

EXECUTIVE DEPARTMENT
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED APRIL 10, 2013

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

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DARYL G. PURPERA, CPA, CFE

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 27, 2013

EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2012, we conducted certain procedures at the Executive Department for the period from July 1, 2011, through June 30, 2012.

- Our auditors obtained and documented an understanding of the department's operations and system of internal controls, including internal controls over major federal award programs administered by the department, through inquiry, observation, and review of its policies and procedures documentation, including a review of the laws and regulations applicable to the department.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using the department's annual fiscal reports and/or system-generated reports and obtained explanations from department management for any significant variances.
- Our auditors reviewed the status of the findings identified in the prior management letter, dated April 4, 2012. The prior year findings relating to inadequate monitoring of credit cards issued to employees, noncompliance with procurement and suspension and debarment requirements, and inadequate annual financial report have been resolved by management. The findings relating to inadequate grant recovery of Homeowners 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.
- Our auditors considered internal control over financial reporting and examined evidence supporting the following:
 - Division of Administration's (DOA) general fund revenues, expenditures, and deferred revenue relating to the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDBG, CFDA 14.228) disaster funds.

- DOA, Office of Facility Planning and Control's capital outlay escrow fund nonpayroll expenditures, intergovernmental revenues, and deferred revenues.
- We also tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012, in accordance with *Government Auditing Standards*.
- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2012, as part of the Single Audit of the State of Louisiana:
 - CDBG (CFDA 14.228)
 - State Energy Program (CFDA 81.041)
 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)
 - Hazard Mitigation Grant Program (HMGP, CFDA 97.039)
- Auditors also scheduled HAP awards, SRPP loans, and HMGP payments by fiscal year for informational purposes.

The Annual Fiscal Reports of the department were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, we have included all significant findings that are required to be reported by *Government Auditing Standards*. These findings have been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2012.

The following significant findings are included in this letter for management's consideration.

**Inadequate Grant Recovery of Homeowners
Assistance Program Awards**

Our review of 45 homeowners participating in the HAP under the CDBG disclosed that 21 (47%) of these homeowners with awards totaling \$1,304,466 had not provided adequate evidence of compliance with one or more award covenants to the DOA, Office of Community Development (OCD), Disaster Recovery Unit (DRU) as required; however, OCD has not initiated grant recovery from any of these homeowners. An award covenant is a requirement that must be met to participate in the program. Failure

to recover benefits from noncompliant homeowners could result in disallowed costs that the state could be liable to repay to the federal government; 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 the 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 are required to occupy their damaged property or replacement property within three years of the closing date, maintain homeowners insurance on their property, and maintain flood insurance, if necessary. Occupancy and insurance covenants relating to the damaged property or replacement property expire three years after the closing date. For those homeowners choosing to reoccupy their damaged property, any required elevation must conform to the advisory base flood elevation regulation for the parish in which their home is located. In addition, the homeowners agree in the covenant to provide OCD with evidence of their compliance with covenants and grant agreements within three years of the closing date. The state's Action Plan states homeowners that 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.

All homeowners must complete the Road Home Compliance and Monitoring Form, which includes a self-certification of compliance with their applicable covenants and requires the homeowners to provide additional documentation evidencing compliance. Our review of 45 homeowners disclosed the following:

- Eleven (24%) homeowners failed to provide evidence that the damaged home has been repaired and reoccupied or owner-occupancy was established in a replacement property. OCD requires the homeowner to provide a current utility statement (electric, water, trash, cable, landline phone, or gas line) in the homeowner's name with usage noted as evidence of compliance. Through on-site visual inspection, it appeared that eight of these properties had been repaired and/or reoccupied but three had not.
- Sixteen (36%) homeowners failed to provide their homeowners insurance policy declaration page as evidence of homeowners insurance.
- Nine (26%) of 34 homeowners whose homes are located in a flood zone failed to provide the flood policy declaration page as evidence of flood insurance. This requirement was not applicable for 11 homeowners in our sample since their homes were not located in a flood zone.
- Seven (58%) of 12 homeowners who received additional awards to elevate their property failed to provide the initial and final elevation certificates as

evidence that their homes were elevated. This requirement was not applicable to 33 homeowners who did not receive elevation awards. Through on-site visual inspection, it appeared none of these properties had been elevated.

