

## PERFORMANCE AUDIT

# OKLAHOMA DEPARTMENT OF COMMERCE

For the period July 1, 2013 through December 31, 2014

A photograph of the Oklahoma State Capitol building's dome against a cloudy sky. The dome is white with a gold-colored star at the top. The words "Independently serving the citizens of Oklahoma by promoting the accountability and fiscal integrity of governmental funds." are overlaid on the right side of the image.

*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**Audit Report of the  
Oklahoma Department of Commerce**

**For the Period  
July 1, 2013 through December 31, 2014**



# Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

November 2, 2015

**TO GOVERNOR MARY FALLIN:**

This is the audit report of the Oklahoma Department of Commerce for the period July 1, 2013 through December 31, 2014. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR & INSPECTOR

## **Oklahoma Department of Commerce Performance Audit**

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### **Background**

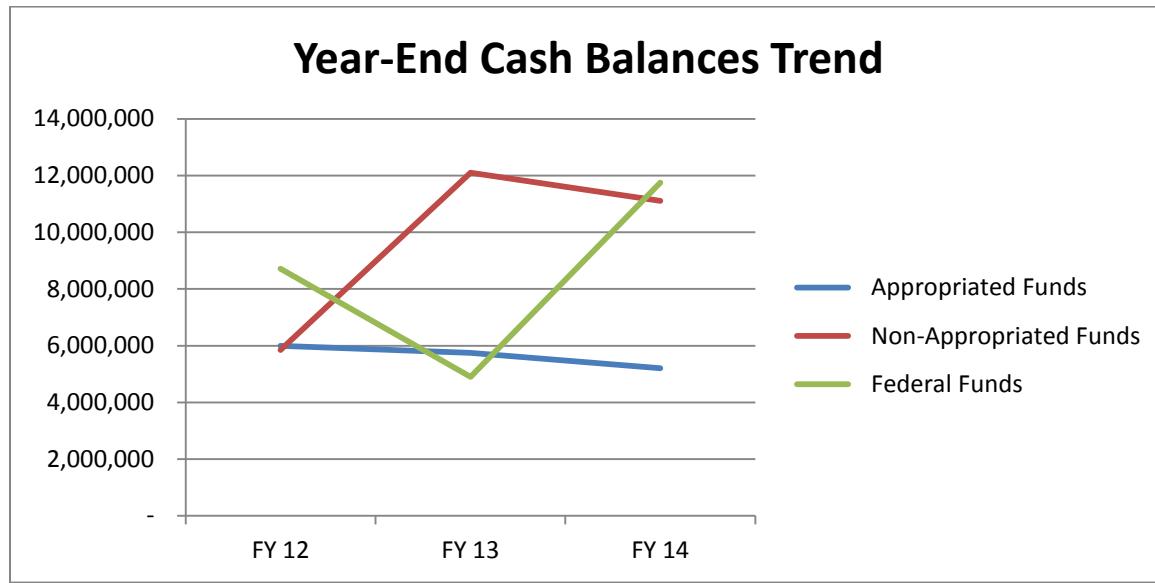
Established in 1986, the Department of Commerce (the Agency) is the state's lead economic development agency. Its responsibilities include assisting and developing local communities through the investment of federal and state resources; stimulating growth of existing businesses; attracting new domestic and international businesses; and promoting the development and availability of a skilled workforce.

In 1996, the Oklahoma Legislature created the Rural Economic Action Plan (REAP). The purpose of this program was to provide a funding source specifically for rural communities with a population of less than 7,000, giving priority to communities with fewer than 1,500 residents. In 2006, the legislature designated the Oklahoma Department of Commerce as the Pass-Through Agency to in turn pass funds through to each of the 11 Councils of Governments (COG). Further refinement of the program took place in May of 2010 with passage of House Bill 3291, 52nd legislature, requiring that funded projects must fall into ten categories of provision of health care services, infrastructure construction, activities to increase employment, and related activities. The Department of Commerce also administers the federal Community Development Block Grant (CDBG) program, which matches federal funds with state-appropriated REAP funds.

