

EXECUTIVE DEPARTMENT

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED JANUARY 29, 2020

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

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**FOR STATE AUDIT SERVICES**  
NICOLE B. EDMONSON, CIA, CGAP, MPA

**DIRECTOR OF FINANCIAL AUDIT**  
ERNEST F. SUMMERVILLE, JR., CPA

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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Executive Department



January 2020

Audit Control # 80190032

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## Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2019, we performed procedures at the Executive Department to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of the Executive Department's internal controls over financial reporting and compliance; and determine whether the Executive Department complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

## Results of Our Procedures

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### Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the Executive Department's management letter dated January 16, 2019. We determined that management has resolved the prior-year finding related to Deficiencies in Control over Payroll. The prior-year findings related to Inadequate Grant Recovery of Homeowner Assistance Program (HAP) Awards and Inadequate Recovery of Small Rental Property Program (SRPP) Loans have not been resolved and are addressed again in this letter.

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### Current-year Findings

#### Inadequate Grant Recovery of Homeowner Assistance Program Awards

For the fiscal year ended June 30, 2019, the Division of Administration (DOA), Office of Community Development (OCD), Disaster Recovery Unit (DRU) identified \$155,000 in noncompliant HAP awards for two homeowners through post-award monitoring for the Community Development Block Grant/State's Program (CDBG). Because these noncompliant awards have not been recovered as of June 30, 2019, we consider the amounts as questioned costs. In addition, 28,547 noncompliant files totaling \$962.7 million identified in previous years are still outstanding. Of this total, OCD is actively pursuing collections on 17,353 files totaling

\$621.9 million, and the remaining 11,194 files totaling \$340.7 million have been determined uncollectable for various reasons such as death or bankruptcy.

As of June 30, 2019, \$8.9 billion in total HAP awards have been disbursed to 130,053 homeowners. At year-end, OCD was actively reviewing files for 17 applicants totaling \$591,000 identified as potentially noncompliant to make final determinations. In addition, OCD reported that the following progress was made during fiscal year 2019: 606 files were submitted to a law firm to pursue collection efforts; 129 applicants requested a plan for payment; and 354 files with obligations were paid off or were cleared.

OCD's failure to recover benefits from noncompliant homeowners could result in disallowed costs. The state could be liable for noncompliant awards if disallowed by the federal grantor; however, it is unknown whether the federal government would demand repayment of these awards.

In response to hurricanes Katrina and Rita, the state was awarded approximately \$9.5 billion to administer HAP as part of the Road Home program in accordance with its Action Plan approved by the U.S. Department of Housing and Urban Development (HUD). The state's Action Plan stipulates that eligible homeowners must agree in legally-binding documents, referred to as covenants, to follow through on certain future actions in exchange for up to \$150,000 in compensation for their damaged property. Funds are disbursed to the homeowner upon the effective date of signing the covenant, which is referred to as the closing date. Homeowners agree in the covenant to provide OCD with evidence that they will occupy their damaged property or replacement property within three years of the closing date, maintain homeowner's insurance on their property, maintain flood insurance if necessary, and ensure that any required elevation conforms to the advisory base flood elevation regulation for the parish in which their home is located. The state's Action Plan states that homeowners who fail to meet all of the program's requirements may not receive benefits or may be required to repay all or some of the compensation received back to the program.

In the initial stages of the program, OCD focused on making payments to disaster victims as quickly as possible, because the state had made a decision to accept additional risks associated with expedited payments with the understanding that any ineligible or unallowable payments would be detected and corrected in post-award monitoring. Awards are included in grant recovery because of duplication of benefits (homeowner's insurance proceeds or other federal assistance), lack of documentation evidencing owner-occupancy of the property, and noncompliance with one or more award covenants. In addition, individual homeowner awards have been identified for grant recovery because of errors made by the program's former contractor, ICF International Inc., in determining the grant calculation or obtaining the required documentation.

In August 2015, HUD amended the grant terms and conditions to formalize a partnership between the state and HUD and created the Road Home closeout plan, which continues to address noncompliance. Additional opportunities allow for the review of awards to determine if any unmet needs or additional assistance is necessary for participants to return home, including reclassification of the Road Home Elevation Incentive award and allowing interim housing as an

unmet need. OCD has forwarded noncompliant awards to a law firm for collection in accordance with the Road Home closeout plan.

OCD should continue its recovery efforts to collect those awards determined to be noncompliant. OCD's response indicates concurrence with the finding stating that OCD will continue its efforts to recover those awards determined to be ineligible in accordance with policies and procedures that are acceptable to HUD. OCD's response also indicates that OCD will continue to work with homeowners to become compliant and resolve grant compliance issues in order to reduce or eliminate the need to recapture funds from homeowners where appropriate (see Appendix A, pages 1-2).

