



# City of San Marcos CDBG-DR Internal Audit Report – Procurement and Expenditures



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Honorable John Thomaides  
Mayor  
City of San Marcos  
630 E Hopkins  
San Marcos, TX 78666

Dear Mr. Thomaides:

We are pleased to provide the attached Internal Audit Report with respect Procurement compliance to the Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program funding the City of San Marcos (City) received. This work was performed based on the terms outlined in the engagement letter dated October 23rd, 2017. The area covered during the analysis was jointly identified with the City based on a risk based 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 & Touche LLP

A handwritten signature in black ink that reads "Kathie Schwerdtfeger".

Kathie Schwerdtfeger, Partner

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# Executive Summary

## Background

The City of San Marcos (City), Texas, located in the center of the Austin – San Antonio corridor, is one of the fastest growing areas in the country. The City was awarded \$33,794,000 by the U.S. Housing and Urban Department, which are subject to federal compliance requirements. Based on the Capital Plan developed by the City the funds were allocated for infrastructure, housing, and economic development projects. In order to oversee the spending and oversight of the grant funds received, the City has developed a CDBG-DR Program to manage the on-going spending of the funds received. As needed, contracted professionals are engaged to provide additional technical assistance. Additionally, the City has developed a CDBG-DR Compliance Manual, established internal controls, and implemented systems to govern the use of the funds received.

## Our Scope & Objectives

The area of focus for this internal audit was procurement and expenditures, management follow-up related to prior internal audit findings, and HUD's findings related to their technical visit.

## Procurement and Expenditures

Two RFPs, nine contracts, and ten invoices were evaluated.

The RFPs evaluated were (RFPs and Contracts have the same ID):

- RFP #217-247 On Call Engineering
- RFP #218-026 CDBG-DR Housing Rehabilitation/Reconstruction Services

The objectives of our analysis consisted of assessing the appropriateness of the design and the effectiveness of the internal controls. To evaluate the internal controls, HUD CDBG-DR requirements were evaluated along with the City of San Marcos Action Plan for Disaster Recovery, the Purchasing Policy for the City of San Marcos, and other relevant federal requirements related to the funding received.

An assessment of contracts was performed to test the city's compliance with federal requirements and whether the required contract provisions were included. Nine contracts in total were evaluated. The contracts evaluated were:

- K. Friese & Associates, Inc. Contract #218-197
- Halff Associates Inc. Contract #218-253
- AECOM Technical Services Contract #217-091
- DSW Homes, LLC Contract #218-147
- Scheibe Consulting LLC Contract #218-150
- James W Turner Construction, LTD Contract #218-045
- Scheibe Consulting LLC Contract #218-045

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- Freese and Nichols, Inc. Contract #217-448
- TX General Land Office Contract #217-190

In addition, ten invoices were selected for evaluation. The invoices were evaluated to determine whether the city reported them within DRGR reports and recorded within the City ledger.

### **Follow-Up of Prior Internal Audit Findings**

We evaluated management's responses and actions related to the findings identified in the Procurement Internal Audit Report issued on September 14, 2017 and Grant Financial Management Internal Audit Report dated November 1, 2017.

### **Response to HUD's Technical Visit**

We evaluated the results from HUD's technical visit and assessed Management's responses to the areas identified by HUD.

We discussed the observations and recommendations with the City of San Marcos. Management provided their responses to HUD's observations.

### **Approach**

The internal audit consisted of the following:

#### **Procurement and Expenditures**

- **Step 1:** Performed interview with Stacy Brown, Housing & Community Development Manager for the City, responsible for managing and overseeing compliance for CDBG-DR funds. The focus of the interview was to discuss the procurement and expenditure processes.
- **Step 2:** Performed the following testing procedures:
  - **Draw Downs**
    - Evaluated invoices recorded within the Disaster Recovery Grant Reporting System (DRGR) report against the general ledger for activity over the last twelve months.
  - **Request for Proposal (RFP)**
    - Evaluated two RFPs
    - Assessed the RFP and bid review evaluation process
    - Evaluate the RFP process against federal requirements and City policies and procedures
  - **CDBG-DR Contracts**
    - Evaluated a sample of nine contracts
    - Assessed the contract development process
    - Evaluated contracts established for required Federal clauses and for the types of contracts executed
    - Compared against City policy and federal regulations

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- **Expenditure Testing**
  - The methodology utilized to select invoices for evaluation included:
    - Invoices above \$75,000 (5 invoices in total)
    - Five additional of the largest invoices representing projects or administrative expenses

### **Follow-Up of Prior Internal Audit Findings**

- **Step 1:** Evaluated the findings from the prior Procurement Internal Audit Report issued on September 14, 2017 and Grant Financial Management Internal Audit Report dated November 1, 2017
- **Step 2:** Discussed the findings and assessed management actions taken.

### **Response to HUD's Technical Visit**

**Step 1:** We evaluated the results from HUD's technical visit and assessed Management's responses.

- **Step 2:** Discussed the findings and assessed management actions taken.

### **Summary of Results**

- Based on the procurement and expenditures testing performed, there were no recommendations identified for management action.
- Management has taken appropriate action related to the internal audit findings from the prior CDBG-DR internal audit reports.
- The responses from HUD appeared reasonable. As the City's response to HUD is finalized, the actions will be further assessed as part of the on-going quarterly internal audit activities performed.

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# Summary of Internal Audit Findings Follow-Up

Internal Audit Report / Observation Number	Observation and Recommendation	Status
Procurement Internal Audit Observation #1	<p><b><u>Observation</u></b> Based on evaluation of the City's purchasing policy, no such provision is part of the policy. Per 2 CFR 200.318(d) the non-Federal entity must have procedures to avoid acquisition of unnecessary or duplicative items.</p> <p><b><u>Recommendation</u></b> The City should enhance its Procurement Policy to include a requirement that such an assessment is conducted when procuring federal funding.</p>	The City has included in its Procurement Policy provisions related to unnecessary or duplicative items.
Procurement Internal Audit Observation #2	<p><b><u>Observation</u></b> In one of the RFP competition files, there was a missing Rater Evaluation Sheet. Therefore, we were unable to fully validate that there was support for the total score of the winning bidder. We noticed that the City's policy did not fully describe the process for documenting a procurement competition.</p>	The City will determine that all Rater Evaluation sheets are including in RFP assessment packages for all new procurement activities.

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	<p><b><u>Recommendation</u></b></p> <p>The City should enhance its Procurement Policy such that procedures describe scoring and how that information is retained in procurement files.</p>
<p>Grants Financial Management Internal Audit Observation #1</p>	<p><b><u>Observation</u></b></p> <p>The CDBG-DR electronic drive containing grant documentation lacked consistency. The electronic drive was structured by departments rather than by grant process and CDBG-DR staff members at the departments rather than by grant process and CDBG-DR staff members at the departments and it is unclear whether they have direction in terms of how the documents are to be stored and who in the City is ensuring the adequacy of documentation.</p> <p><b><u>Recommendation</u></b></p> <p>It is critical that the City at this early stage of the grant, develop a records retention policy to reduce redundancy of records, ease record identification, and a process that supports consistency. Additionally, in conformance with regulations to retain documentation for three years after grant expiration, the policy should include this requirement.</p> <p>The City has reorganized its CDBG-DR electronic drive and developed a structure for the project files to be organized by grant process. This process has been communicated to City employees with responsibility for CDBG-DR grant oversight.</p>

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