# Oklahoma Department of Commerce Performance Audit

The following information illustrates the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.<sup>1</sup>

BUDGET TO ACTUAL COMPARISON						
	FY 2013			FY 2014		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
<b>REVENUES</b>						
General Appropriations	31,016,927	29,573,212	(1,443,715)	29,164,777	29,573,212	408,435
Taxes	350,000	728,746	378,746	350,000	401,554	51,554
Licenses, Permits, and Fees	-	1,987,051	1,987,051	-	499,428	499,428
Fines, Forfeits and Penalties	-	-	-	-	-	-
Income From Money and Property	-	87,428	87,428	-	94,613	94,613
Grants, Refunds and Reimbursements	81,954,799	71,626,664	(10,328,135)	74,731,521	74,923,084	191,563
Higher Education (Student Fees)	-	-	-	-	-	-
Sales and Services	-	(41,168)	(41,168)	-	-	-
Non Revenue Receipts	6,725,049	6,728,054	3,005	-	-	-
Other Revenue Transactions	-	-	-	4,353,834	-	(4,353,834)
<b>Total Revenues</b>	<b>120,046,775</b>	<b>110,689,987</b>	<b>9,356,788</b>	<b>108,600,132</b>	<b>105,491,891</b>	<b>3,108,241</b>
<b>EXPENDITURES</b>						
Personnel Services	11,324,485	11,337,281	12,796	11,560,482	10,648,835	(911,647)
Professional Services	4,381,491	3,582,943	(798,548)	2,945,169	1,942,235	(1,002,934)
Travel Expenses	1,182,086	566,622	(615,464)	779,879	515,397	(264,482)
Administrative Expenses	4,960,049	2,741,081	(2,218,968)	2,731,496	2,168,258	(563,238)
Property, Furniture, Equipment, and Related Debt	8,486,326	8,599,578	113,252	8,293,331	8,967,945	674,614
General Assistance, Awards, Grants, and Other Program-Directed Payments	106,472,535	91,542,271	(14,930,264)	104,038,487	95,132,141	(8,906,346)
Transfers and Other Disbursements	63,520	15,416	(48,104)	63,520	249	(63,271)
<b>Total Expenses</b>	<b>136,870,492</b>	<b>118,385,192</b>	<b>(18,485,300)</b>	<b>130,412,364</b>	<b>119,375,060</b>	<b>(11,037,304)</b>
<b>Expenditures Over (Under) Revenues</b>		<b>7,695,205</b>			<b>13,883,169</b>	
<b>Year-End Cash Balances: FY 12 - FY 14</b>						
	<b>FY 12</b>	<b>FY 13</b>	<b>FY 14</b>			
Appropriated Funds	5,998,885	5,747,818	5,199,759			
Non-Appropriated Funds	5,853,553	12,098,977	11,102,277			
Federal Funds	8,710,818	4,894,888	11,746,451			
<b>Total Available Cash</b>	<b>20,563,256</b>	<b>22,741,684</b>	<b>28,048,487</b>			



<sup>1</sup> This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited. See summary of management's explanation of variances in Appendix A of this report.

# Oklahoma Department of Commerce Performance Audit

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## Scope and Methodology

Our audit was conducted in response to Governor Fallin's request in accordance with 74 O.S. § 212.C and 213.2.B.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2013 through December 31, 2014. We also performed procedures specific to the Rural Economic Action Plan (REAP) program in accordance with the governor's request. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Department of Commerce's operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

## OBJECTIVE I

Determine whether the Agency's internal controls provide reasonable assurance that revenue, expenditures (both miscellaneous and payroll), and inventory were accurately reported in the accounting records, and financial operations complied with significant laws and regulations.

## Conclusion

The Agency's internal controls provide reasonable assurance that miscellaneous and payroll expenditures were accurately reported in the accounting records<sup>2</sup>. In addition, it appears the Agency complied with significant laws and regulations.<sup>3</sup> However, the Agency's internal

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<sup>2</sup> Although originally identified in our planning as an area we would test, after an additional evaluation of risk, we determined that revenues would not be included within the scope of our audit.

