploaded into the OKGrants system. The documentation clearly supports the LMI claimed by the City of Sapulpa.

Page 6: "Example 3: Lincoln County – Resurface a Road Due to Tornado-Related Damage"

The State does not agree with this Finding from the OIG

ODOC Comment 1: It is incorrect for the OIG to assert that Hammer Road between US 177 and CR 3370 was unpaved prior to the disaster event. The paved road is clearly visible on Google Maps at the Street View and was taken in July 2008 (before the tornado). (See Attached) One street view map is looking west towards US 177. The other street view map is looking east towards CR 3370. Both clearly show that the road was paved before the disaster. You can also clearly see the yellow center line striping.

Page 7: "The State failed to Remedy Defects in Obligations with Updated Documentation"

The State does not agree with this Finding from the OIG

ODOC Comment 1: The cost estimate was presented by a registered architect working for the firm of M & G Consulting Services LLC. During a HUD CDBG DR Technical Assistance visit in June of 2016. The question of eligible cost estimates was directly discussed with the onsite HUD Technical Assistance personnel. The HUD Technical Assistance providers responded that a licensed engineer's or architect's cost estimates would suffice as acceptable cost estimates. There is no statute in place citing that another independent licensed engineer or architect must review the earlier engineer's or architect's cost estimate in order for the cost estimate to be validated. Competitive bidding was executed on this project which additionally allows for actual cost reconciliation.

ODOC Comment 2: The OIG states that the State created a new threshold review for the City in a revised format but generally copied the narrative straight from other documents and inserted it into the new threshold review without review, amendment, or verification. Yes, as correction to better support for early OIG questions and comments, the State created the revised threshold review sheet. The OIG asserts the project narratives were copied without review. All projects submitted via the ODOC's official application process as it relates to the State's OKGrants system were reviewed. The actual project narratives were used because they contained the best illustration. If any additional project narration was needed, it would have been added. It should be noted that the official application review was much more comprehensive than simply reviewing the application's project narrative. Comments regarding applications observed during the review were noted on the review sheets as applicable as well as noted directly within the OKGrants system.

ODOC Comment 3: ODOC believes that the fire equipment in question does provide the appropriate level of tieback and firefighting capability that can be used in fighting wildfires. The State has continuously worked to update the narrative to

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meet the expectation of the OIG. The Sapulpa Fire Department was called on to assist with the wild fires in August of 2012 in the Freedom Hill and Mannford areas of Creek County. This full time career fire department served an essential role as coordinator of firefighting strategy during the Freedom Hill Wildfire and operates with other local fire departments under a mutual aid agreement. The following is the latest attempt to meet this request. The State feels this narrative adequately explains that the fire equipment in question can be used in fighting wildfires. The firefighters who are the end users of the equipment to be acquired with CDBG-DR resources should be given discretion in determining the most appropriate equipment for their firefighting needs.

According to the Sapulpa Fire Chief "The Pumper/Tanker Truck will help in the areas where there is no water supply readily available or it is too far away from a source, to lay supply hose. The addition of the tanker should help to lower Insurance Service Office (ISO) ratings in these areas, as well. This truck is equipped with a 3000-gallon onboard water tank and a 3000-gallon collapsible tank that can be deployed on scene allowing the tanker truck to offload the water from the onboard tank to shuttle water from the source to the incident scene and maintain a constant water supply for brush trucks or pumper trucks. As for the originally requested Pumper and Quint Trucks, pertaining to wild land or grass fires, these trucks are utilized during these types of responses for exposure protection, (protecting structures that are in the path of the fires especially rural urban interface), and water supply."

"Quints provides multiple tools for firefighters to carry out tactical functions by supplying fire streams (pumps and hoses); providing initial and continuing water supply (pump, water tank, and hoses); providing personnel with access to not only elevated areas but longer vertical reach (ground ladder complement and aerial device) and finally providing elevated master fire stream (pump, hose, and aerial device). The cost of the Quints is less than the combined cost of an engine and a truck. A Quint has the tactical capabilities of both an engine and a truck but through the purchase of one vehicle. Therefore, we believe Sapulpa is being judicious in the utilization of Disaster Recovery funds."

Page 7 & 8: "The State Failed to Review and Verify the Eligibility of Expenditures"

The State does not agree with the finding from the OIG

ODOC Comment: The State disagrees, as stated in 570.490 Recordkeeping Requirements(b) *Unit of general local government's record.* The State shall establish recordkeeping requirements for units of general local government receiving CDBG funds that are sufficient to facilitate reviews and audits of such units of general local government under §§ 570.492 and 570.493 (reference footnotes 16, 17, 18, 19, 22, 23, 24, 25, 26, & 29). While the State is not required to retain all supporting documentation for environmental review, procurement, or expenditures of each sub-recipient and each activity, the State did take into consideration the OIG comments on unnecessary risk and implemented the request of each sub-recipient to submit supporting documentation for these areas for compliance review.

The State has always required the exclusion check for sub-recipient contractor's, however, there is confusion that all contractors and subcontractors receiving federal funds from sub-recipients are required to be registered in the SAM.gov system. In an effort to obtain this information from the sub-recipient, there is a self-certification on the Notice of Award located in the State's CDBG Management Guide that is being utilized incorrectly by the sub-recipients as to what is instructed for the necessity of the SAM.gov eligibility check and registration. The State will revise this process by implementing a new form and instructions for all sub-recipients as an update to the CDBG Management Guide (reference footnote 20).