### **Inadequate Recovery of Small Rental Property Program Loans**

For the fiscal year ended June 30, 2019, the DOA, OCD-DRU identified \$7,585,337 in SRPP loans for 85 property owners under the CDBG who failed to comply with one or more of their loan agreement requirements and were assigned to loan recovery status. Since OCD has not recovered these loans, we consider these amounts totaling \$7,585,337 to be questioned costs. Of the \$7.6 million, OCD reported that loans totaling \$1.1 million for 16 borrowers have been determined uncollectable for various reasons such as foreclosure, property seizure, or legal dispute. In addition, 922 noncompliant loans identified in previous years totaling \$81.3 million remain outstanding. Of this total, OCD is actively pursuing collections on 778 loans totaling \$68.7 million. The remaining \$12.6 million is for noncompliant loans that OCD has determined uncollectable for the same reasons noted previously.

As of June 30, 2019, of the 4,489 outstanding SRPP loans totaling \$438.6 million, 847 noncompliant loans totaling \$75.2 million are in active recovery status, and OCD represented that current recovery efforts are to either recoup the loan funds or work with the applicants to bring them into compliance with the state's continuing requirements of the program. In addition, 153 noncompliant loans totaling \$13.8 million have been determined by OCD to be uncollectable.

Ultimately, OCD's failure to recover loans from noncompliant property owners could result in disallowed costs. The state could be liable for noncompliant awards if disallowed by the federal grantor; however, it is unknown whether the federal government would demand repayment of the awards.

In response to hurricanes Katrina and Rita, the state was awarded and has allocated approximately \$653 million to the SRPP as part of the Road Home program. In accordance with the state's HUD-approved Action Plan Amendment 24, the SRPP offers forgivable loans to qualified property owners who agree to offer rental properties at affordable rents to be occupied by lower-income households. In exchange for accepting loans ranging between \$10,000 and \$100,000 per rental unit, property owners are required to accept limitations on rents and incomes of renters during an "affordability period," a specified period of time based on the amount of funding received and the type of work being done (renovation or full construction) ranging between three and 20 years. The loan amounts are determined based on location of property,

number of bedrooms, and the poverty level of the renter. In addition to accepting limitations on rents and income of renters, property owners also agree to maintain property insurance and maintain flood insurance, if necessary. These requirements become effective one year after the closing date and remain until the expiration of the “affordability period.” According to the loan agreements, failure to comply with any of the loan requirements shall constitute default and mandatory repayment. Good internal controls would ensure that policies and procedures are in place with an established timeline to monitor compliance with the loan agreements and provide for specific actions (i.e., loan modification, foreclosure, or repayment) if a property owner fails to comply with the loan agreement or does not provide evidence of compliance as required by the loan agreement.

In June 2016, HUD issued a monitoring review report that included a finding that states the SRPP design lacked sufficient fiscal accounting controls and procedures to ensure that CDBG funds identified as ineligible expenses are able to be recaptured and repurposed for eligible uses. In HUD’s May 2017 monitoring report, HUD noted that Louisiana had made significant progress on reviewing the SRPP documentation and implementing the corrective actions described in the June 2016 monitoring report. In HUD’s May 2018 and March 2019 monitoring reports, HUD reported that OCD would continue to use tools available to bring the noncompliant applicants into compliance and take recovery action against those that are unable to become compliant. OCD will continue to update HUD quarterly on progress towards resolving the finding.

OCD should continue its monitoring to identify awards to be placed in recovery and continue the corrective actions as recommended by HUD to recover funds from noncompliant property owners. OCD stated in its response that it will continue the efforts to recover ineligible awards and will continue to work with rental property owners to become compliant and resolve loan compliance issues to reduce or eliminate the need to recapture funds from rental property owners (see Appendix A, pages 3-4).

**Additional comments:** OCD’s response notes that those files determined to have satisfied a HUD National Objective, but not the state’s continuing program requirements, are not subject to repayment to HUD. However, OCD could not provide communications from HUD supporting this statement. Therefore, we continue to identify these files as questioned costs.

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## **Comprehensive Annual Financial Report (CAFR) – State of Louisiana**

As a part of our audit of the CAFR for the year ended June 30, 2019, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

### **Division of Administration (Agency 107):**

- Liabilities resulting from claims and litigations

**Division of Administration, Office of Facility Planning and Control (Agency 115):**

- Non-payroll expenditures
- Accrued payables
- Amounts held on deposit for others

**Division of Administration, Office of Technology Services (Agency 815):**

- Operating expenses

**Louisiana GO Zone Loan Fund (Agency 862):**

- Notes receivable

We also evaluated certain controls and compliance relating to procurement at DOA, Office of State Procurement.