<sup>3</sup> We performed procedures to test for compliance with a variety of statutes related to agency revenues and expenditures; see full list in Appendix B.

# Oklahoma Department of Commerce Performance Audit

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controls do not provide reasonable assurance that inventory was accurately reported in the financial records.

## FINDINGS AND RECOMMENDATIONS

### **Inadequate Segregation of Duties over Inventory and Inadequate Documentation of Inventory Counts**

The United States Government Accountability Office's Standards for Internal Control in the Federal Government (2014 Revision)<sup>4</sup> states that, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event." In addition, the Standards state that in order to safeguard vulnerable assets, "Such assets should be periodically counted and compared to control records."

The agency has not adequately segregated key duties related to inventory. The following conflicting conditions were identified:

- The Budget Officer has authority to approve claims and has access to add, modify, or delete inventory records both in PeopleSoft and in the agency's internal inventory records.
- The Budget Specialist has primary responsibility for inventory counts, reconciles inventory, and has access to add, modify, or delete inventory records both in PeopleSoft and in the agency's internal inventory records.
- The Comptroller has authority to approve claims, has signature authority to approve surplus property transactions, and has access to add, modify, or delete internal inventory records.
- All Financial Services employees have access to add, modify, or delete internal inventory records.

In addition, we noted that the agency's physical inventory count was not adequately documented during our audit period. The data generated by the bar code system included only the asset tag number and a general description. We were unable to obtain important documentary evidence related to the inventory count such as: who conducted the count; the date

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<sup>4</sup> Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

# Oklahoma Department of Commerce Performance Audit

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the count was conducted; location of assets identified; any discrepancies noted; and how any identified discrepancies were resolved.

Insufficient segregation of duties creates the opportunity for employees to misappropriate inventory assets for personal use and conceal their actions by modifying inventory records. In addition, the absence of a properly documented annual inventory count creates the opportunity for assets to be missing and go undetected by management.

## **Recommendation**

We recommend management segregate duties to ensure that employees responsible for maintaining or with access to modify inventory records do not have authority to approve surplus property transactions, approve expenditure claims, or perform procurement functions. In addition, we recommend management ensure employees responsible for performing the annual physical inventory not have access to modify inventory records. Management should also ensure that sufficient documentation is maintained related to annual inventory counts.

## **Views of Responsible Officials**

See Appendix C.

<b>OBJECTIVES II/III</b>	<p>Review the Oklahoma Department of Commerce's calculation and distribution of state-appropriated REAP funds to ensure:</p> <ul style="list-style-type: none"><li>a. Appropriate internal controls are in place related to the calculation and distribution of REAP funds.</li><li>b. Calculations and distributions are in compliance with statutory requirements.</li></ul> <p>Review the CDBG/REAP projects directly awarded by the Oklahoma Department of Commerce to ensure:</p> <ul style="list-style-type: none"><li>a. Appropriate internal controls, including but not limited to statutorily required monitoring of REAP expenditures, are in place related to awarding and distribution of CDBG/REAP funds.</li><li>b. Awarded projects were consistent with REAP program objectives.</li></ul>
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## **Conclusion**

Based upon the testwork performed, it appears controls related to the REAP program are generally operating effectively with the exception of inadequate monitoring of REAP-only expenditures. Calculations and distributions of REAP funds appear to be in compliance with statutory requirements and awarded projects appear to be consistent with REAP program objectives.

# Oklahoma Department of Commerce Performance Audit

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## FINDINGS AND RECOMMENDATIONS

### **Inadequate Monitoring of State-Appropriated REAP Funds**

62 O.S. 2011.A. states in part, "The Oklahoma Department of Commerce shall monitor expenditures made pursuant to the Rural Economic Action Plan Act to ensure compliance with provisions of this section." In addition, best practices for subrecipient monitoring include procedures such as reviewing a sufficient detailed level of actual cost data to ensure that the subrecipient is expending funds for authorized and intended purposes. Appropriate subrecipient monitoring is an important fiduciary responsibility of the agency.