OCD has prioritized award recovery for homeowners determined to be ineligible because of suspected fraud or duplication of benefits, and homeowners who chose “option 1” under the program, to repair and reoccupy their pre-storm residence, but the residence has since been demolished. OCD has implemented additional procedures in efforts to assist other award recipients in becoming compliant with the covenant requirements, including home site visits, additional federal awards, and an option to change the initial award option from “option 1,” where the homeowner committed to repair and reoccupy their pre-storm residence, to “option 2,” where the homeowner sells the pre-storm property to the program and owner-occupancy is established in a replacement property in the state, or “option 3,” where the homeowner sells the pre-storm property to the program and either relocates to another state or remains in the state as a renter. Homeowners that selected “option 2” as their initial award option also have the option to change to “option 3.” If changing options, the homeowner would be responsible for refunding a portion of the initial award to OCD.

OCD management has represented to us that it has consulted with HUD representatives to consider modifying program requirements and developing new programs to assist homeowners experiencing difficulties complying with covenants. The potential program modifications and new programs will require HUD’s approval of Action Plan amendments, which OCD anticipates formally submitting to HUD by June 30, 2013.

We recommend OCD finalize its proposed Action Plan amendments and formally submit those to HUD for approval. In addition, we recommend that OCD continue to identify those recipients that misspent awarded funds and initiate grant recovery. We continue to caution that the longer grant recovery is postponed, the less chance the state has to recover award payments from recipients who did not spend the money appropriately. Management acknowledges that these homeowners had not provided adequate evidence of compliance with one or more covenants to OCD/DRU and that OCD/DRU had not initiated grant recovery for these homeowners. Management states it will continue to work with HUD to modify program regulations in efforts to resolve grant compliance issues. (See Appendix A, pages 1-4.)

Additional Comments: Although the department is actively working with HUD to resolve compliance issues, we would like to reemphasize that the longer program regulations are modified and enforcement actions delayed, the less chance the state has to recover award payments from recipients that did not spend the money appropriately, and the state could be liable to repay those funds to the federal government.

Inadequate Recovery of Small Rental Property Program Loans

OCD/DRU identified property owners with SRPP loans totaling \$33,021,146 who failed to comply with one or more of their loan agreement requirements and were assigned to loan recovery status. Our review of 24 property owners with SRPP loans in non-recovery status disclosed that six (25%), with loans totaling \$567,044, failed to provide adequate evidence of compliance with one or more loan agreement requirements, which indicates a potential default on the loans. Because these property owners have not provided evidence of compliance with the loan agreement and because OCD has not recovered any loans, we consider these amounts totaling \$33,588,190 to be questioned costs, which if disallowed could be due back to the federal grantor. SRPP loans at June 30, 2012, total \$362 million, including those in recovery status.

In response to hurricanes Katrina and Rita, the state was awarded and has allocated approximately \$663 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 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., declare loan defaulted and demand 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.

Policies and procedures were developed and implemented in November 2009 to identify property owners who fail to comply with loan agreements; however, OCD did not implement the SRPP Non-Compliance Mitigation Plan, which addresses loan recovery, loan modification, and property recovery for noncompliant property owners, until May 2012. OCD's failure to take appropriate action to recover loans from noncompliant property owners could result in disallowed costs. OCD should continue implementing the SRPP Non-Compliance Mitigation Plan and begin recovering loans from property owners who fail to comply with program requirements. Management recognized in its response that the property owners identified in the finding are noncompliant or lacked adequate evidence of compliance at June 30, 2012; however, management is working with recipients to bring them into compliance. Management anticipates full implementation of the recovery procedures on May 13, 2013. (See Appendix A, pages 5-7.)

