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**City of San Marcos**

CDBG-DR Risk Assessment and Internal Audit &  
Monitoring Plan

11-10-2021

# TRANSMITTAL LETTER

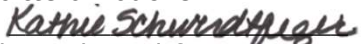
Honorable Jane Hughson  
Mayor  
City of San Marcos  
630 E Hopkins  
San Marcos, TX 78666

Dear Mayor Hughson:

We are pleased to provide the attached 2021 Internal Audit Risk Assessment Report related to the Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) funding the City of San Marcos (City) received. This work was performed based on the terms outlined in the engagement letter dated April, 10, 2017. Performance of the risk assessment was jointly identified with the City.

Our services were performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA). However, our services did not constitute an engagement to provide audit, compilation, review, or attestation services as described in the pronouncements on professional standards issued by the AICPA, and, therefore, we will not express an opinion or other form of assurance with respect to our services. In addition, our services did not constitute an examination or compilation of prospective financial information in accordance with standards established by the AICPA. We did not provide any assurance regarding the outcome of any future audit or regulatory examination or other regulatory action; nor did we provide any legal advice regarding our services; the responsibility for all regulatory and legal issues with respect to these matters resides with the City. It is further understood that the City is responsible for, among other things, identifying and ensuring compliance with laws and regulations applicable to the City's financial statement activities.

This report is intended solely for the information and use of City and is not intended to be, and should not be, used by any other party, with the exception of oversight agencies for the performance of their oversight responsibilities. We appreciate the cooperation received from management and staff of the City during the performance of this internal audit. Very truly yours,

Deloitte & Touche LLP  
By:   
Kathie Schwerdtfeger, Partner

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# EXECUTIVE SUMMARY - OVERVIEW

## Prior Risk Assessments

- In 2017, Deloitte was engaged by the City of San Marcos to conduct quarterly internal audits of the City's management of the approximate \$25.08M of CDBG-DR funding received. The first step in any new internal program is to perform a risk assessment to determine where the focus of internal audit should be focused in the CDBG-DR program. The preliminary risk assessment was issued in June 2017 with an update being issued in November 2018 after the first full year of program activity.
- After presentation of the November 2018 Risk Assessment, it was determined that future risk assessments would occur every 2 years unless program activity or the risk profile of the program dictated a more frequent assessment. The risk assessment planned for the November 2020 was postponed due to the 2020 COVID-19 pandemic and was re-scheduled for Quarter 3 of 2021.

## 2021 Risk Assessment

- The CDBG-DR risk assessment was updated by performing interviews with key City of San Marcos CDBG-DR stakeholders and through review of updated CDBG-DR program documentation. The results of prior quarterly internal audits, HUD program audits, and the annual financial and compliance audits of the City were taken into consideration.
- Based on the interviews performed, the evaluation of updated program documentation, and the results of prior audit reports, the risk assessment scoring was updated to evaluate the risk associated with HUD CDBG-DR activities and projects being performed by the City. These activities and programs were evaluated from a vulnerability and impact perspective, and the scoring was used to identify activities and projects as either high, medium, or low risk. The results of the risk assessment will be used to identify potential focus areas for future quarterly internal audits
- With the program activities picking up significantly since the last risk assessment, we recommend the risk assessment now be updated annually through the end of the program.

## EXECUTIVE SUMMARY – RISK ASSESSMENT RESULTS

### Low Risk Areas

- **Most CDBG-DR processes such as stakeholder engagement, communication, reporting, and the action plans, among others appear to be well designed and working as expected.** These areas will be further assessed for additional or changing risks throughout and updates made in future annual risk assessment as may be necessary.

### Medium Risk Areas

- Procurement, Contracts, Expenditures, and Drawdowns inherently pose higher risk and should continue to be reviewed quarterly due to federal compliance requirements. We will review new activity in each review area every quarter as part of the annual internal audit activities performed.
- With construction projects underway, they and their associated activities (procurement, contracting, invoicing) will be reviewed closely for federal compliance requirements each quarter.
- Follow Up items resulting from prior audits and HUD monitoring reports present a moderate risk if not resolved and will be followed up on quarterly until full resolution.
- Housing Programs and Recipients' Participation have not been reviewed in detail for more than a year. They will receive a detailed review in Quarter 1.
- Performance monitoring and quality assurance policies and procedures continue to evolve and will be reviewed for effectiveness and federal compliance in Quarter 2.
- As closeout policies and procedures are developed, they will be evaluated for effectiveness and as such are being scheduled for a detailed review in Quarter 3.