Although the agency reviews summary reports of planned projects provided by subrecipient Councils of Government (COGs), there is no review of actual projects, contractor invoices, or other documentation that would provide assurance that state-appropriated Rural Economic Action Plan (REAP) funds are ultimately expended for intended purposes. The agency relies on independent financial statement audits of the COGs, which may not provide the level of assurance necessary to ensure funds were appropriately spent.

Management has noted that 62 O.S. § 2006.E prohibits the use of REAP funds for administrative expenses of the Department of Commerce, such as monitoring. However, this restriction on the use of REAP funds does not nullify management's statutory responsibility to monitor expenditures as stated in 62 O.S. § 2011.A.

The agency is not able to provide sufficient assurance that REAP funds are being spent for their intended purposes. In addition, the agency is not in compliance with 62 O.S. § 2011.A.

#### **Recommendation**

We recommend management develop a monitoring plan that would provide sufficient assurance that state-appropriated REAP funds are ultimately being spent for their intended purpose. Examples of appropriate monitoring activities could include review of a sample of detailed project expenditure documentation as well as detailed monitoring of the COGs. Detailed monitoring of the COGs could include procedures to ensure adequate controls are in place to ensure project expenditures are appropriately documented by the final REAP fund recipients and reviewed by the COGs.

#### **Views of Responsible Officials**

See Appendix C.

# Oklahoma Department of Commerce Performance Audit

## **Appendix A – Management’s Response to Budget-to-Actual Variances**

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Below are the responses obtained from the Oklahoma Department of Commerce regarding variances noted on the budget-to-actual analysis. It is for informational purposes only and has not been audited. See budgeted-to-actual analysis on page 2 of this report.

### **Revenues**

- **General Appropriations** – For FY 13, the budgeted balance includes the FY 12 appropriations that were rebudgeted in FY 13 as carryover. The unspent portion of FY 13 appropriations were re-budgeted in FY 14 as carryover. For FY 14, the budgeted balance includes the FY 13 appropriations that were re-budgeted in FY 14 as carryover. The unspent portion FY 14 appropriations were re-budgeted in FY 15 as carryover.
- **Licenses, Fees, and Permits** – Account code 422299 Unearned Revenue is used by OMES to record funds received for grants or other purposes in advance of expenditures being incurred. In the PeopleSoft system, these grants are recorded as Prepaid Contracts. The original amount received is established under account 422299 and as expenses are incurred, the system utilizes the prepaid balance and transfers the revenue to an appropriate account code based upon the related vouchers and distribution rules established within PeopleSoft. The funds are budgeted under the revenue account code where they will eventually be posted after the utilization process.
- **Grants, Refunds, and Reimbursements** – Grants, Refunds, and Reimbursement revenues are budgeted based upon the available federal pass-through funding, anticipated future funding during the budgeted fiscal year, as well as anticipated grant activity at the local level (city, town, county, community action agency, etc.). Funds are drawn from the Federal grantors as expenses are incurred and fund requests are submitted by the subrecipients.
- **Other Revenue Transactions** – Funds for the State Small Business Credit Initiative were budgeted under the 490000 account code, however when the funds were received, they were posted as Unearned Revenue (see above) and are transferred to a grant account code as expenses are incurred.