The State did not approve a sole-source method for the purchase of fire trucks. However, footnote 21 references that two cities utilized a nationwide purchasing program without approval from the State. The State does not require an approval process for sub-recipients using their own approved procurement process. However, the State was formally queried about the nationwide purchasing program that could be utilized in the purchase of fire apparatus and we responded to that request. This method has been reviewed by the State to be a legitimate resource for States, Counties,

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Cities and Towns who wish to utilize the process. For each sub-recipient that utilized this process, the bidding and contracting supporting documentation from that program entity has been included/uploaded into the file.

It is inappropriate for the OIG to comment on the monitoring process with regards to the State Appropriated Rural Economic Plan (REAP) program. The OIG has no jurisdiction over this program. Any reference to the REAP program should be deleted. The CDBG/REAP set-aside is subject to all rules and regulations that govern the CDBG program, including being subject to on-site monitoring. The State legislature provides no administrative funding for oversight functions of the State Appropriated REAP program. However, the Oklahoma State Auditor's Office still required the ODOC to develop a more robust monitoring program. Therefore, ODOC utilized existing personnel, and processes and has implemented a comprehensive monitoring program. All eleven Councils of Government will be officially monitored (on-site) by the Spring of 2017.

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Page 9: "The State Did Not Have Sufficient Evidence of Review for the City of Mannford Expenditures"

The State does not agree with this finding from the OIG

ODOC Comment: The State disagrees and references 570.490 Recordkeeping Requirements(b) as noted in previous comment with additional attention that for some documents, because of the excessive size and restrictions in scanning or emailing, some sub-recipients will need to provide the information by other means necessary as did the City of Mannford with mailing their multiple bidding documents to ODOC. The State further disagrees as the requirement under 24CFR Part 58.45 public comment periods gives the option to either publish or post the Notice of Finding of the Environmental Review. The City of Mannford posted the Combined Notice to the Public and mailed that notice to the distribution list. The supporting documentation is summarized on the Environmental Assessment Document and submitted for review and approval to the State as a Request for Release of Funds. The supporting documentation is reviewed by the State at an on-site monitoring review. The finding cited that the flood map, blanket clearance letter, wild scenic rivers, and airport hazards were not documented. Creek County is not a county designated as containing a scenic river, and Airport Hazards is located and uploaded in the sub-recipient's file. Furthermore, the State CDBG staff has attended HUD Environmental Training in November, 2015, for the newly implemented HEROS and has held trainings for Certified Grant Administrators in an effort to implement the HEROS database outline for the State's CDBG program. As of May 1, 2016 all newly executed CDBG contracts require the sub-recipients to submit the supporting documentation related to their Environmental finding for ODOC review and approval before the State issues a "release of funds" using this new format.

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The statement that the State altered payment amounts for the City of Mannford is incorrect. The State does not have the ability within the design of the OKGrants system to alter payments. From the time that the sub-recipient initiates the advance request in the system with the amount they wish to receive, the system records the date and time of each activity made within that advance request, which is shown in the status history within the system. Changes can only be made by the sub-recipient.

Comment 20

Page 9 & 10: "The State Did Not Critically Review City of Sapulpa's Expenditure Documentation"

The State does not agree with this finding from the OIG

ODOC Comment: The State disagrees in response to foot note 27, the City of Sapulpa's activity is for purchase of fire apparatus. The City of Sapulpa is in compliance with the Environmental Review. The City submitted its finding of 58.35 (b)(3) Categorically Excluded Not Subject to 58.5 on 8.11.15. This finding does not require compliance with 58.6 or a request for release of funds. However, the State does require sub-recipients to submit their finding along with other documents for removal of contract conditions and release of funds as referenced in the State's CDBG Management Guide,

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Requirement No. 403. Furthermore, the State refers to the previous statement on procurement using a nationwide purchasing program and the previous statement on contractor eligibility. The Sapulpa Fire Department was called on to assist the wildfires in August of 2012 in the Freedom Hill and Mannford areas of Creek County. This full time career fire department served an essential role as coordinator of firefighting strategy during the Freedom Hill Wildfire and Mannford event and provided crucial firefighting capacity to affected Creek County areas in jeopardy. In regards to the capability of the trucks purchased in fighting rural wildfires, the State received a letter from the City of Sapulpa dated March 28, 2016, whereas the Fire Chief stated, "First of all, let me take this opportunity to thank all those involved in this Disaster Grant process. At a time when our budget is being cut to an extreme bare minimum due to declining revenue, the receipt of this grant funding is a major blessing for the City of Sapulpa, as well as all of Creek County, again thank you. As stated in my original grant requests, the Sapulpa fire department has an aging fleet of apparatus. We respond to 92 sq. miles of coverage area as well as "mutual aid" to surrounding communities. The new apparatus awarded to the City of Sapulpa will certainly help the fire department to protect all of these areas. The Pumper/Tanker Truck will help in the areas where there is no water supply readily available or it is too far away from a source, to lay supply hose. The addition of the tanker should help to lower Insurance (ISO) ratings in these areas, as well. This truck is equipped with a 3000-gallon onboard water tank and a 3000-gallon collapsible tank that can be deployed on scene allowing the tanker truck to offload the water from the onboard tank to shuttle water from the source to the incident scene and maintain a constant water supply for brush trucks or pumper trucks. As for the originally requested Pumper and Quint Trucks, pertaining to wild land or grass fires, these trucks are utilized during these types of responses for exposure protection, (protecting structures that are in the path of the fires), and water supply. The trucks purchased vary somewhat from the original requests. After talking to the Pierce dealer, we were able to get more truck for the same money. I inquired with INCOG if that would be acceptable and they said it would if we were working with the same money. With the limited manpower, the ladder trucks allow a driver to go into a defensive operation while protecting exposures. The total award to the City of Sapulpa was \$2,445,000.00. This number was based on cost estimates the final purchase price of the trucks and equipment is \$2,444,959.42 which is slightly under the award."

