



**City of San Marcos City Council Presentation
September 19, 2017**

CDBG-DR Risk Assessment and Internal Audit & Monitoring Plan

Executive Summary

Deloitte was engaged by the City of San Marcos to conduct internal audit services of its management of CDBG-DR funding. Our first step was to conduct a risk assessment to determine where the internal audits should be focused in the CDBG-DR program. We scored elements of the CDBG-DR program with either a high, medium, or low risk and weighted important factors such as how that process could impact grant outcomes or even potential external audit findings. Below are the risk assessment results of City processes used to manage the CDBG-DR grant. These results will be used to focus our efforts on internal audit activities and project monitoring over the lifecycle of the CDBG-DR grant. We were not able to assess all grant processes for risk since the grant lifecycle has not yet activated some processes such as grant closeout. The risk assessment will be updated annually or with more frequency as needed as the grant matures.

Risk Analysis

Low Risk Areas

- Most CDBG-DR processes (e.g. 44 out of 45) such as stakeholder engagement, communication, reporting, and the action plan, among others appear to be working or appear to be well-designed and will be further assessed for risks.

The Medium risks are rated as such because of inherent risk based upon federal oversight emphasis, not because of observations of City processes perceived as a weakness

Medium Risk Areas

- Procurement is Inherently a higher risk area and should be reviewed early in the grant process
- Grant financial management is also inherently higher risk and should also be reviewed early in the grant process

High Risk Areas

- Our first review of CDBG-DR housing policies and procedures revealed areas that required updating. But since our initial steps in the risk assessment, these policies and procedures were updated and therefore we consider this important CDBG-DR step to be low risk.

CDBG-DR Grant Process Risk Rating

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 and Action Plan	1. Update procedures	1. Execute Action Plan Activities	1. Risk-based monitoring plan	1. Action Plan reassessments	1. Refine close-out process
2. Update/ Establish Policies & Procedures	2. Identify recovery needs	2. Execute procurement consistent with HUD	2. Subrecipient awarding	2. Complete monitoring protocols	2. Annual and quarterly reporting	2. HUD close-out coordination
3. Evaluate program and grant mgt risks	3. Finalize Action Plan, submit to HUD	3. Process initial vendor reimbursements	3. Process assistance applications	3. Internal audit and execute monitoring	3. Internal stakeholder reporting	3. Adjust retention and Income plans
4. Define grant program & mgt 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	3. Coordinate Closeout with stakeholders
		5. Begin ongoing DRGR reporting	5. construction requests for reimbursement	5. Ongoing Project Communication		
			6. Audit and Federal Monitoring readiness			

Low risk

Medium risk

High risk

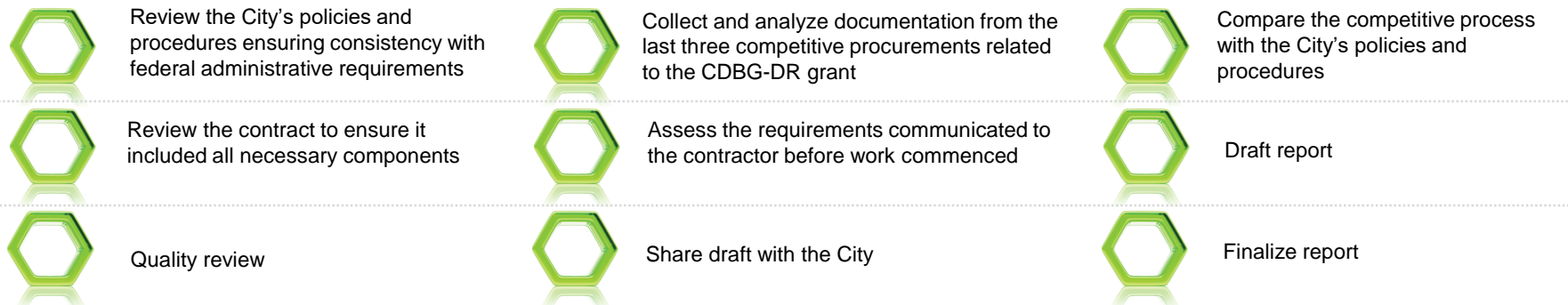
Process not yet underway

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.

Process	Risk Rating	Audit Schedule
Procurement	Medium	August 2017
Grant Financial Management	Medium	August 2017
Housing program execution (application processing)	Not yet rated	Quarterly FY2018
Infrastructure projects (construction vendor performance)	Not yet rated	Quarterly FY2018
CDBG-DR Project Monitoring Plans and Execution	Not yet rated	March 2018
Update Risk Assessment	N/A	August 2018

Our Internal Audit Process of CDBG-DR Procurement





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