### **Expenditures**

- **Personnel Services** – The total FTE count during FY 14 decreased by 13 from 133 in July 2013 to 120 in June 2014. The Secretary of Commerce and Executive Director positions were vacant for three months and two months, respectively. Upon the appointment of a new Secretary of Commerce, the two positions were combined into one. Other divisions also had vacancies throughout the year.
- **Professional Services** – During FY 13, \$124,380 in carryover funds were budgeted to complete the implementation of the OKGrants grant management software system, however the implementation came in under budget and the funds were used elsewhere. Another \$100,000 project to contract with a consultant for training on mapping agency processes was later determined to be unnecessary and a project to reconfigure the agency vestibules to improve airflow and energy efficiency in the building was cancelled while the agency determined if there were more cost effective options. The carryover funds remaining were used for other agency expenditures, such as payroll. Federal Workforce funds were budgeted for a Data Quality system project, however, there were delays in the implementation and the grant funds have not been used as rapidly as expected. During FY 14, the Native American Cultural and Educational Authority (NACEA) budgeted \$705,530 in professional services for the upkeep and maintenance of the AICCM museum property, but the funds were expended under the Construction and Renovation account codes. Federal Workforce funds were budgeted for a Data Quality system project, however, there were delays in the implementation and the grant funds have not been used as rapidly as expected.
- **Travel Expenses** – ODOC travels extensively throughout the year for grant monitoring visits, site visits for business recruiting purposes, trade shows, and training. These trips are dependent upon leads from companies interested in relocating to Oklahoma, the number of trade shows held during a given fiscal year that fit the mission of the agency, and the amount of on-site monitoring needed for grants. Each division evaluates these factors and their planned travel throughout the year and may determine that certain planned trips are no longer necessary or a fit for the mission.

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**Appendix A – Management’s Response to Budget-to-Actual Variances**

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- **Administrative Expenses** – The agency generally budgets additional funds under utilities and building maintenance to account for increases in utility prices and repairs to aging building equipment.

In FY 13, the Global division budgeted for a federal grant under Administrative Expenses, however, most of the funds were expended under General Assistance, Awards, Grants, and Other Program – Directed Payments resulting in a variance of approximately \$408,000. Approximately \$575,000 budgeted as administrative expenses were spent towards interest payments for BRAC Bond debt under account code 548120. The NACEA budgeted \$200,000 for exhibit design, but the funds were paid to the Capitol Improvement Authority as a reimbursement for funds expended by OCIA. These expenditures were coded under Program Reimbursements. The Workforce division overbudgeted administrative expenses by approximately \$411,000. These funds were expended under General Assistance, Awards, Grants, and Other Program – Directed Payments. Federal American Recovery and Reinvestment Act funds (ARRA) were also budgeted for FY 13, however, many of the grants were ending during this period and related administrative expenditures were less than anticipated. Additionally in FY 13, smaller variances resulted from amounts budgeted by other divisions and either expended under other account codes or carried over into the following fiscal year. In FY 14, ARRA expenditures continued to decrease and additional federal funds were budgeted by the Global division as administrative expenses but paid as General Assistance. The Workforce division over-budgeted administrative expenses by approximately \$125,000. These funds were expended under General Assistance, Awards, Grants, and Other Program – Directed Payments. Additionally in FY 14, smaller variances resulted from amounts budgeted by other divisions and either expended under other account codes or carried over into the following fiscal year.

- **Property, Furniture, Equipment, and Related Debt** – The NACEA budgeted \$705,530 in professional services for the upkeep and maintenance of the American Indian Cultural Center and Museum property, but the funds were expended under the Construction and Renovation account codes. ODOC expended approximately \$58,000 to replace cubicles and approximately \$18,000 to upgrade an outdated videoconferencing system.
- **General Assistance, Awards, Grants, and Other Program-Directed Payments** – In FY 13 and 14, \$6,725,049 and \$9,725,049, respectively were budgeted for expenditures in the Quick Action Closing Fund in anticipation of projects to be approved under the program. There were delays in the execution of agreements with program participants and the first \$3,000,000 payment was made in FY 14. The payment was coded as an incentive payment under account code 552140. Beginning in FY 15, funds are budgeted based upon announced projects. Most expenditures under General Assistance are made to local level state and federal grant subrecipients. As noted above, these expenditures are driven by activity at the local level and can be impacted by federal funding availability, the viability of individual projects, environmental review delays, weather delays, etc. The budget is developed based upon prior year activities and anticipated expenditure levels according to program staff familiar with the projects.