Community Development Block Grant Awards Identified for Grant Recovery

Through a post review of applicant eligibility for the HAP, OCD/DRU identified ineligible awards for 1,142 homeowners totaling \$58 million. OCD demanded payment of \$29 million from its prior contractor, ICF International Inc., for ineligible awards resulting from the contractor's errors and are pursuing the remaining \$29 million from homeowners. Because these ineligible awards identified for grant recovery have not been recovered as of June 30, 2012, we consider these awards totaling \$58 million as questioned costs. The state could be liable for ineligible awards if disallowed by the federal grantor.

In response to hurricanes Katrina and Rita, the state was awarded approximately \$9.5 billion to administer the HAP, as part of the Road Home program, in accordance with its Action Plan approved by the HUD. Disbursements were made to homeowners under HAP beginning in the state fiscal year ended June 30, 2007. At that time, 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-close reviews. Individual homeowner awards are generally identified for grant recovery for the following reasons:

- Pre-storm values of the damaged homes or the estimated cost of damages were overstated, resulting in an award exceeding the amount which the homeowner was qualified.
- Documentation provided by the homeowner evidencing ownership and occupancy requirements at the time of the storms has since been determined by OCD to be insufficient, fraudulent, or conflicts with other verifying sources.
- Subsequent to the homeowner's award calculation and disbursement, the homeowners insurance proceeds or other federal assistance increased resulting in duplication of benefits.
- Subsequent to the disbursement of an additional compensation grant based on household income, OCD has determined the income amount used in award calculation is unsupported.
- The homeowner does not qualify for an award because the damaged home was an ineligible structure or the structure type used for the award calculation was incorrect resulting in overpayment.

OCD should continue its post-close review process to identify awards to be placed in recovery and continue its recovery efforts to collect those awards determined to be ineligible. Management concurred with the recommendation and provided a plan of corrective action. (See Appendix A, pages 8-10.)

Untimely Review of Hazard Mitigation Grant Program Recovery Status

OCD identified 801 applicant awards totaling \$22.8 million for potential grant recovery; however, the review to confirm that grant recovery status is appropriate and to determine the amount of the award to recover, as required by OCD policy, had not been performed timely. A review of 50 of these applicants, who received awards totaling \$1.6 million, disclosed that the number of days in potential recovery status without having the required follow-up review ranged from 19 to 660 days as of June 30, 2012, for an average of 322 days. Based on our review, 43 of the 50 applicants reviewed did not qualify for award amounts totaling \$957,607 (60%) because of duplication of benefits, inaccurate award calculations, or failure by the applicants to provide the required documentation to prove continued eligibility for participation in the program. Any ineligible awards OCD is unable to successfully recover from applicants could be disallowed by the federal grantor and the state could be liable for those disallowed costs.

It is OCD's policy to place applicants in potential grant recovery status until a review is performed by the OCD Recovery Section to confirm grant recovery is appropriate and to determine the amount of the award to recover; however, the review process was not fully implemented in fiscal year 2012. OCD focused on implementing additional controls over new applicant awards to reduce the potential for noncompliance, but did not allocate sufficient resources to fully implement procedures to verify and recapture ineligible awards already disbursed.

The HMGP award agreement between the Federal Emergency Management Agency, the federal awarding agency, and the state requires the state (OCD) to pursue recovery of assistance provided to applicants through error, misrepresentation, or fraud, or if the state finds that the applicant spent the funds inappropriately. We recommend that OCD conduct more timely reviews of all awards identified for potential recovery and recapture those determined to be ineligible. Management responded that this finding does not reflect the current status of OCD/DRU HMGP recovery. Management recognizes the total award amounts of \$957,607 as potential grant recovery but is still confirming if the costs identified for potential grant recovery are ineligible and in need of recovery. In addition, management states that the 322-day average for follow-up reviews is inaccurate since each project is unique and that there is no measurement of when recovery is to begin. (See Appendix A, pages 11-13.)