Page 10 & 11: "The State Disbursed Federal Funds to Lincoln County Without Adequate Supporting Documentation"

The State does not agree with this finding from the OIG

ODOC Comment: The State disagrees in that the mentioned sub-recipient did submit the correct Environmental Review finding, Categorical Exclusion Subject to 58.5 as 58.35(a)(1), for road improvements to include asphalt overlay of an existing road, posted a Notice of Intent to the public, and prepared an Environmental Certification. As the activity might have been converted to an exempt activity, there is nothing in 24 CFR Part 58 that states where an entity shall not prepare a "more stringent" Environmental Review than what is necessary resulting in an incorrect finding. The State, as mentioned in a previous comment, is in the process of requiring a different process for the Environmental Review in following HUD's HEROS database outline that should assist the sub-recipients in determining the correct finding and preparing the appropriate documentation for submission to the State. Furthermore, the State does not pay from spreadsheets. At the time of any sub-recipient on-site monitoring visit, the accounting ledgers are reviewed as well as invoices, purchase orders, cancelled checks and bank statements. At the time of this sub-recipient's monitoring review, there was one invoice received for full payment of the work completed. The "spreadsheet" that is noted is part of the CDBG monitoring document and used as a tool by ODOC staff when verifying the financial documents while out in the field. This document was left blank as the County had not issued a purchase order at the time for payment. The sub-recipient's supporting documentation, including the bid advertisement, bid tab, contract, invoice, purchase order, and cancelled check from the County was submitted and in the file for review. Again, as mentioned above for the contractor eligibility review (reference footnote 20), the State will be issuing a new process. In response to the necessary contract provisions (footnote 28), the sample bid document located in our CDBG Management Guide, Requirement 407, was used by the sub-recipient and is considered a part of the construction contract and includes all of the provisions considered missing in the "Contract". The Contract stipulates "The Notice to Bidders, Instructions to Bidders, the Special and General Provisions of specifications and the Contractors Bid proposal, each of said instruments on file in the office of...are hereby referred to and by reference

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thereto, are made part of this contract as if fully written in detail or attached hereto." The on-site monitoring visit document reflects that the sample from the guide was used as the bidding document for the sub-recipient.

Page 11: "The State's Monitoring Review of the County Was Deficient"

The State does not agree with this finding from the OIG

ODOC Comment: As noted above, the State's on-site monitoring reviews of sub-recipients include a review of the accounting ledgers, invoices, purchase orders, cancelled checks, and bank statements. The State is confused as to what spreadsheet OIG is referring to. The State does not pay from spreadsheets. The State's monitoring visit with Lincoln County was held on 8/6/15 which at that time, the County had only received one invoice from the vendor/construction contractor dated 6/12/15 and purchase order dated 6/15/15. The County received funds from the State on 8/5/15 and issued a check on 8/10/15. Lincoln County has uploaded this documentation to verify the single payment made to the CDBG-DR contract in the ok-grants system. Furthermore, Lincoln County also uploaded the bid tabulation along with board minutes and other supporting documentation.

Again, as mentioned above for the contractor eligibility review, the State has always required the exclusion check for sub-recipient contractor's, however, there is confusion that all contractors and subcontractors receiving federal funds from sub-recipients are required to be registered in the SAM.gov system. In an effort to obtain this information from the sub-recipient, there is a self-certification on the Notice of Award located in the State's CDBG Management Guide that is being utilized incorrectly by the sub-recipients as to what is instructed for the necessity of the SAM.gov eligibility check and registration. The State will revise this process by implementing a new form and instructions for all sub-recipients as an update to the CDBG Management Guide (reference footnote 20). The sample bid document located in our CDBG Management Guide, Requirement 407, is used by the sub-recipient and is considered a part of the construction contract and includes all of the provisions considered missing in the "contract". The on-site monitoring visit document reflects that the sample from the guide was used as the bidding document for the sub-recipient.

Page 11: "Updated Documentation Was Inadequate to Support Expenditures"

The State does not agree with this finding from the OIG

ODOC Comment: As noted above, the State's on-site monitoring reviews of sub-recipients include a review of the accounting ledgers, invoices, purchase orders, cancelled checks, and bank statements. The State's monitoring visit with Lincoln County was held on 8/6/15 which at that time, the County had only received one invoice from the vendor/construction contractor dated 6/12/15 and purchase order dated 6/15/15. The County received funds from the State on 8/5/15 and issued a check on 8/10/15. The State is confused as to what spreadsheet OIG is referring to. The State does not pay from spreadsheets. Lincoln County has provided a copy of the invoice, purchase order, and cancelled check to verify the single payment made to the CDBG-DR contract in the ok-grants system. The State, in receiving comments from OIG and the HUD Disaster Technical Assistance visit, has been working on more effective monitoring tool to remedy any deficiencies noted.