#### **Year-End Cash Balances**

- **Non-Appropriated Funds** –The increase in “non-appropriated” funds in FY 13-14 is due to the funding for the Quick Action Closing Fund (QACF). In FY 13, \$6,725,049 was appropriated to fund 255. An additional \$3,000,000 was appropriated in FY 14 to replace the \$3,000,000 paid to a QACF recipient.
- **Federal Funds** –Variances in Federal funds are mainly due to due cash drawn on behalf of subrecipients. These funds are deposited and expended in funds 405 & 490. Fund 490 was used for ARRA programs which ended throughout FY 13 & 14. Funds 416, 426, and 455 are used for revolving loan programs. The programs in 416 and 426 average about one new loan per year. Repayments made to fund 455 are considered program income by HUD and are to be used for payments to subrecipients before drawing new funds from HUD. ODOC also received allocations from the Federal “State Small Business Credit Initiative” program in FY 12 and FY 14 which contributed to the increased cash balance.

## Oklahoma Department of Commerce

## Performance Audit

### **Appendix B – Schedule of Significant Laws and Regulations Tested**

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We tested for compliance with the following significant laws and regulations:

Title 37 O.S. §563.1

Title 62 O.S. §48

Title 62 O.S. §48.2

Title 62 O.S. §2001

Title 62 O.S. §2004

Title 62 O.S. §2006

Title 63 O.S. §2901

Title 74 O.S. §581

Title 74 O.S. §1226.17

Title 74 O.S. §5003.10d

Title 74 O.S. §5003.10.18

Title 74 O.S. §5008.3

Title 74 O.S. §5013

Title 74 O.S. §5013.1

Title 74 O.S. §5013.2

Title 74 O.S. §5013.3

Title 74 O.S. §5020.1

Title 74 O.S. §5035

**Oklahoma Department of Commerce**  
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**Appendix C – Agency's Response To Findings**

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See management response letter in full beginning on following page.

**OKLAHOMA**  
DEPARTMENT OF COMMERCE



Monday, November 02, 2015

Gary A. Jones, CPA, CFE  
Oklahoma State Auditor and Inspector  
2300 N. Lincoln Blvd., Room 100  
Oklahoma City, Oklahoma 73105

Attention: Melissa Capps

Dear Mr. Jones:

In connection with your performance audit of the Oklahoma Department of Commerce for the period July 1, 2013 through December 31, 2014, we confirm, to the best of our knowledge and belief, the following representations made to you during your engagement.

1. We have made available to you all information that we believe is relevant to agency's internal controls over financial operations.
2. We have disclosed to you all bank accounts, used for the operation or functions of the agency, that are under the control of any official or employee of the agency.
3. We have responded fully to all inquiries made to us by you during your audit.
4. We acknowledge the State Auditor's two findings related to Inadequate Segregation of Duties over Inventory and Inadequate Monitoring of State-Appropriated REAP funds. In points (a) and (b) below, please find the responses by the Oklahoma Department of Commerce related thereto respectively.
  - a. Due to a high turnover rate in the asset manager position and the amount of training necessary to gain access to the PeopleSoft Asset Management system, the Budget Officer took over back up asset manager responsibilities to ensure continuity in inventory processes during staff changes. To mitigate concerns related to asset control, ODOC will request that the Office of Management and Enterprise Services restrict access to the folder containing asset inventory information to the Budget Specialist and Budget Officer only. Each month, the Budget Specialist will submit a hard copy of the PeopleSoft and internal inventory lists and a reconciliation of asset additions and disposals to the Comptroller for review.

In April 2015, ODOC conducted an annual inventory using a new bar code scanner. The scanner produces an Excel file containing the asset tag number, the division where asset is located, and a date/time stamp showing when the asset was inventoried. The Budget Specialist is currently working to create a more detailed list of asset locations and "owners" (employees responsible for each asset) for inclusion in both the PeopleSoft and internal inventory lists. ODOC also conducted an interim inventory in September 2015 due to an agency relocation. The interim inventory list was reconciled to the April 2015

inventory and contains records noting discrepancies (such as assets not in the same location as the previous inventory or that could not be located at the time of the physical inventory) and assets sent to surplus during the relocation. A new “midyear inventory” tab was added to the Excel inventory file. As discrepancies are resolved, the midyear inventory list is updated with the current location of the asset (division name, employee/owner and/or surplus).