The account balances and classes of transactions tested are materially correct.

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**Federal Compliance - Single Audit of the State of Louisiana**

As a part of the Single Audit for the year ended June 30, 2019, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on the Executive Department's major federal programs, as follows:

**Division of Administration, Office of Community Development**

- Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA 14.228)
- Disaster Assistance Projects (CFDA 97.088)

Those tests included evaluating the effectiveness of the Executive Department's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether the department complied with applicable program requirements. In addition, we performed procedures on information submitted by the department to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards (SEFA) and on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to Inadequate Grant Recovery of Homeowner Assistance Program Awards and Inadequate Recovery of Small

Rental Property Program Loans. These findings will also be included in the Single Audit for the year ended June 30, 2019. In addition, the department's information submitted for the preparation of the state's SEFA and the state's Summary Schedule of Prior Audit Findings, as adjusted, is materially correct.

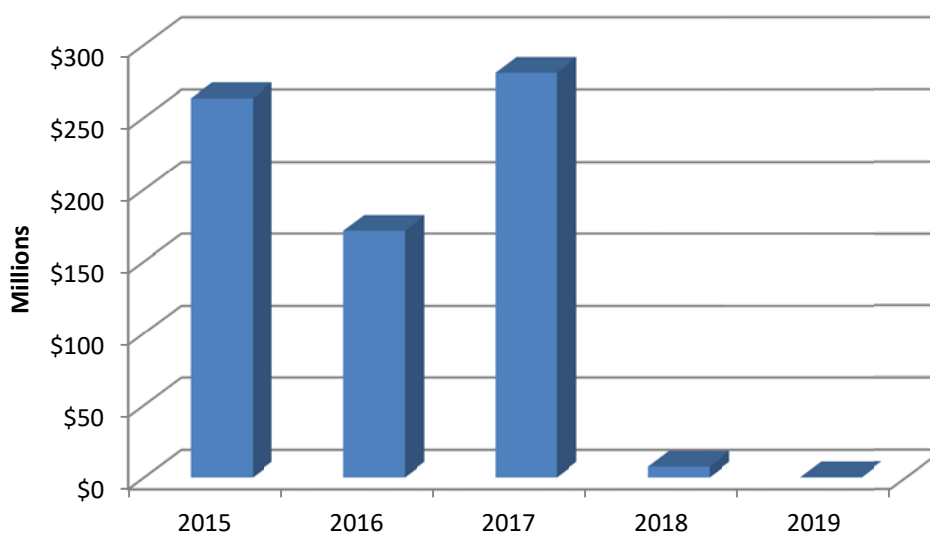
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## Trend Analysis

We compared the most current and prior-year financial activity using the Executive Department's Annual Fiscal Reports and/or system-generated reports and obtained explanations from management for any significant variances. We also prepared an analysis of awards added to recovery for the CDBG-HAP (Exhibit 1) and SRPP programs (Exhibit 2) for fiscal years 2015 through 2019.

During fiscal year 2019, the HAP program had a significant decline in the amounts added to recovery, which is a result of the program being in its final stages. No further award expenditures for this program are expected beyond fiscal year 2020, and OCD will continue to focus on grant recapture and collections as it moves toward program closeout. The fiscal year 2019 decrease in SRPP amounts added to recovery is primarily due to a change in the processing of potentially noncompliant files which has resulted in more prompt responses from applicants, preventing them from being placed in recapture.

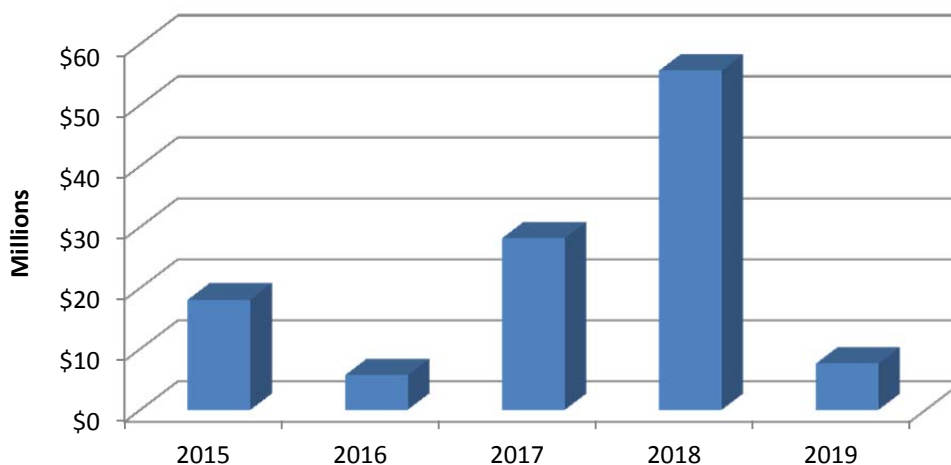
**Exhibit 1**  
**HAP Awards Added to Recovery,**  
**By Fiscal Year**