Page 12: Recommendations 1A and 1B

ODOC Comment: The State from the outset of the program conducted exhaustive reviews of official applications submitted by units of general local government for funding under the CDBG-DR program. The review mirrors the approved DR plan and other relevant CDBG requirements. Each of the 14 projects reviewed by the OIG have documentation uploaded into the "review section" within OKGrants. All applications submitted for funding under the

Comment 25

CDBG-DR program will have this documentation uploaded into the "review section" within OKGrants. Documented criteria used to determine funding for submitted CDBG-DR applications include:

- Projects that meet the National Objective. Projects that benefit LMI persons and/or located in LMI Areas (i.e. at area with household incomes at or below 80% of the area median income); projects that address Urgent Need (24 CFR 570.483, and HCDA section 104(b)(3))
- Projects that enable the State to satisfy the requirement that a minimum of \$41,228,000 million of the funding be spent in Creek and Cleveland Counties. (June 3, 2014 Federal Register Notice at Vol 79, No. 106, Page 31964)
- Direct Relationship to the Disaster Area: All projects must show a direct relationship to the 2011, 2012, 2013 Disaster Declarations and must be located in an impacted area. Projects (Federal Register Notice
- Eligible Activity under the CDBG-DR program. Project's must be eligible under CDBG requirements (24 CFR 570.482 and applicable Federal Register Notice(s))
- Citizen Participation Requirements per 24 CFR 570.486
- Professional Cost Estimates. All cost estimates must be derived from professional sources and submitted with the CDBG-DR applications.
- Projects that address conditions that threaten the health and safety of either the occupants or the public.
- Projects that contribute to long-term recovery and economic revitalization of the affected area.
- Projects undertaken on behalf of a beneficiary or sponsor that commits to contribute financially to the project (NFIP, FEMA, SBA and/or other sources)
- Meets the funding priorities established in the CDBG DR Action Plan (pages 33-35)
- Mitigation. Minimum of rehabilitation beyond correction of conditions caused by the disaster.
- Readiness to Proceed. Each project must be capable of being undertaken (design and construction) immediately to provide outcomes to intended beneficiaries affected by the disaster.
- Feasibility. Each project must be found to be financially feasible, sustainable and likely to contribute to the long term recovery of the disaster impacted community.
- Disaster Declaration Priority. If applicable, Projects addressing 2013 damage will be provided priority followed by 2012 and then 2011.
- Unmet Needs: Projects which address damage by the declared disaster has not been yet addressed.
- Direct Health and Safety. Projects that specifically address health and safety of either individual households or of the community.
- No Duplication of Benefits per Section 312 of the Robert T. Stafford Disaster Assistance and Emergency Relief Act
- Last year's Audit or most recent Audit or Agreed Upon Procedures.
- Certification that the project will be Insured for the life of the asset.

Page 12 Recommendations 1C, 1D, 1E, 1F

ODOC Comment: The ODOC is not "directly" implementing projects and is not an entitlement. ODOC as a State enters into sub-recipient agreements or contracts with units of local government. Under "units of general local government...the State shall establish recordkeeping requirements for units of general local government that are sufficient to facilitate reviews and audits under 24 CFR 570.492.

All of ODOC Sub-Recipient Agreements or contracts clearly set out that the unit of local government must:

Environmental Review: "The Contractor shall complete an Environmental Review for each contract activity with the exception of exempt activities and categorically excluded activities not subject to 24 CFR 58.5, i.e. administration, engineering, and purchase of equipment."

10

Comment 14

Comment 2

Comment 26

Procurement: "Procurement, management and disposition of property acquired with contract funds shall be governed by Federal and State law, and as directed by ODOC in the CDBG Project Management Guide. Applicable State Laws include the Public Competitive Bidding Act of 1974, 61 O.S. Section 101; 24 CFR subpart I 570.489 (g); 24 CFR Part 85, subpart A; and 24 CFR 85.36 Procurement."

Records, Reports, Documentation: "The Contractor shall maintain records and accounts, including property, personnel and financial records, that properly document and account for all project funds. Specific types and forms of records required are in the ODOC CDBG Project Management Guide."

"The Contractor shall retain all books, documents, papers, records and other materials involving all activities and transactions related to this contract for at least three (3) years from the date of submission of the Final Expenditure Report or until all audit findings have been resolved whichever is later. All records and accounts shall be made available on demand to the Oklahoma State Auditor and Inspector, HUD, the Comptroller General and ODOC, its agents and designees for inspection and use in carrying out its responsibilities for administration of funds."

At the direction of the OIG the ODOC notified all CDBG-DR sub-recipients on March 29, 2016 that all "source" documentation shall be uploaded into OKGrants. This includes:

- Procurement processes: RFP's, RFQ's (as applicable); analysis of bids, bid tabs, selection of winning bid, and justification and prior approval of sole source (as applicable). Detailed proposals and/or contracts for companies and professional service firms selected and where applicable, signed and approved sub-recipient worksheets noting allocation or apportionment of fees or costs.
- Complete Environmental Review Record
- Official Purchase order and Invoices and other supporting documentation for 100 percent of funds expended. Uploaded with each pay request.
- Signed inspection reports for construction and signed changed orders/approval process as applicable.

The ODOC is implementing additional internal written procedures that mirror the OKGrants work flow. Furthermore, ODOC is re-working its Compliance Monitoring Handbook to more readily reflect the day to day internal operations of project management as opposed to only addressing on-site monitoring at units of general local government.