Additional Comments: Management responded that "Most of the payments sampled during LLA's review are still in the review process..." We believe this further demonstrates the untimely review process. Management also responded the 322-day average for follow-up reviews is inaccurate; however, the data provided to us shows this is the correct average number of days the sampled files were in potential recovery as of June 30, 2012. Based on management's response that most of the files are still in review, the average number of days in review for these files would now be more than the reported 322 days.

While we understand there are varied reasons why certain files would take longer than others to complete a review and we understand that the focus of OCD/DRU is to bring applicants into compliance rather than the recapture of funds, we are concerned about the state's potential future liability to the federal government if costs are disallowed and the state is unable to recapture those funds from recipients. Untimely follow-up reviews delay the recovery process, which reduces the likelihood those funds will be successfully recaptured and increases the risk that state funds will have to be used to repay the federal grantor.

Unsupported Hazard Mitigation Grant Program Project Costs

Our review of 90 final applicant payments by OCD totaling \$2,352,940 disclosed 11 containing unsupported "other" project costs totaling \$27,721 (1.2%) that were reimbursed by the HMGP. As a result, contractors may have been compensated for construction activities not performed and the federal awarding agency could disallow those costs, resulting in the state having to return those funds.

Allowable payments to applicants include the base cost to elevate a home and "other" project costs including, but not limited to, termite inspections and contracts, disconnection and reconnection of gas, and insulation under the elevated home. With final payments totaling \$67 million, the 1.2% exception rate in our sample results in likely questioned costs totaling \$804,000.

OCD deemed the "other" project costs reasonable because the total project cost, including "other" project costs, was less than the allowable base elevation cost to elevate the home. However, OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, stipulates that for costs to be allowable for reimbursement by a federal program, those costs must be necessary, reasonable, adequately supported, and comply with all terms and conditions of the award.

We recommend OCD obtain and review supporting documentation to ensure all construction activities charged by contractors are justified and performed before approving reimbursements to applicants. In addition, we recommend OCD review payments already made to applicants and obtain additional support where necessary to verify the allowability of those costs to the grant. If not allowable, OCD should pursue recoupment of those funds from the applicant. Management states in its response that projects are paid based on an approved cost guidance model and no payments are disbursed for any work not performed. (See Appendix A, pages 14-15.)

Additional Comments: None of our exceptions resulted from "other" project costs exceeding the amounts allowed in the approved cost guidance model referred to in management's response; however, the lack of documentation to support payments to applicants is an indication of potential noncompliance and could be disallowed by the federal grantor regardless of whether the "other" project costs charged are reasonable based on the approved cost guidance model. We consider these questioned costs because

there is no evidence to support that the work being charged as “other” project costs was actually performed.

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 relating to the department’s compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the Executive Department and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. 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 that reads "Daryl G. Purpera". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

BF:ETM:BQD:THC:ch

EXECUTIVE 2012

APPENDIX A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



BOBBY JINDAL
GOVERNOR

KRISTY H. NICHOLS
COMMISSIONER OF ADMINISTRATION

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

March 15, 2013

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:

As requested in the Louisiana Legislative Auditor's letter dated March 7, 2013, the Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD/DRU) is submitting its response to the audit finding titled "Inadequate Grant Recovery of Homeowners Assistance Program Awards."

OCD/DRU is exercising due diligence in bringing applicants into compliance or recapturing funds and is confident that we are currently complying with HUD's requirements and expectations. Community Development Block Grant (CDBG) regulations grant states maximum feasible deference in providing disaster assistance, thereby giving OCD/DRU flexibility to modify program requirements to bring noncompliant applicants into compliance, and at the same time providing the U.S. Department of Housing and Urban Development (HUD) the flexibility to approve such program changes. Also, the federal CDBG disaster grants, unlike the regular CDBG program grants, are not appropriated for a specific timeframe, providing time for OCD/DRU to develop, implement and modify program requirements to better address disaster needs. OCD/DRU is identifying noncompliant homeowners and providing assistance by various means to bring applicants into compliance prior to triggering the recapture of funds. OCD/DRU has and will continue to prioritize homeowner recovery and compliance over recapture, except in those cases where there is suspected fraud or duplication of benefits. In those cases, we have been and continue to be aggressive in pursuing grant recovery.