### High Risk Areas

- **There were no high risk areas identified based on the interviews performed and review of program documentation.**

# APPROACH - RISK ASSESSMENT ACTIVITIES

## Risk Assessment Activities

The Risk Assessment activities consisted of the 3 main activities as described below:

### Step 1

Conducted Interviews and Assessed Program Related Documentation

- Reviewed Prior Quarterly Audit Reports, HUD Reports, and Annual Financial and Compliance Reports

Interviews:

- Stephanie Reyes – Finance & Audit Committee
- Janet Pitman – External Auditor
- Jeremy Barbatto – External Auditor

### Step 2

Performed The Risk Assessment Testing

- Identified Population of HUD CDBG-DR Activities and Projects
- Scored the HUD CDBG-DR Activities and Projects to Determine Risk Rating
- Discussed the results with City of San Marcos Management

### Step 3

Identified Areas for Future Internal Audit

- Evaluated the Results of the Risk Assessment Performed
- Developed Preliminary Internal Audit Plan Based on the Results of the Risk Assessment.

# CDBG-DR RISK ASSESSMENT RATING DETAIL

1. Establishing Program Governance & Oversight	2. Prepare for Grant Award	3. Receive, Disburse & Account for Funds	4. Execute Funding Activities	5. Monitor Grant Performance	6. Collect Data & Report Grant Activities	7. Perform Final Closeout Activities
1- Understand CDBG-DR Requirements	1- Stakeholder Engagement & Action Plan	1- Update Procedures	1- Execute Action Plan Activities	1- Risk-based Monitoring Plan	1- Action Plan Reassessments	1- Refine Closeout Process
2 - Update / Establish Policies and Procedures	2 - Identity Recovery Needs	2 - Execute Procurement Consistent with HUD	2 - Subrecipient Awarding	2 - Complete Monitoring Protocols	2 - Annual and Quarterly Reporting	2 - HUD Closeout Coordination
3 - Evaluate Program and Grant Management Risks	3 - Finalize Action Plan, Submit to HUD	3 - Process Initial Vendor	3 - Process Assistance Applications	3 - Internal Audit and Execute Monitoring	3 - Internal Stakeholder Reporting	3 - Reconcile Action Plan with Final Expenditures and Reports
4 - Define Grant Program & Management Needs	4 - Act on HUD feedback related to Action Plan	4 - DRGR Drawdowns and Grant Accounting	4 - Assess Initial Vendor Performance	4 - Internal Audit Monitoring Risk Trends	4 - Assess Internal Controls as a result of Internal Audits	4 - Coordinate Closeout with Stakeholders
		5 - Begin Ongoing DRGR Reporting	5 - Construction Requests for Reimbursement	5 - Ongoing Project Communication		
			Audit and Federal Monitoring Readiness			

Low risk  
 Medium risk  
 High risk  
 Process not yet underway

## CDBG-DR Internal Audit Plan for Next 12 Months

We plan to conduct internal audits to assess specific grant process areas based on the results of this initial risk assessment. As the program is implemented over the lifecycle of the grant, other risk areas will likely be identified either through on-going internal or external assessments and based upon periodic updates to the risk assessment. We will work with the City to determine and schedule future internal audits based on the results of the updated risk assessment. Further, our technical assistance support and advice with the monitoring plan will continue through the grant lifecycle.

Each quarter will include, at a minimum, the following areas of review: Procurement, Contracts, Change Orders, Expenditures, and Drawdowns. Additional focus areas will be reviewed as scheduled. Hours are set aside for special request audits that may be necessary as the year progresses.

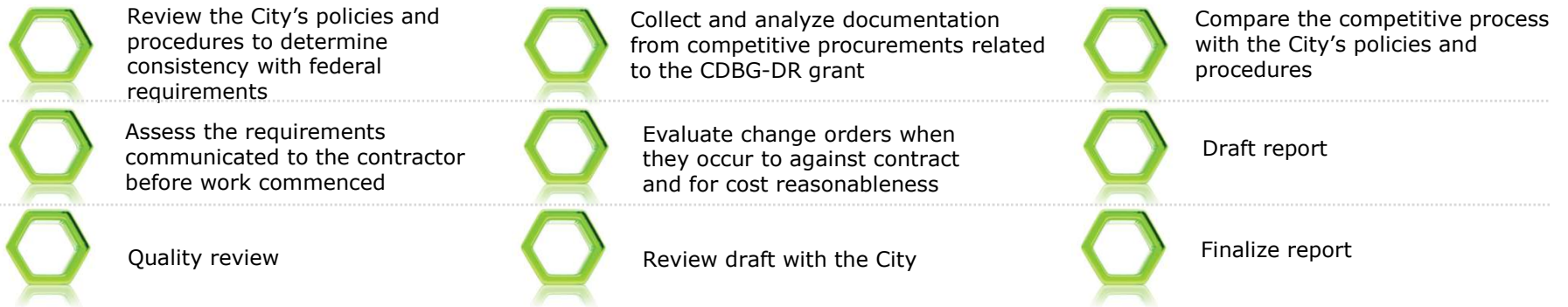
Process	Risk Rating	Audit Schedule
Housing Programs and Recipient Participation	Medium	Q1 2022
Program Performance Monitoring and Quality Assurance	Medium	Q2 2022
Policies and Procedures for Closeout	Medium	Q3 2022
Review Progress of Construction Projects, Billing and Drawdowns	Medium	All Quarters
Follow Up on Staffing, Turnover, and Education	Medium	All Quarters
Follow Up on Internal Controls regarding document storage	Medium	All Quarters
Review/Follow up on findings from prior audits and HUD technical visits	N/A	All Quarters