Source: OCD Grant Recapture Reports



**Exhibit 2**  
**SRPP Awards Added to Recovery,**  
**By Fiscal Year**



Source: OCD Loan Recovery Reports

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## Other Reports

On December 23, 2019, a report was issued by Louisiana Legislative Auditor's Financial Audit Services for the Division of Administration - Office of Group Benefits. This report includes a finding titled *Inaccurate Annual Fiscal Reports* that involves the Office of Finance and Support Services, an office included within the Division of Administration within the Executive Department. The report also includes a finding titled *Inadequate Monitoring of System Access* that involves the Office of Technology Services (OTS), an office included within the Division of Administration within the Executive Department. This report is available on the Louisiana Legislative Auditor's website.

On December 23, 2019, a report was issued by Louisiana Legislative Auditor's Financial Audit Services for the Department of Revenue. This report includes a finding titled *Duplicate Individual Income Tax Refunds* that involves OTS. This report is available on the Louisiana Legislative Auditor's website.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the Executive Department. The nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. The findings related to the department's compliance with applicable laws and regulations should be addressed immediately by management.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Daryl G. Purpera".

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

MK:CST:BQD:EFS:aa

EXECUTIVE 2019

## **APPENDIX A: MANAGEMENT'S RESPONSES**



Office of Community Development  
State of Louisiana  
Division of Administration

JOHN BEL EDWARDS  
GOVERNOR



JAY DARDENNE  
COMMISSIONER OF ADMINISTRATION

December 3, 2019

Mr. Daryl G. Purpera, CPA, CFE  
Louisiana Legislative Auditor  
1600 North Third Street  
Baton Rouge, LA 70804-9397

RE: Inadequate Grant Recovery of Homeowners Assistance Program Awards

Dear Mr. Purpera:

The Division of Administration's Louisiana Office of Community Development (OCD) is submitting the following as a response to the Legislative Auditor's audit finding titled "Inadequate Grant Recovery of Homeowners Assistance Program Awards (HAP)."

In August 2015, OCD executed a Road Home close-out plan with HUD which formalized a partnership between the state and HUD to address noncompliance with the HAP program. The agreement was completed with cooperation of both HUD's Community Planning and Development (CPD) and Office of Inspector General (OIG) sections. The plan calls for OCD to follow its recapture policy and procedures in addition to annual monitoring by HUD. To date, HUD has performed four annual monitoring visits and has provided useful Technical Assistance while the reports from these visits have not included any findings.

Since the last LLA audit, OCD has identified an additional \$155,000 of non-compliant grants. This process has also resulted in \$2.1 million of previously non-compliant grants being removed from the list, either through documentation of compliance or grant recovery.

In conclusion, OCD will continue its efforts to recover those awards determined to be ineligible in accordance with policies and procedures that are acceptable to HUD. Concurrently, OCD will also continue to work with homeowners to become compliant and to resolve grant compliance issues in order to reduce or eliminate the need to recapture funds from homeowners where appropriate.

Mr. Daryl G. Purpera

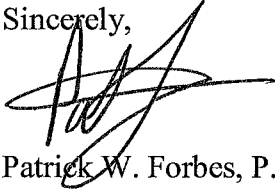
December 3, 2019

Page 2

The contact person responsible for the corrective action is Edwin Legnon, Director of Finance and Reporting for OCD. The anticipated completion date for this corrective action plan will coincide with the closing of the HAP program, once approved by HUD.

If you have any questions or require additional information, please feel free to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick W. Forbes', with a stylized, sweeping flourish extending to the right.

Patrick W. Forbes, P.E.  
Executive Director

C: Jay Dardenne, Commissioner of Administration  
Desireé Honoré Thomas, Assistant Commissioner of Statewide Services  
Marsha Guedry, Internal Audit Administrator

Office of Community Development  
State of Louisiana  
Division of Administration

JOHN BEL EDWARDS  
GOVERNOR



JAY DARDENNE  
COMMISSIONER OF ADMINISTRATION

December 18, 2019

Mr. Daryl G. Purpera, CPA, CFE  
Louisiana Legislative Auditor  
1600 North Third Street  
Baton Rouge, LA 70804-9397

RE: Inadequate Recovery of Small Rental Property Program Loans

Dear Mr. Purpera:

The Division of Administration, Louisiana Office of Community Development (OCD) is submitting the following as a response to the audit finding titled "Inadequate Recovery of Small Rental Property Program Loans."