OCD/DRU has diligently pursued identifying noncompliant homeowners and is working to bring them into compliance. HUD is aware and supportive of OCD/DRU's efforts to provide homeowners with multiple avenues to achieve compliance prior to pursuing recapture of grant funds. In fact, HUD has not given the state a deadline for recapturing funds, preferring that we find ways to bring homeowners into compliance, and HUD continues to provide assistance and

guidance to OCD/DRU in identifying various means to assist homeowners to achieve compliance.

HUD issued guidance in November 2011 that stipulates that the State may look at a homeowner's unmet needs or a change in circumstances in determining how to move forward with determining that homeowner's compliance. Through their November 2011 guidance, HUD recognized the current status and provided guidelines as follow:

"Long-term recovery is a process; however, disaster recovery needs are calculated at points in time. As a result, a subsequent change in circumstances can affect need. If, after needs are initially calculated and/or a CDBG award has been made, an applicant for CDBG disaster recovery assistance can demonstrate a change in circumstances, such as vandalism, contractor fraud, increase in the cost of materials and/or labor, a change in local zoning law or building code, or subsequent damage to a home partially repaired, the grantee may subsequently reevaluate the calculation of the award by taking into account the increased need."

These guidelines allow and encourage the State to continue working with HUD to establish clear unmet needs policies, and that process is ongoing. It is not the intention of the State to prematurely send someone to recovery for recapture of funds, as we agree with HUD in recognizing that long-term recovery is a process with many challenges that Louisiana residences face even after being awarded a grant. Our position is to work with the applicant to obtain the documentation needed for compliance or to establish the unmet need through continued outreach and communication.

OCD/DRU acknowledges that of the 45 homeowners included in the Louisiana Legislative Auditor's (LLA) sample, 21 (47 percent) of these homeowners, with awards totaling \$1,304,446, had not provided adequate evidence of compliance with one or more covenants to OCD/DRU, and that OCD/DRU had not initiated grant recovery from these homeowners.

OCD/DRU notes that a homeowner who does not provide adequate evidence of compliance with one or more of the covenants is not automatically placed in grant recovery. OCD/DRU has a grant recovery process in place and continues to process recovery files in accordance with policies and procedures that are acceptable to HUD. Applicants who have not responded to requests to supply evidence of compliance with the covenants are considered noncompliant due to non-responsiveness; however, evidence (postal/utility data and field reviews) suggests that 87 percent of these homeowners have returned home but have yet to provide compliance documentation to OCD/DRU. For reasons explained below, it would be premature to place homeowners who are noncompliant due to non-responsiveness into grant recovery at this point in time.

OCD/DRU continues to work with HUD in crafting the language for three Action Plan Amendments (APA 58, 59 and 60) that are designed to assist homeowners who have been unable to complete their recovery due to circumstances beyond their control and have not met the terms of their grant agreement and/or covenant to become compliant. If approved by HUD, the proposed APAs will eliminate the need for grant recovery for many of these applicants, thus

eliminating the need to pursue the return of grant funds through the Attorney General's office and the costs associated with that effort. Until the APAs are approved and a compliance deadline is established and communicated to homeowners, placing noncompliant (and mostly non-responsive) applicants in grant recovery is premature and costly.

OCD/DRU is providing the following update to the results of the auditors review of the 45 files included in the audit sample.

