

## **City of San Marcos**

CDBG-DR Risk Assessment and Internal Audit &  
Monitoring Plan

November 6, 2018

# TRANSMITTAL LETTER

Honorable John Thomaides  
Mayor  
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Dear Mr. Thomaides:

We are pleased to provide the attached CDBG-DR Risk Assessment and Internal Audit & Monitoring Plan 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



Kathie Schwerdtfeger, Partner  
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# TABLE OF CONTENTS

Executive Summary	4
Approach	6
CDBG-DR Risk Assessment Rating Detail	7
CDBG-DR Internal Audit Plan for Next 12 Months	8
Internal Audit Process for CDBG-DR Procurement and Expenditures	9

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# EXECUTIVE SUMMARY - OVERVIEW

## Prior Year Risk Assessment, Planning, and Internal Audit Activities

- Last year Deloitte and Touche LLP was engaged by the City of San Marcos to conduct an internal audit of the processes and activities for the \$33,794,000 of CDBG-DR funding received from HUD. Our first step was to perform a risk assessment to determine where internal audit should focus its efforts in the CDBG-DR program.
- Based on the risk assessment performed, internal audits were performed in the Procurement and Grants Financial management areas.

## Current Year Internal Audit Risk Assessment and Planning

- In order to develop the internal audit plan for this year, the risk assessment was updated through performing interviews with City of San Marcos CDBG-DR stakeholders and through review of CDBG-DR program documentation.
- Based on the interviews performed and evaluation of program documentation, 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 internal audit for the current year.

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# 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 working or appear to be well-designed and will be further assessed for risks as part of the updates to the annual risk assessment.

## Medium Risk Areas

- Procurement and Expenditures are inherently pose higher risk and should be reviewed quarterly due to federal compliance requirements. The goal is to review a sample of new procurements and expenditures each quarter as part of the annual internal audit activities performed..
- Grant financial management is also inherently higher risk and should be evaluated as part of the annual internal audit plan. This includes the planning and administrative costs associated with the grant funds received.
- As closeout and monitoring policies and procedures are developed, they should be evaluated for effectiveness.

## High Risk Areas

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

***Note: The nature of the determining the scoring for the risk assessment is subjective and is based on the interviews performed and documentation reviewed. Another entity may have different results based on the information evaluated.***

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# 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

- Kirk Abbott – Engineer
- Trumen Bob, Grants Accountant
- Stacy Brown – Director of Grant Funds
- Shaun Condor – Senior Project Engineer
- Kristina Cruz – Senior Case Manager
- John Espinoza – Project Engineer
- Viviana Huerta – Case Manager
- Rey Garcia – Senior Engineer
- Heather Hurlburt – Director of Finance
- Laurie Moyer – Director of Engineering
- Aaron Harris – Community Outreach
- Gregory Schwarz – Senior Engineer

### 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.

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# 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 – Adjust Retention and Income Plans
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

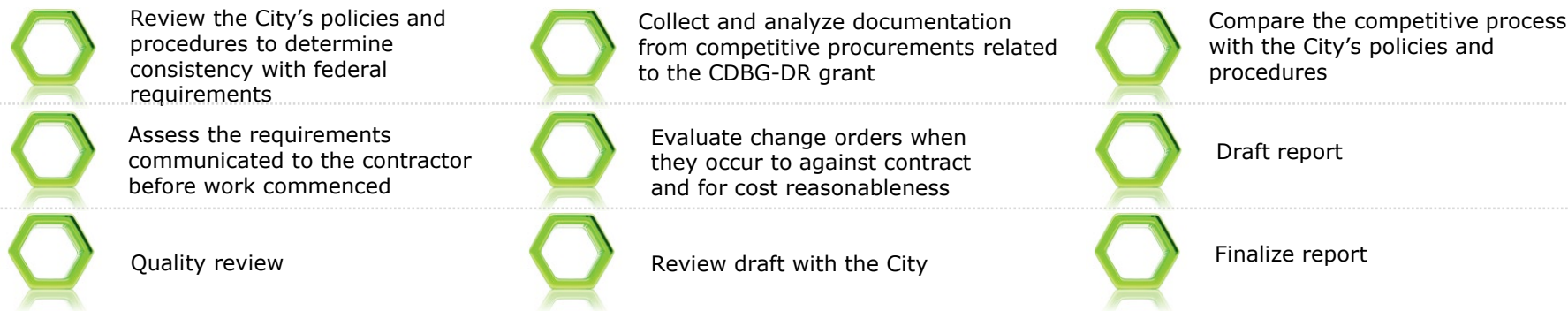
Medium risk

High risk

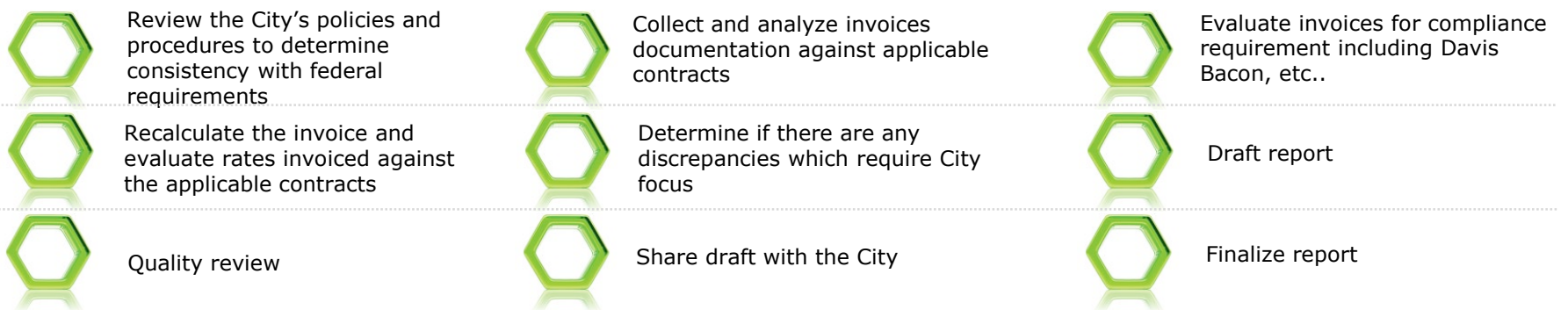
Process not yet underway

# Example Internal Audit Process for CDBG-DR Procurement and Expenditures

## Procurement



## Expenditures



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## 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 (New Contracts, Change Orders, and Expenditures)	Medium	Q1 2019
Procurement (New Contracts, Change Orders, and Expenditures)	Medium	Q2 2019
Planning and Administrative Expenses	Medium	Q2 2019
Procurement (New Contracts, Change Orders, and Expenditures)	Medium	Q3 2019
Housing Programs	Low	Q3 2019
Procurement (New Contracts, Change Orders, and Expenditures)	Medium	Q4 2019
Policies and Procedures for Closeout and Monitoring	Medium	Q4 2019
Environmental Review Process	Low	Q4 2019
Review/Follow up on findings from prior audits and HUD technical visits	N/A	Q1, Q2, Q3, Q4 2019

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