Page 14 Scope Limitation

ODOC Comment 1: The OIG asserts "The individual who prepared the action plan copied the information from an Oklahoma Emergency Management report but amended certain narrative information to increase the probability of occurrence, the magnitude of severity, or both for several risks". It is incorrect for the OIG to state that the report was altered to increase the probability of occurrence, the magnitude of severity, or both for several risks. The information in question was related to a specific Calculated Priority Index (CPRI) chart contained in the Oklahoma Emergency Management State Hazard Mitigation Plan (Pages 77 – 80). The chart and its associated supporting information along with a broad climatological review was included in the Action Plan to satisfy the comprehensive risk based analysis requirement identified in Federal Register Notice / Vol. 79, No. 106 / Tuesday, June 3, 2014.

Reference- Oklahoma Emergency Management (Source Document) Website:
<https://www.ok.gov/OEM/documents/Oklahoma%20State%20HM%20Plan%202014.pdf>.

The CPRI chart was meant to be directly copied into the Action Plan. Unfortunately, the electronic method of copy and paste did not work for inserting the chart into the Action Plan without creating extreme page editing issues. Given this, the chart had to be duplicated in MS Excel. During the process of creating the new chart and entering data, some the

Auditee Comments

labels associated with the numerical ratings were inadvertently copied in error. It can be easily seen that the labels "Highly Likely", "Catastrophic", "6-12 Hours", and "Less than one week" were inadvertently copied to each disaster event. The labels in question are located in the Action Plan on pages 58 – 62. It is important to note that these simple label corrections did not alter the priority rankings. The priorities and the associated numerical disaster ratings mirror that of the Oklahoma Emergency Management State Hazard Mitigation Plan source document as well as the State of Oklahoma Disaster Recovery Program Action Plan (Second Round Allocation 83.1 Million).

ODOC/CD has officially notified the local Oklahoma City HUD office regarding the Action Plan corrections in question. Guidance and procedures as they apply to both Substantial and Non-Substantial Amendments are addressed in the HUD approved State of Oklahoma Disaster Recovery Program Action Plan (Second Round Allocation 83.1 Million). The corrections noted fall under the Non-Substantial Amendment category. As stated in the State's HUD approved Action Plan, Non-Substantial Amendments are defined as minor, one that does not materially change the activities or eligible beneficiaries. Non-Substantial Amendments are not subject to the public notification and public comment procedures. All amendments (Non-Substantial and Substantial) to the Action Plan are required to be posted to the CDBG Disaster Recovery webpage located on the ODOC website.

It should be noted that the actual ranking numbers, formulas, and corresponding disaster events associated with the chart were correct in their entirety. It was only some of the labels associated with the numerical ratings that were affected. The Calculated Priority Index (CPRI) chart is ranked based on a numerical index score. All scores and associated disaster events were correctly ranked numerically and mirror that which was presented in the Oklahoma Emergency Management State Hazard Mitigation Plan as well as the State of Oklahoma Disaster Recovery Program Action Plan (Second Round Allocation 83.1 Million). The OIG fails to point out this fact in their report. Guidance was contained within the Action Plan that explains how the actual ranking was accomplished. This guidance clearly shows that the actual number ratings and supporting computation provide the final ranking end result. It is absolutely incorrect for the OIG to state that the label errors changed the final intended or functional aspect of the chart in question.

Below is an example of how the CPRI was presented in the State Disaster Plan. It can be noted that only the highlighted / strikethrough text was incorrectly transcribed into the Plan. Again, while some labels were initially incorrect, all corresponding rating numbers to those labels (see table below – far right side) were correct to the disaster event being reviewed. See the Probability, Magnitude / Severity, Warning Time, and Duration heading below. It is important to mention that all CPRI formulas such as illustrated in the example below contain the numerically correct computation, as well as the correct final numerical ranking associated with Probability, Magnitude / Severity, Warning Time, and Duration. As identified earlier, only some of the descriptive labels (see table below – far right side) were mislabeled. It was the final numerical score that prioritized the overall disaster event. Again, the States Disaster Plan correctly reported the disaster event priority rankings in the appropriate order as illustrated in Oklahoma Emergency Management State Hazard Mitigation Plan.

9. DAM FAILURE				
Probability		1	Highly Likely	
Magnitude / Severity		4	Catastrophic	
Warning Time		4	6-12 hours	
Duration		4	Less than one week	
Dam Failure Hazard CPRI (State of Oklahoma)				
Probability	Magnitude	Warning Time	Duration	= CPRI
(1 x .45)	+(4 x .30)	+(4 x .15)	4 x .10)	= 2.65

Source: State of Oklahoma Standard Hazard Mitigation Plan Update Feb. 10, 2014

There was no malicious intent. Full disclosure was given to the source of the CPRI data within the State Disaster Plan and could have been easily compared to the source document. As mentioned previously, the actual event priorities contain the same numerical rankings as presented in the Oklahoma Emergency Management State Hazard Mitigation Plan. It is incorrect for the OIG to assert that the CPRI chart was amended to increase the probability of occurrence. The OIG claim

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Comment 6

to this effect is unsubstantiated and grossly exaggerated to imply that the inadvertent mislabeling instances were deliberate on the part of the individual who copied the chart.

The State has not additionally updated the Action Plan beyond what has been discussed earlier. The corrections do not impact disaster funding and the priorities were not affected. ODOC/CD has notified HUD of this minor correction resulting in a Non-Substantial Amendment. The OIG's statement: "It is unknown whether this was a single instance or the State had other inaccuracies in its action plans or made other changes" is based on a generalization and has no basis in fact. It is incorrect to make such a statement without fact and should be stricken from the report. Again, the OIG inference of misconduct based on an event that ODOC clearly can prove did not change any final rating / ranking is incorrect and grossly exaggerated.

