EXECUTIVE DEPARTMENT

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED JANUARY 16, 2019

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
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 2019

Audit Control # 80180027

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, 2018, 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

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the Executive Department management letter dated March 14, 2018. We determined that management has resolved the prior-year findings related to Inadequate Disaster Recovery and Business Continuity Planning and Improper Authorization for Payment of Exempt Property Taxes. 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.

Current-year Findings

Division of Administration, Office of Community Development

Inadequate Grant Recovery of Homeowner Assistance Program Awards

For the fiscal year ended June 30, 2018, the Division of Administration (DOA), Office of Community Development (OCD), Disaster Recovery Unit (DRU) identified $7.5 million in noncompliant HAP awards for 287 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, 2018, we consider the amounts as questioned costs. Of the $7.5 million, OCD reported that awards totaling $6.7 million for 250 homeowners have been determined uncollectable as these homeowners died subsequent to receiving the award. In addition, 28,141 noncompliant files totaling $965 million identified in previous years are still outstanding. Of this total, OCD is actively pursuing collections on 21,050 files totaling $728.7 million and the remaining 7,091 files totaling $236.3 million have been determined uncollectable for various reasons such as death or bankruptcy.

As of June 30, 2018, $8.9 billion total HAP awards have been disbursed to 130,052 homeowners. At year end, OCD was actively reviewing files for 454 applicants totaling $14 million identified as potentially noncompliant to make final determinations. In addition, OCD reported that the following progress was made during fiscal year 2018: 827 files were submitted to a law firm to pursue collection efforts, 260 applicants requested a plan for payment, and 2,186 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 to 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, 2018, OCD-DRU identified $55,616,261 in SRPP loans for 583 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 $55,616,261 to be questioned costs, which if disallowed could be due back to the federal grantor. In addition, questioned costs from previous fiscal years totaling $92,776,393 remain in recovery status. Of the $438.9 million in SRPP outstanding loans at June 30, 2018, 1,633 loans totaling $148,392,654 are in 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 response to hurricanes Katrina and Rita, the state was awarded and has allocated approximately $650 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 has 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 monitoring report, HUD reported that OCD will continue to use tools available to bring the noncompliant applicants into compliance and take recovery action against those who are unable to become compliant. OCD will continue to update HUD quarterly on progress towards resolving the finding.

Ultimately, OCD's failure to take appropriate action to recover loans from noncompliant property owners could result in disallowed costs. 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).

Division of Administration, Office of Technology Services

Deficiencies in Control over Payroll

DOA's Office of Technology Services (OTS) did not adhere to DOA policies designed to establish adequate internal controls over payroll expenditures. OTS utilizes an electronic certification system for certification and approval of employee time statements. However, OTS did not place sufficient emphasis on adherence with DOA policies over timekeeping. Consequently, time and attendance records were not properly certified, approved, and monitored, as required by DOA policies, which increases the risk of payroll error or fraud.

A review of 25 payroll transactions identified the following exceptions:

- Two (8%) time statements were not certified timely by the employee. The time statements were certified 8 to 16 days after "payroll Monday." DOA's policy defines "payroll Monday" as the Monday immediately following the end of each pay period.

- Six (24%) time statements were not approved timely by the employee's supervisor. The time statements were approved 7 to 45 days after "payroll Monday."

- One (4%) time statement was not approved by the employee's supervisor.

- Three (12%) time administrators did not retain the required monitoring report.

- Two (8%) time administrators, who retained the monitoring report, could not provide evidence that the employees or supervisors were notified that time statements were not certified and/or approved.

DOA's policy requires all DOA employees, regardless of their work status on "payroll Monday," to certify the time statement for that pay period, and approvers are required to approve the certified statements or contact those employees who have not yet certified the time statement. The policy also requires time administrators to run the ZP241 report, which identifies employees who have/have not certified their time and approvers who have not approved/rejected employee time statements, on the Tuesday following "payroll Monday" and retain a hard copy of the report.

