



# City of San Marcos

## CDBG-DR Internal Audit Report

2023 Fiscal Year Quarter 1: Procurement, Contract and Expenditure Review



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May 4, 2023  
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 Internal Audit Report with respect to internal audit services performed for procurement and finance activities related to the Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) funding the City of San Marcos, Texas (the City) received as a result of the May 2015 (DR-4223) and October 2015 (DR-4245) floods. This work was performed based on the terms outlined in the engagement letter dated April 10, 2017. The areas covered during the internal audit were jointly identified with the City according to a risk-based internal audit plan and is outlined within this report.

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 & Touché LLP

A handwritten signature in dark ink, reading "Kathie Schwerdtfeger". The signature is written in a cursive, flowing style.

Kathie Schwerdtfeger, Partner

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# Executive Summary

## Background

The City has been awarded approximately \$34 million in Community Development Block Grant Disaster Recovery (CDBG-DR) grants by the U.S. Housing and Urban Development Department (HUD) as a result of the significant flooding events of May and October 2015. This funding is subject to federal compliance requirements found in 2 CFR §200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and 24 CFR §570 *Community Development Block Grants*. Based on the HUD Action Plan developed by the City, the funds were allocated for the development of infrastructure and housing projects. To oversee the spending and oversight of the grant funds received, the City has developed policies and procedures to administer the CDBG-DR program. As needed, contracted professionals are engaged to provide additional technical assistance. Additionally, the City developed CDBG-DR policies and procedures, established internal controls, and implemented systems to govern the use of the HUD funds received.

In accordance with requirements set forth by HUD, The City has engaged Deloitte & Touché LLP to conduct internal audits each year of program funds and activities to evaluate compliance with national objectives, the City's HUD CDBG-DR Action plan and related amendments, federal program regulations, and City policies and procedures related to the CDBG-DR funding. Additionally, the internal audits evaluate the design and operating effectiveness of internal controls over program activities and funds and provides recommendations for enhancement, when needed.

## Our Scope & Objectives

The area of focus for this internal audit included procurement, contracts, and finance activities for CDBG-DR activities occurring in the City's first quarter of Fiscal Year 2023 from October 1, 2022, through December 31, 2022.

Each area was reviewed to evaluate the following:

- The design and operating effectiveness of internal controls of the Finance and Purchasing Departments
- Compliance with Federal program and administrative regulations governing the CDBG-DR program
- Compliance with City policies and procedures governing the CDBG-DR program
- Compliance with the City's HUD Action Plan for Disaster Recovery and related amendments

## Procurement and Contracting:

The assessment procedures included evaluation of the contract front-end life cycle, from request for proposal (RFP) to the establishment of a contract. The procurement process was evaluated for the services listed below and included the procurements for which an RFP was issued under these grants between October 1, 2022, through December 31, 2022. Contracts resulting from the procurement process were also reviewed in addition to procurements and/or contracts not provided in previous quarters.

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**Expenditures:**

The assessment procedures evaluated whether federal regulations and City policies and procedures were followed in the approval and payment of CDBG-DR related expenditures during the period of October 1, 2022, through December 31, 2022. The selected expenditures were also evaluated to determine whether they were reasonable, necessary, allowable, and properly evidenced by supporting documentation. A sample of expenditures was selected from program expenditures for the period and included infrastructure, housing, administration, and planning activities.

The testing methodology included an analysis of at least 30% of the transactions executed during the period and consisted of an evaluation of invoices, proof of payment, general ledger, the HUD Quarterly Performance Reports (QPR) and HUD Disaster Recovery Grants Reporting System (DRGR) reporting and compliance with applicable policies, procedures, and federal grant regulations.

**Prior Audit Findings:**

The assessment procedures utilize interviews and follow-up meetings with City staff to review the status of resolution or evidence of progress relating to any prior audit findings from prior quarterly internal audits, HUD monitoring visits, or other external audits with findings directly related to the CDBG-DR program. We also reviewed the City's progress on the corrective action plan from the previous Quarter's reports.