ODOC Comment 2: ODOC Comment 1: The State didn't realize that in was incorrect to remove the earlier threshold review documentation. The State felt multiple overlapping documentation would create confusion within the OKGrants system. Additionally, the new threshold review documentation superseded the earlier threshold documentation. It was felt that the old documentation did not serve any purpose. The State has since uploaded the earlier threshold documentation into the OKGrants system once again.

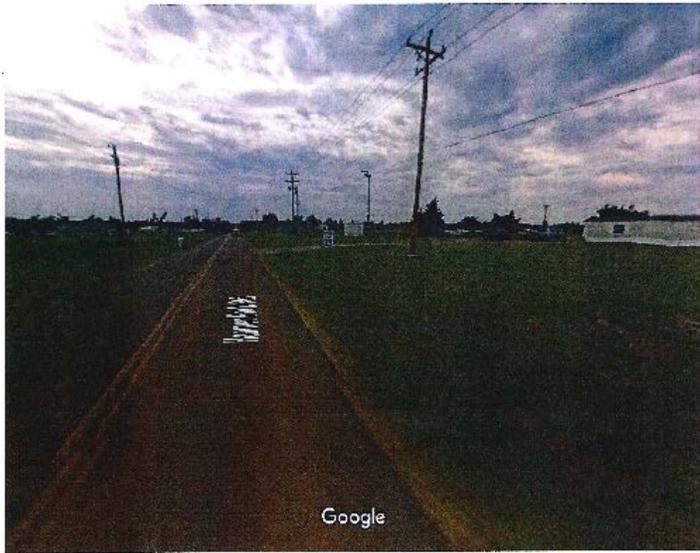
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Auditee Comments

Comment 27

Hanmer Park Rd - Google Maps Page 1 of 1

Google Maps Hanmer Park Rd



Carney, Oklahoma
Street View - Jul 2008

Hanmer Park Rd

<https://www.google.com/maps/@35.7971047,-97.0129986,3a,90y,293.74h,83.18t/data=!3m1...> 9/1/2016

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Comment 27

Hammer Park Rd - Google Maps Page 1 of 1

Google Maps Hammer Park Rd



Image captured Jul 2008 © 2016 Google

Canby, Oklahoma
Street View Jul 2008



<https://www.google.com/maps/@35.797057,-97.016263,5e,75y,269.55h,91.07t/data=!3m1!...> 9/12/2016

OIG Evaluation of Auditee Comments

- Comment 1 The State asserted that its written response to the draft report superseded all previous written and verbal representations made by the State to the OIG. We disagree, as those communications made during the audit formed the basis of the audit conclusions. We maintain the conclusions and recommendations in the finding.
- The State stated that HUD staff were aware of the State’s activities and provided hands-on oversight and guidance. The State also stated that it did not take any definitive action without HUD approval. However, the State did not provide any evidence during the audit that HUD approved any of the noncompliance issues identified in the finding.
- Comment 2 The State stated that it is making recommended procedural changes to comply with requirements. According to the State, it is now requiring subrecipients to submit all source documentation to the State, implementing additional written procedures, and re-working its Compliance Monitoring Handbook. We acknowledge the State’s efforts towards resolving the issues identified in the finding; however, we did not review the validity or the adequacy of the State’s efforts. When fully implemented along with the other recommendations in the finding, these changes should improve the State’s management of its programs. The State will need to submit supporting documentation to HUD to verify its compliance and work with HUD during the audit resolution process to satisfy the recommendations.
- Comment 3 The State asserted that it had an extremely short time period to provide its response. We disagree. The initial days to respond provided to the State is standard OIG procedure. In addition, during the audit and before we issued the discussion draft report, we provided several opportunities for the State to provide additional documentation and explanations to address the issues identified in the finding through discussions, emails, and the presentation of the finding outline. The State will need to submit supporting documentation to HUD to verify its compliance and work with HUD during the audit resolution process to satisfy the recommendations.
- Comment 4 The State repeated the position it has taken throughout the audit and as described in the finding. The State’s response offered no new criteria or other evidence to address or refute the criteria used or conclusions reached in this finding. We added additional criteria further supporting the conclusions in the finding. We maintain our position as described in the finding.
- Comment 5 The State commented that we did not address the technical assistance provided by HUD in the report. However, we did not assess the quality of technical assistance provided by HUD and conducted the audit based upon the State’s requirements

outlined in its grant agreement with HUD and the documentation maintained in the State's files.

- Comment 6 The State disagreed with our finding that State threshold reviews failed to support obligations. As discussed with the State throughout the audit and in the finding, the State's original threshold reviews, used to justify the obligation of Federal funds, did not provide sufficient documentation to support the obligation. Accordingly, we deemed the obligation of these funds as unsupported. After bringing this deficiency to the State's attention, it created new threshold reviews. The State based the new threshold reviews on its disaster recovery plans with them generally comprised of cut and paste information from other documents without verification. The State's efforts to determine the eligibility and appropriateness of an obligation significantly after it being made did not eliminate the finding that the initial obligation was unsupported. Further, the State's actions justified an existing obligation rather than a determination of whether the obligation was the best use of disaster funds in the initial obligation.