The Small Rental Property Program has two tiers of compliance obligations. The federal compliance requirements are for the CDBG funds issued to a borrower to meet a National Objective and be expended on an Eligible Activity. On top of the federal requirements, the State has its own program requirements. Upon the initial placement of an eligible tenant in a habitable unit at a restricted rent amount, the HUD requirements have been satisfied. Most of the matters made the subject of your report deal with the borrower's non-compliance with the State's program rules, not the HUD requirements.

OCD has allocated approximately \$649 million to the SRPP program to fund approximately 4,500 applicants and we maintain an ongoing monitoring process to promote compliance and continued existence of affordable housing. Consistent with the program's mission of preserving and expanding much needed affordable housing, OCD's primary focus for the Small Rental Property Program (SRPP) is to assist property owners in achieving and maintaining compliance, i.e., creating and continuing affordable housing opportunities, as opposed to foreclosure and/or recapture of funds.

In summary, as of June 30, 2019, the LLA has determined that 1,000 applicant files have been identified as noncompliant. Of these, 153 files have been determined to be uncollectible, leaving 847 files that are actively being addressed. Using the two tiers defined above, 397 files have not meet a National Objective, while the remaining 450 have met the HUD requirements, but are non-compliant with the State's program rules.

Regarding the first group, in June 2016, OCD, working with the Louisiana Housing Corporation (LHC) and the U.S. Department of Housing and Urban Development (HUD), identified 397 SRPP applicants that did not meet a National Objective. OCD's Legal Section and LHC program staff have been communicating with non-compliant applicants and evaluating proposed workouts. Each file is processed with a goal of either reaching compliance, securing repayment, or identifying another viable workout plan. As of June 30, 2019, of the 397 files identified, 65 applicants have become compliant or repaid their loans, 18 applicants have transferred their housing obligations to other compliant properties, and 27 have been determined uncollectable for various reasons. OCD has sent default letters and initiated recapture efforts on all remaining 287 applicants.


The 450 remaining files identified by the Louisiana Legislative Auditor (LLA) as non-compliant have met a National Objective and have satisfied HUD's requirements and, as such, are not subject to repayment to HUD; OCD's compliance and repayment efforts relating to the state imposed continuing requirements of the program are ongoing.<sup>1</sup> The optimal outcome of these efforts is the continued provision of affordable housing through compliance.

In conclusion, OCD and LHC will continue the efforts to recover those loans determined to be ineligible in accordance with policies and procedures that are acceptable to HUD. Concurrently, OCD will also continue to assist rental property owners to become compliant and to resolve any program compliance issues, thus increasing available affordable rental housing and reducing or eliminating the need to recapture funds from rental property owners, where appropriate.

The contact person responsible for the corrective action is Edwin Legnon, OCD Director of Finance and Reporting. Once approved by HUD, the anticipated completion date for this corrective action plan will coincide with the closing of the SRPP program.

If you have questions or require additional information, please feel free to contact me.

Sincerely,



Patrick W. Forbes, P.E.  
Executive Director  
Office of Community Development

C: Jay Dardenne, Commissioner of Administration  
Desireé Honoré Thomas, Assistant Commissioner of Statewide Services  
Marsha Guedry, Internal Audit Administrator

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<sup>1</sup>An important note with respect to these files is that since there have been periods of compliance, a portion of each loan is forgiven, reducing the amount outstanding and collectible on the loan.



## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Executive Department for the period from July 1, 2018, through June 30, 2019, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report (CAFR), and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the CAFR and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2019.

- We evaluated the Executive Department's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the Executive Department.
- Based on the documentation of the Executive Department's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the CAFR.
- We performed procedures on the following federal programs for the year ended June 30, 2019, as a part of the 2019 Single Audit:
  - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA 14.228)
  - Disaster Assistance Projects (CFDA 97.088)
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2019, as a part of the 2019 Single Audit.
- We compared the most current and prior-year financial activity using the Executive Department's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from the department's management for significant variances.

The purpose of this report is solely to describe the scope of our work at the Executive Department, and not to provide an opinion on the effectiveness of the Executive Department's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review the Executive Department's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The Executive Department's accounts are an integral part of the state of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.