OTS management should enforce policies established by DOA to ensure adequate controls over payroll expenditures are in place and operating effectively. OTS management's response indicated concurrence with the instances of delayed approvals and certifications identified above and outlined a plan of corrective action (see Appendix A, page 5).

Comprehensive Annual Financial Report (CAFR) – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2018, 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
- Construction contracts and retainage payable
- Amounts held on deposit for others

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.

Based on the results of these procedures, we did not report any internal control deficiencies or noncompliance with laws or regulations. In addition, the account balances and classes of transactions tested are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2018, 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)

Division of Administration, Office of Facility Planning and Control

- Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)

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, as described previously. These findings will also be included in the Single Audit for the year ended June 30, 2018. 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 is materially correct.

Other Procedures

In addition to the CAFR and Single Audit procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing OTS's internal control and compliance with related laws and regulations over payroll.

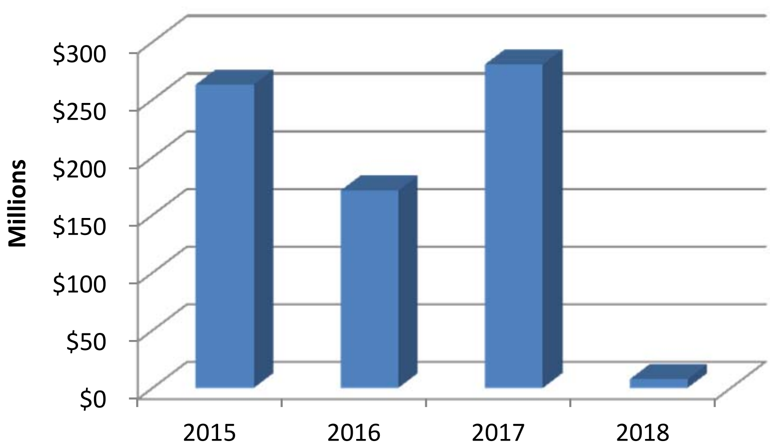
Based on the results of these procedures, we reported a finding related to Deficiencies in Controls over Payroll, as described previously.

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 2018.

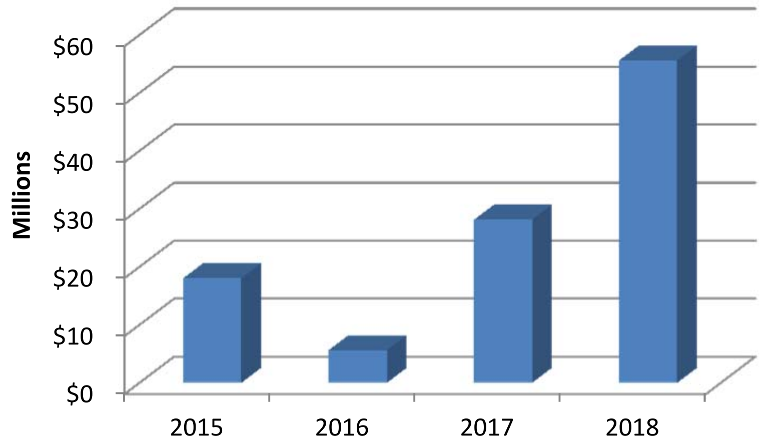
During 2018, the HAP program had a significant decline in the amounts added to recovery, which is a result of the program being in its final stages. The 2018 increase in SRPP amounts added to recovery is primarily because of an increase in full compliance reviews for all files with a pending lien release within the next 12 months, whereas the majority of reviews being performed in previous years were limited quarterly reviews. OCD-DRU has continued its monitoring to identify awards to be placed in recovery.