- b. With regard to the audit period (July 1, 2013 – December 31, 2014), reviewed by the Office of the State Auditor and Inspector, Community Development concurs that the information is essentially correct concerning the monitoring processes that were in place. However, in February 2014, at the request of the Secretary of Commerce and in coordination with the ODOC Chief of Staff, all REAP practices were reviewed by the Director of Community Development and Community Development staff who were charged with planning and implementing the REAP program. The attached guidance document titled “Rural Economic Action Plan” was presented to and approved by the Secretary of Commerce, with implementation to begin with the FY’15 REAP program.

Since 2014, several new monitoring documents/procedures have been added to the REAP guidelines including:

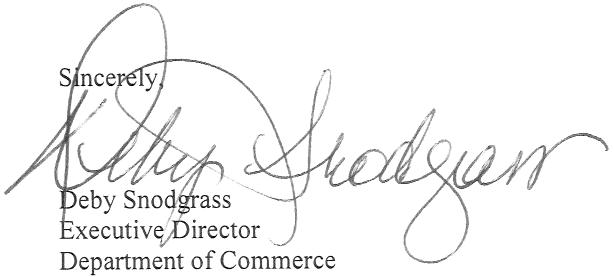
- Quarterly reports are required from each of the 11 Councils of Government (COG) to be submitted no later than the 15<sup>th</sup> of the month following the end of the quarter. This reporting tracks REAP projects that have been completed and required closeout documentation submitted during the quarter. The quarterly reports are reviewed by ODOC project management staff. If ODOC has not received this report by the aforementioned deadline, future REAP payments will be held until ODOC has received the report.
- At the end of each fiscal year, each COG is required to submit the Closeout Certification Page along with REAP Project Year End Reports and the Prior year REAP Funding Update Report. These documents are uploaded into the OKGrants System and are reviewed by Project Management Staff, the Community Development Director of Programs, and ODOC Audit Unit.
- An Affidavit Certifying REAP Project Completion is required to be signed and submitted to ODOC by a registered professional engineer in the State of Oklahoma or Authorized City/County Official. This affidavit attests that “the improvements were accomplished according to approved plans and specifications and/or duly authorized change orders, to the best of my knowledge, information and belief.” This is a similar document required in the federal Community Development Block Grant (CDBG) program.

In addition, ODOC will concur with the recommendation that “management develop a monitoring plan that would provide sufficient assurance that state-appropriated funds are ultimately being spent for their intended purpose.” As has been noted in this audit report, Oklahoma statute currently prohibits the use of REAP funds for administrative expenses, such as monitoring. Therefore, ODOC plans to utilize existing Community Development staff to design and implement an on-site monitoring of the 11 COG’s similar to that utilized in the State Funded Community Expansion of Nutrition Assistance (CENA) program. Currently, ODOC implements on-site monitoring of the 8 COGs and 3 Areawide Agency on Aging organizations that

administer the CENA program. The CENA monitoring process is comprehensive addressing programmatic, financial and operational management. It is believed that the CENA monitoring process can be adapted to meet the requirements to monitor REAP funds at the COG and sub-recipient levels. ODOC staff will begin the monitoring of REAP funds at individual COGs beginning in the spring of 2016. ODOC staff will conduct a random sampling of projects funded by each COG, incorporating both previous years and current year open contracts. Monitoring of the REAP programs at all 11 COGs will have been conducted within one year from the onset of the process which would be spring of 2017.

Additionally, attached, please additional information regarding REAP that we respectively ask for inclusion in the final report.