The State removed the original threshold reviews from its system and replaced them with the new threshold reviews. However, deleting the original threshold reviews from its files was incorrect as they represented a significant part of the obligation history and supported key decisions. Without an accurate history of events, the State created the scope limitation discussed in the Scope and Methodology section of the report.

- Comment 7 While the State disagreed with our terminology use, its response did not address the conditions cited or refute the conclusions in the report. We maintain our position.

- Comment 8 The State stated that the elderly complex in Mannford, OK will meet a national objective and cites the criteria that at least 51 percent or greater of the units will be occupied by low-moderate income people. However, the State did not address the issues outlined in the finding. For instance, the State was unaware that the construction of the complex did not meet the proposed national objective until we informed them. The State initially stated that the units would be occupied by 100 percent low-income elderly individuals that were displaced due to the disaster. City of Mannford staff stated they planned for the complex to be occupied by elderly tenants paying market rent, which would not meet a national objective. However, the State took no action, such as a survey, to determine the reasonableness or viability of its objective. Therefore, we maintain our position.

- Comment 9 The State stated that it "continuously worked to update the narrative to meet the expectation of the OIG request." However, the State, as the grantee, had the responsibility of complying with requirements before it obligated or expended funds. As discussed in the finding and comment 13, the State did not comply with requirements to tie back the fire equipment with the disaster.

- Comment 10 The State asserted that the survey documentation provided by the City of Sapulpa supported the low-moderate income national objective claimed by the City of Sapulpa. We disagree. The City of Sapulpa provided only summary figures and a color-coded map without supporting documentation and explanatory notes. The State did not review this documentation and require corrective action. Therefore, we maintain our position.
- Comment 11 The State claimed it was incorrect for us to assert that the road was unpaved before the disaster. However, the State did not have any documentation in its file to show the condition of the road during our review. Lincoln County had one picture of what appeared to be an unpaved road. The State was responsible before obligating the funds to determine and document that the activity was eligible for disaster funding. The State still needs to provide evidence that the road was damaged as a result of the May 2013 disaster. We maintain our position. (See Comment 27)
- Comment 12 The State believed it complied with the cost estimate requirements. However, the State only had Mannford's uploaded 1-page cost estimate. The State did not review or evaluate the cost estimate for reasonableness. The State did not require sufficient procurement documents that would allow reconciling the cost estimates with the bids. As with other documentation, the State did not believe it had an obligation to review and evaluate the completeness or appropriateness of such documentation, which would be a contributing cause of why the State did not realize that this activity did not meet the intended national objective. We maintain our position.
- Comment 13 The State stated that it acted appropriately with respect to the fire equipment. We disagree. The State did not establish an appropriate level of tie back to the wildfire disaster. In addition, not all of the fire equipment purchased was suited for fighting wildfires in a rural county with a limited road and water distribution network. Fire equipment purchased cannot simply be useful in fighting fires; it must be usable in fighting wildfires. For example, ladder trucks did not appear to meet this purpose. The State was responsible for determining applicability for equipment requests against wildfire disasters.
- To clarify, we did not imply that a tanker truck would not be acceptable wildfire fighting equipment. We used the tanker trucks as an example of the type of trucks that the State should permit as opposed to ladder trucks with a very limited water tank. We maintain our position.
- Comment 14 The State stated that it was not required to maintain all supporting documentation for environmental review, procurement, or expenditures of each subrecipient and each activity. We disagree. HUD guidance, effective April 2012,³⁴ required that

³⁴ Basically CDBG for States, Chapter 18.3.7

states must maintain drawdown requests with source documentation including invoices and purchase orders for each funded local government activity. In addition, the same guidance³⁵ required the State to maintain financial management records, including procurement documentation, and environmental review records. We included additional criteria to the finding.

- Comment 15 The State stated that it always required subrecipients to conduct contractor eligibility checks. However, for our initial sample of six activities, the State's records contained one eligibility check showing the contractor not being registered to receive Federal contract awards. Once we notified the State of this deficiency, the State required its subrecipients to submit the eligibility checks. Regulations³⁶ clearly required the eligibility check before entering into a contract to avoid contracting with an ineligible contractor. We maintain our position. (See Comment 23)
- Comment 16 The State disagreed with our conclusions regarding the procurement of the fire equipment; however, we disagree. HUD requirements held the State responsible for ensuring that subrecipients procured goods and services in accordance with Federal requirements. Despite repeated requests, the State did not provide any documentation that cities and towns could use this purchasing intermediary. In addition, subrecipients sole-sourced the fire equipment. As such, we maintain our position.
- Comment 17 The State stated that it was inappropriate for us to comment on a program that is subject to CDBG rules and regulations. We disagree, as we included the information to demonstrate that the State had been informed previously of its lack of documentation and mismanagement of programs.
- Comment 18 The State stated that it had sufficient evidence to release funds. However, the State also stated that this information was not included in its system due to size limitations. As stated in the finding, the State did not provide the necessary environmental review documentation to support the release of funds. Additionally, the State did not provide any support that Mannford posted the notice of finding of environmental review before releasing funds. Further, the State did not provide documentation to support that CDBG contracts entered into after May 1, 2016, required subrecipients to follow requirements. While the State's position would be an improvement, the State needs to ensure that all of its contracts comply with Federal requirements.
- Comment 19 The State stated that its system would not allow it to alter documents. As stated in the finding, the State verbally agreed to altered payment amounts outside of its

³⁵ Basically CDBG for States, Chapter 18.3.8

³⁶ 48 CFR 4.1103

system without requiring Mannford to correct supporting documentation. The State needs to ensure payment amounts agree to supporting documentation.