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

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 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,

Thomas H. Cole, CPA
First Assistant Legislative Auditor

MK:CST:BQD:EFS:ch

EXECUTIVE 2018

APPENDIX A: MANAGEMENT’S RESPONSES

Office of Community Development
Disaster Recovery Unit
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR

JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

December 10, 2018

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 Office of Community Development, Disaster Recovery Unit (OCD-DRU) 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-DRU 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-DRU to follow its recapture policy and procedures in addition to annual monitoring by HUD. To date, HUD has performed three annual monitoring visits and has provided useful Technical Assistance while the reports have not included any findings.

Since the last LLA audit, OCD-DRU has identified an additional $7.5 million of non-compliant grants. This process has also resulted in $104 million of previously non-compliant grants being removed from the list, either through documentation of compliance or grant recovery.

In conclusion, OCD-DRU 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-DRU 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.

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The contact person responsible for the corrective action is Edwin Legnon, Director of Finance and Reporting for OCD-DRU. 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,

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
Disaster Recovery Unit
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR

JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

December 10, 2018

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, Office of Community Development, Disaster Recovery Unit (OCD-DRU) is submitting the following as a response to the audit finding titled "Inadequate Recovery of Small Rental Property Program Loans."

OCD-DRU's primary focus for the Small Rental Property Program (SRPP) is to assist property owners in achieving and maintaining compliance, i.e., creating affordable housing, as opposed to foreclosure and/or recapture of funds. OCD-DRU has allocated approximately $649 million to the SRPP program to fund approximately 4,500 applicants and we maintain an ongoing monitoring process to ensure compliance.

In June 2016, OCD-DRU, 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. As of June 30, 2018, of the 397 files identified, 62 files have since become compliant or have been repaid. OCD-DRU has sent default letters and initiated recapture efforts on all remaining 335 applicants. Our Legal Section has been handling all calls from non-compliant applicants and evaluating proposed workouts from the applicants. These files are being processed to either reach compliance or identify another viable workout plan.

The remaining files identified by the Louisiana Legislative Auditor (LLA) as non-compliant have met a National Objective and have satisfied HUD's requirements; however, they have since become non-compliant with the guidelines of the state's continuing requirements of the program.[1] Both OCD-DRU and LHC continue to work with applicants to bring them into compliance.

[1] 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.

In conclusion, OCD-DRU and LHC will continue the efforts to recover those awards determined to be ineligible, in accordance with policies and procedures that are acceptable to HUD. Concurrently, OCD-DRU will also continue to work with rental property owners to become compliant and to resolve loan 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-DRU 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

Office of Technology Services
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR

JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

January 4, 2019

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

We have received the finding titled "Deficiencies in Control over Payroll" via letter dated December 20, 2018 from the financial audit team of the Executive Department. The finding resulted from the financial audit of the Division of Administration's (DOA's) Office of Technology Services (OTS). The finding states that DOA/OTS did not adhere to DOA policies designed to establish adequate internal controls over payroll expenditures.

OTS acknowledges that there were instances of delayed approvals and certifications of payrolls noted during the audit. The OTS organization is comprised of 834 employees. OTS intends to improve the payroll/timekeeping process within the office through further education and training of the employees and timekeepers that participate in the payroll process. The training will be conducted in a manner to emphasize the requirements of DOA's policies over timekeeping. Training of the employees and timekeepers will be scheduled in the near future and should be completed by April 15, 2019.

Neal Underwood, Deputy CIO within OTS is responsible for the corrective action planned to address this matter. Mr. Underwood can be reached at (225) 342-7105 or by email at neal.underwood@la.gov.

Sincerely,

Richard Howze

Richard "Dickie" Howze
Chief Information Officer
Office of Technology Services

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Executive Department for the period from July 1, 2017, through June 30, 2018, 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. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. 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, 2018.

- 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, 2018, as a part of the 2018 Single Audit:

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

    - Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)

- 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, 2018, as a part of the 2018 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 department management for significant variances.

In addition, we performed procedures at the Office of Technology Services on selected controls and transactions relating to payroll. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

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.