1. The 11 homeowners identified as failing to provide evidence of occupancy is reduced by one file. Efforts to reach the remaining 10 applicants, as well as those applicants represented by this sample, to obtain the required documentation continue through 'call out' campaigns and outreach events.
2. Six of the 16 homeowners who failed to provide proof of insurance have met the occupancy requirement, demonstrating that repairs are complete; their only noncompliance is lack of insurance documentation. Ten of the 16 applicants are noncompliant for no response. Therefore, it is still uncertain whether or not these structures are insured. OCD/DRU has noted several reasons for applicants' not providing proof of insurance, such as death, transfer of property, and compliance. OCD/DRU continues to work at obtaining the proper documentation from these homeowners. Based on previously stated evidence, it is likely that at least seven of these 10 applicants have rebuilt and may have insurance documentation that has just not been provided to OCD/DRU.
3. Five of the nine applicants noted for failing to provide flood insurance have demonstrated occupancy and rebuild requirements. OCD/DRU does intend to notify applicants of the importance of maintaining insurance, along with the consequences of becoming ineligible for any future federal funds should another disaster strike.
4. Five of the seven noted for not elevating have demonstrated that re-occupancy and hazard insurance requirements are met. Currently OCD/DRU continues discussion of policy changes that may help applicants having difficulty complying with all requirements. Discussions are under way with HUD that would allow for a reclassification of elevation funds for those applicants who can demonstrate that additional funding was needed to complete the home and allow for occupancy. The elevation compensation was not a rehabilitation grant, but rather compensation funds to applicants who may have encountered greater loss because of the location of damaged dwellings in flood-prone areas.

In conclusion, OCR/DRU will continue to follow current policies and procedures to determine homeowner compliance with the Road Home covenants; continue to work with HUD to modify program procedures and requirements to resolve grant compliance issues in order to reduce or eliminate the need to recapture funds from homeowners; and continue to implement grant recovery for homeowners where necessary. OCD/DRU and HUD-CPD will continue to work toward final language for the three APAs and, if approved, formalize the amendments. OCD/DRU will establish a compliance deadline date and all applicants that are deemed noncompliant or non-responsive will be informed of this date by letter.

Mr. Daryl G. Purpera

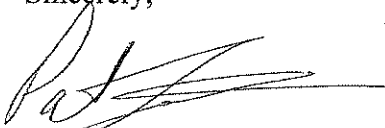
March 15, 2013

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OCD/DRU continues to maintain that the first priority of recovery should be files that are clearly identified as recoverable (duplication of benefit, fraud or contractor error), with noncompliant files following. Based on the results of surveys of non-response applicants, approximately 87 percent of the files currently classified as noncompliant will be found compliant or rebuilt, eliminating the need for recovery. Ms. Lara Robertson, DRU Director of the Homeowner Program, and Mr. Jeff Haley, DRU Housing Manager, are responsible for continued efforts regarding compliance and grant recovery.

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

Sincerely,



Patrick W. Forbes, P.E.

Executive Director

Office of Community Development/DRU

C: Kristy Nichols
Ray Stockstill
Steven Procopio
Michael DiResto
Monique Appeaning
Marsha Guedry
Belinda Olivier



BOBBY JINDAL
GOVERNOR

KRISTY H. NICHOLS
COMMISSIONER OF ADMINISTRATION

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

March 21, 2013

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Inadequate Recovery of Small Rental Property Program Loans

Dear Mr. Purpera:

As requested in the Louisiana Legislative Auditor's (LLA's) letter dated February 20, 2013, the Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD/DRU) is submitting a response to the audit finding entitled, "Inadequate Recovery of Small Rental Property Program Loans."

OCD/DRU's primary focus in administering the Small Rental Property Program (SRPP) is to assist property owners in achieving and maintaining compliance, as opposed to foreclosure and/or recapturing funds. This approach helps low-to-moderate income families return home and live in a safe, sanitary and habitable dwelling at reduced rental rates, which meets the SRPP's overall mission of restoring affordable rental housing. Unlike traditional grant programs, the SRPP establishes the State's lien position to the grantee upon closing. The state can file a lien against the property owner at any point and ultimately go into foreclosure. Doing so, however, would force the state to become a landlord, which would lead to unexpected costs and challenges. Additionally, if the state proceeds with recapture before attempting to assist landlords in becoming compliant, these properties will return to being blighted, which is counter to the program's objectives. While there may be files that are ultimately identified for recapture, the primary focus is to assist applicants in becoming compliant.