Sincerely



Deby Snodgrass  
Executive Director  
Department of Commerce

# Rural Economic Action Plan

Community Development Services  
Community Infrastructure Team

February 6, 2014

## **Background of the Rural Economic Action Plan**

In 1996, the Oklahoma Legislature created the Rural Economic Action Plan (REAP). The purpose of this program was to provide a funding source specifically for rural communities with a population of less than 7,000 and giving priority to communities with fewer than 1,500 residents. The original program provided funds to the State Auditor Office who in turn passed the funds thru to each of the 11 Councils of Governments (COG). In 2006, the legislature designated the Oklahoma Department of Commerce as the Pass Thru Agency. Further refinement of the program took place in May of 2010 with passage of House Bill 3291, 52<sup>nd</sup> legislature. This set forth that all project activities must fall into one of the following (10) activities:

1. Rural water quality projects, including acquisition, treatment, distribution, and recovery of water for consumption by humans and animals or both;
2. Rural solid waste disposal, treatment, or similar projects
3. Rural sanitary sewer construction or improvements
4. Rural road or street construction improvement projects;
5. Provision of health care services, emergency medical care, in rural areas
6. Expenditures designed to increase the employment level
7. Provision of health care services, emergency medical care, in rural areas
8. Construction or improvement of telecommunication facilities or systems;
9. Improvement of municipal energy distribution systems; and
10. Community Building, courthouses, town halls, senior nutrition centers, meeting rooms or similar public facilities

Additionally at least eighty percent (80%) of all funds expended shall be for projects that fall under activities 1-6 as set forth above.

## **REAP Process**

### **State Appropriations**

Each year the Oklahoma Legislature passes an appropriation bill which specifically allocates the amount to be provided to the REAP program. Bills are usually signed in late May.

Once ODOC staff is made aware of the amount, each COG will be contacted (See Attachment -2-COG Map) indicating that an application can be made through the OKGrants system. Each COG gets the same amount except for the two Metro COGs.... ACOG and INCOG.

### **Application Submittal by COGs and Awarding of Contract by ODOC**

Depending on the individual COG, REAP Plans are generally submitted through ODOC's OKGrants system from August to September. The Plans are reviewed to ensure the appropriate detailed line item budget is correct, prior audit has been submitted, and resolutions attesting that the COG will follow REAP program legislation. Once it is determined that the application is deemed sufficient, the ODOC will send an award letter and contract. When the COG receives the award letter and signs the contract in OKGrants the COG can request all Planning funds immediately. Planning funds are 5% of the total amount allocated to each COG.

### **COGs Application Process and Project List Approval by ODOC**

Local communities within the COGs jurisdiction make application's for REAP funds directly to their applicable COG. The COGs will then review and rank the applications received based on their own

competitive process. Once the projects have been selected by COG staff, the Governing Board of the COG will formally approve the projects. COGs staff will then upload the list of projects in OKGrants for review by ODOC. Most COGs award late in the year with a few in January and February. Approximately 175 projects are awarded each year by the COGs. ODOC will review to ensure all projects fall into one of the ten prescribed categories. Additionally 80% of the projects are required to be within the first 6 categories.

#### **COG Community Contracts, Funding Draws and Close-out**

Except for the Planning funds, COGs may only request one-twelfth of the funds at a time from ODOC. Depending on the COG, most request funds only a few times late in the year. Funds are drawn by the COGs after projects have been selected and they are ready to contract out with a local community. Throughout the year COGs may request a change in project scope on a previously awarded project and ask for ODOC approval. Once all funds have been requested from ODOC and the COG has made all awards to their local communities they will submit a close-out certification of their fiscal year REAP program.

#### **Programmatic Implementation**

Once the REAP contracts are executed with each of the 11 COG's, the ODOC project manager reviews all reimbursement claims and quarterly reports. The process is as follows:

- \* Reimbursement form is submitted to ODOC through the OKGrants system.
- \* Project Manager reviews the form making sure only the monthly allowable amount has been requested
- \* After reviewing form and if there are no corrections to be made the project manager sends the reimbursement form to ODOC Financial Services.
- \* Quarterly reports are due by the 10<sup>th</sup> of the month following the quarter, if the report has not been uploaded the ODOC project manager will not approve payment of any reimbursement form received.
- \* At year end each COG must submit the final quarterly report along with closeout documents no later than July 30<sup>th</sup>.



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