Between the dates of September 12-15, 2022, HUD performed an onsite monitoring of the city of San Marcos' Community Development Block Grant disaster recovery (CDBG-DR) grant, to assess the city's performance and compliance with applicable Federal requirements. As a result of that visit, HUD issued a Monitoring Report on December 15, 2022. In this report HUD acknowledged the City's efforts in the overall management of its CDBG-DR funds, including compliance with Federal Register notices and other Federal requirements and improvements in overall staff capacity and grant management. The report concluded the five (5) concerns and three (3) findings. The City issued a response to the report on February 10, 2023, which included four (4) contested concerns, one (1) contested finding, and proposed language revisions to the remaining concern and findings. At the time of this report, no formal response from HUD accepting/denying these requests had been received.

**Approach**

The internal audit activities performed included the following:

- **Step 1:** Interviewed the following key stakeholders involved in administering the CDBG-DR program to gain an understanding of program activities during the period and obtain their input related to potential risks to the program:
  - Jesse Garcia – Accounting Manager
  - Carol Griffith - Housing and Community Development Manager
  - Zindi Castillo - Grants Accounting Specialist
  - Jacquelyn Thomas - Senior Engineer
  - Veronica Bradshaw - Interim Purchasing Manager
- **Step 2:** Performed the following review and testing procedures:

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- **CDBG-DR Contracts**
  - Obtained procurement and contract related documents for procurement and contract activities that occurred during the period.
  - Assessed the City of San Marcos Action Plan for Disaster Recovery and the City's Purchasing Policy to verify consistency and adherence with federal regulations and HUD policy;
  - Evaluated RFP and Contract activity since the last internal audit to determine whether they were consistent with the City's procurement policy;
  - Assessed the RFP and bid review evaluation process;
  - Evaluated contracts established for required Federal clauses;
  - Identified areas for improvement and developed recommendations for consideration.
- **CDBG-DR Expenditures**
  - Obtained expenditure data for program expenditures that occurred during the period.
  - Selected approximately 30% of expenditures for testing from General Ledger with a focus on activities with high spend during the period;
  - Assessed purchase or approval processes related to work performed;
  - Evaluated invoices for contracts established and associated purchase orders
  - Evaluated labor, equipment, and other charges based on rates and amounts and mathematical accuracy and reasonable of invoice and/or allocation methods; and Evaluated invoice review processes.
- **Step 3:** Conducted a closing meeting and discussed the observations and recommendations with management.

# Observations and Recommendations

As noted on page 4 of this report, Observations and Recommendations, including Management Response & Corrective Action Plan are presented and addressed herein.

Observation Category	Observation	Observation	Recommendations/Management Action Plans
	Condition	Criteria, Cause, Effect	Recommendation
Q1 Drawdown Review	<p><b>1D-a.</b> - In two (2) instances, both voucher creation and drawdown occurred in <b>FY23 Q1</b> rather than in the quarter when the expenditure was incurred or shortly thereafter.</p> <p>Both instances were the result of late timesheet submissions.</p> <p>This has been noted in previous quarters.</p> <p>The city has expressed that the individual staff member has been counseled and continues efforts as agreed to modify timekeeping schedule to ensure signed timesheets are submitted by deadline.</p>	<p><b>Per 2 CFR 200.303(a), Internal Controls,</b> The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.</p>	<p>The City should continue to adhere to internal controls for timesheet submission used for Federal program activities.</p>
	<p><b>3D-a. CoSM Response:</b> For the specific instances where an individual staff member timesheet is delayed, a monthly drawdown for all other staff is completed and a separate drawdown occurs later when the timesheet is received. As of January 2023, timesheets for this individual are now being received timely; this audit report is for the prior quarter Oct-Dec 2022.</p>		

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