As of June 30, 2012, OCD/DRU identified a total of 476 noncompliance issues with the terms of loan agreements in the files of 419 SRPP applicants. The awards of these 419 applicants total \$33,021,146. Nearly half of the noncompliance issues (47%) involved failure to meet post certificate of occupancy requirements under the Advanced Funding Option, meaning the applicants had been unable to identify and secure eligible renters for the properties. Another 12% failed to rent their units to eligible renters under other funding options. Louisiana Housing Corporation (LHC) administers the SRPP for OCD/DRU and uses databases of potentially

eligible renters to connect renters with the applicants to correct these occurrences of noncompliance.

In addition, 115 (24%) of the noncompliance issues are attributable to property owners failing to respond to requests for information, allowing access to property, and/or missing documentation. Other than failing to respond with adequate documentation, the property owner may actually be compliant with the requirements of the loan agreement. OCD/DRU continues to actively pursue obtaining acceptable documentation from the property owners to bring them into compliance. Attempts are made to contact non-responsive applicants through the mail. Site visits are also conducted in order to determine the status of the properties. Site visits provide a comprehensive picture of the condition of the properties, a status of current occupancy, the likelihood of occupancy in the short-term, etc. These efforts have proven to be successful with bringing this population of nonresponsive property owners into compliance.

Auditors note in the finding that six of 24 additional applicant files reviewed during fiscal year 2012 audit lacked adequate evidence of compliance with loan agreement requirements. The loan awards of these six applicants total \$567,044. Six out of 24 applicant files indicate a 25% noncompliance rate for the 24 property owners selected in the audit sample. By the time the audit concluded, however, the noncompliance rate was reduced to 16.7% as two of six noncompliant owners became compliant.

Of the 419 files OCD/DRU reported as having noncompliance issues at June 30, 2012, 74 have since become compliant by correcting the reason for failure. Therefore, as of March 6, 2013, the total value of awards for noncompliant applicants has been reduced from \$33,588,190 to \$28,758,980, a 14.4% decrease since the time of the audit.

	June 30, 2012		March 6, 2013	
	Number of Noncompliant Applicant Files	Value of Noncompliant Loan Awards	Number of Noncompliant Applicant Files	Value of Noncompliant Loan Awards
Per OCD/DRU	419	\$33,021,146	345	\$28,444,939
Per Audit	6	\$567,044	4	\$314,041
Total	425	\$33,588,190	349	\$28,758,980

It is evident that the approach of assisting noncompliant property owners to help them come into compliance with program rules continues to produce effective results in line with the program's mission.

OCD/DRU has addressed the issue of implementing processes and procedures with respect to the Noncompliance Mitigation Plan (aka Loan Recovery) in the Request for Proposal (RFP) #107140-33. This RFP for Small Rental Property Program services was published on September 28, 2011. Attachment No. 1 of the RFP, Scope of Services, Task 13, "Loan Recapture," requires the selected contractor to assist OCD/DRU in implementing recapture/recovery policy,

Mr. Daryl Purpera, CPA, CFE

March 21, 2013

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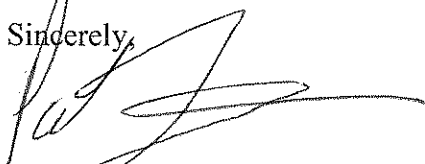
procedures, and processes. The contract was executed on February 1, 2012. Task 13 is a contractual requirement that includes service level penalties imposed on the new contractor for failure to complete this task. The scope of work for the new SRPP prime contractor includes, but is not limited to, assisting OCD/DRU in the design and implementation of the process with respect to SRPP noncompliant property owners.