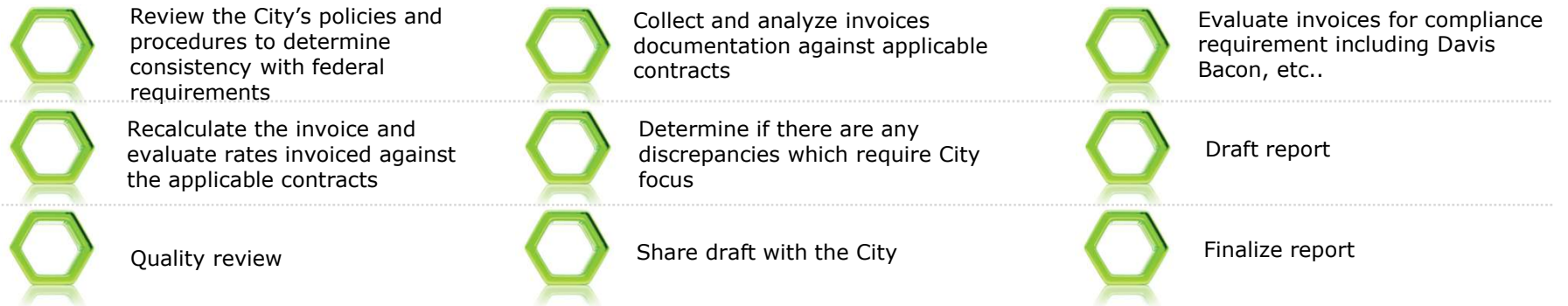
# Internal Audit Process for CDBG-DR Program

**Objective:** To assess all program-related activities, including scheduled special review areas, for local, State, and Federal compliance standards and provide recommendations to reduce risk areas. Findings and Observations are formally documented in each Quarterly Report presented to the City. Follow up on prior internal audit, HUD, or financial auditors is completed within the review quarter and subsequent quarters to confirm resolution of findings.

## Procurement/Contracts

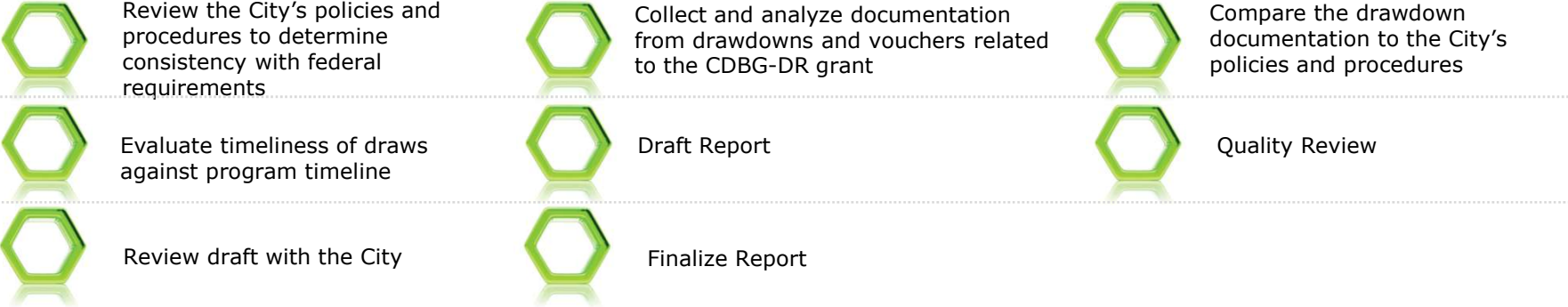


## Expenditures



# Internal Audit Process for CDBG-DR Program

## Drawdowns



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