Comment 20 The State stated that subrecipients did not have to comply with 24 CFR 58.6 for acquisition of fire equipment. We disagree. In addition to being required to comply with 24 CFR 58.6, the State of Oklahoma CDBG Project Management Guide, Requirement 403.II.B, required subrecipients to address the requirements of the cited regulation. The guide specifically uses the purchase of equipment, fire trucks, and ambulances as examples. Therefore, we maintain our position.

Comment 21 The State stated that regulations did not prohibit an entity from preparing a more stringent environmental determination. As stated in the finding, Lincoln County did not have appropriate documentation to support the less stringent, and appropriate, environmental review. The State should not have released Federal funds to Lincoln County until it had the appropriate documentation to support it followed environmental regulations.

The State stated that it does not pay from spreadsheets. However, according to the State's policy,³⁷ subrecipients were instructed not to upload to the State's system, supporting documentation for payment requests. State officials provided us the unlabeled spreadsheet as support for the payment. As previously discussed, the State collected information without review and in this instance when shown the spreadsheet, a State official did not understand the spreadsheet or why Lincoln County had provided it. HUD requirements held the State responsible for reviewing and retaining basic documentation supporting payments. After we notified the State of the deficiencies, it collected an appropriate invoice. (See Comment 22)

The State stated that Lincoln County's contract contained all of the necessary Federal provisions. As noted in the finding, Lincoln County's procurement documents did not contain the required provisions. We maintain our position.

Comment 22 The State stated that it reviewed pertinent documentation while monitoring Lincoln County. During our initial review and after the State's monitoring review, the State did not have evidence to support its conclusions for its monitoring review. Subsequent to our discussions with the State regarding its deficiencies, Lincoln County and other subrecipients uploaded some documentation to the State's system. However, these actions did not correct the systemic deficiencies of the State's management and operation of the CDBG-DR program discussed in this finding. (See Comment 21)

Comment 23 The State acknowledged that it should not have allowed subrecipients to use self-certifications to perform contractor eligibility. According to the State, it will revise its process by implementing a new form and instructions for all

³⁷ State of Oklahoma CDBG Project Management Guide, Requirement 406.II.G.2

subrecipients. We acknowledge the State's efforts towards resolving the issues identified in the finding; however, we did not review the validity or the adequacy of the State's efforts. To make its improvements more effective, the State needs to specify what procedures it will perform on documentation that it receives from subrecipients as stated in our recommendations. The State will need to submit supporting documentation to HUD to verify its compliance and work with HUD during the audit resolution process to satisfy the recommendations.

- Comment 24 The State stated that the updated spreadsheet documentation we referred to in the finding only included Lincoln County, as the updated documentation also included other subrecipients. While the finding section did not specifically address Lincoln County, we did specifically note for two subrecipients that the updated information was still missing. Further, the finding section noted that the State did not have evidence that it reviewed any of the subrecipients' updated information. The State will need to submit supporting documentation to HUD to verify its compliance and work with HUD during the audit resolution process to satisfy the recommendations.
- Comment 25 The State provided a list of criteria it used to review the applications and determine funding. However, the State's support that activities met the criteria was insufficient. The State did not have adequate documentation to support how it made its funding determinations or determined project eligibility. It did not verify the information in the applications by requiring pictures or other supporting documentation. The State also did not visit any of its subrecipients to verify requested activities.
- Comment 26 The State stated that there was no malicious intent concerning the incorrect information for the risk assessments of potential casualty events. Instead of addressing the issues resulting in the scope limitation, the State's response referred to the scope limitation as "unsubstantiated" and "grossly exaggerated." The State agreed that it replaced the original information without an audit trail. Consequently, the State's ability to replace information without an audit trail on previously approved documents, maliciously or not, created the scope limitation.
- Comment 27 The State provided pictures with a captured image date of July 2008 of a road supporting that it was paved before the disaster. The State obtained these pictures on September 1, 2016, the day after we issued our draft report to the State. However, these images did not support tie back to the disaster as required. The State will need to provide evidence that the road was damaged as a result of the May 2013 disaster. We maintain our position that the obligation was unsupported.

Appendix C

Schedule of Original Obligations and Funds Spent by Subrecipient

No.	Subrecipient	Funding	Activity	Obligated	Spent
1	Bristow	Round 7	Fire Equipment	\$ 249,650	\$ 0
2	Creek County (Olive)	Round 4	Fire Equipment	374,027	367,136
3	Drumright	Round 4	Fire Equipment	341,175	0
4	Drumright	Round 7	Fire Equipment	110,000	0
5	Kiefer	Round 3	Fire Equipment	77,742	77,742
6	Kiefer	Round 7	Fire Equipment	192,280	0
7	Lincoln County	Round 1	Road Resurfacing	268,230	228,834
8	Mannford	Round 3	Housing Complex	5,000,000	699,140
9	Mounds	Round 4	Fire Equipment	128,176	0
10	Oilton	Round 3	Fire Equipment	146,942	146,942
11	Oilton	Round 7	Fire Equipment	237,000	0
12	Oklahoma City	Round 1	Road Resurfacing	1,433,533	810,000
13	Oklahoma City	Round 1	Drainage Projects	713,533	0
14	Sapulpa	Round 4	Fire Equipment	2,445,000	2,064,757
Total				11,717,288	4,394,552