OCD/DRU developed processes and procedures within the second quarter of 2012 for Noncompliance Mitigation. LHC is now in the process of updating the program's computer system of record, which is scheduled for completion on May 13, 2013. These updates are necessary to ensure accurate records are maintained within the recovery process and to reduce the risk of inaccurate communications with applicants regarding amounts, timelines, and other details. Upon completion of the updates, the program will be fully implemented so that recovery actions can be taken on cases identified for loan recovery.

The contact person responsible for the corrective action is Janel Young, Project Manager of the SRPP for LHC.

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

Sincerely,



Patrick W. Forbes, P.E.

Executive Director

Office of Community Development

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

March 15, 2013

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

RE: CDBG Awards Identified for Grant Recovery

Dear Mr. Purpera:

As requested in the Louisiana Legislative Auditor's letter dated February 20, 2013, the Division of Administration's Office of Community Development, Disaster Recovery Unit (OCD/DRU) is submitting its response to the audit finding titled "CDBG Awards Identified for Grant Recovery." OCD/DRU acknowledges, through its post-closing review of applicant eligibility for the Community Development Block Grant (CDBG) Homeowner Assistance Program (HAP) that as of June 30, 2012, OCD/DRU identified ineligible awards for 1,142 homeowners totaling \$58 million.

OCD/DRU is exercising due diligence in its process of identifying ineligible awards made to applicants and in its process for recapturing those funds in accordance with policies and procedures that are acceptable to the U.S. Department of Housing and Urban Development. OCD/DRU reviews files that have been identified for recovery to determine the appropriate course of action, and OCD/DRU acts accordingly. Files that OCD/DRU suspects involve fraud are immediately sent to the Anti-Fraud Waste and Abuse department and, as necessary, forwarded to the HUD Office of the Inspector General. Overpayments determined to be the result of error in the processing of a grant by the program's contractor, result in a demand for those funds from the contractor. Under the processes in place at the time of the audit, files deemed by the Recovery Panel as appropriate for recovery were forwarded to the OCD/DRU attorney for concurrence and then to the Attorney General's (AG's) office for collection, as appropriate. Below is a breakdown of the status of each of the files reviewed during the audit.

With respect to the \$29 million referenced in the report as being pursued against a prior contractor, OCD/DRU has determined that the cause of this overpayment was error on the part of the contractor, ICF Emergency Management Services, LLC. As of the audit date, OCD/DRU determined that 659 grant recipients were overpaid by a total amount of \$34.5 million. A demand for repayment has been sent to ICF for 616 of these in the amount of \$29 million. As of March 15, 2013, OCD/DRU has determined that ICF improperly overpaid 1093 grant recipients

Mr. Daryl G. Purpera

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by a total amount of \$56 million. As each file represents only a portion of damages under a single contract and must be joined in one legal action, OCD/DRU is accumulating files that have completed the grant recovery process along with outside legal counsel review prior to suit being filed. The contract with ICF requires the State to mediate any dispute before filing suit. ICF will be engaged in mediation regarding this matter by June 30, 2013.

The 1,142 files noted by the auditors included 293 files with a value of \$15.3 million. These files were forwarded to the OCD/DRU attorney for independent review and concurrence prior to sending to the Attorney General.

Another 180 files with a total value of \$8.5 million have been sent to the AG's office for collection, at which point the AG will attempt to set up a repayment process with the homeowner. If the AG is unable to secure a repayment agreement or obtain information from the homeowner sufficient to resolve the noncompliance, the AG reviews the file with DRU legal counsel to determine the feasibility of further collection efforts and authorization for filing suit. As of March 2013, files valued at a total of \$22.1 million have been sent to the AG for recovery.

OCD/DRU is confident that the recovery procedures currently in place comply with the requirements and expectations of HUD. CDBG regulations provide grantees maximum feasible deference in providing disaster assistance, thereby giving OCD/DRU flexibility to modify program requirements in an effort to reduce or eliminate certain types of overpayments or provide for an unmet need to qualifying homeowners, while at the same time providing HUD the flexibility to approve such program changes. It is and has always been the intent of OCD/DRU that the focus of collection initiatives for recovery from homeowners is to assist them to become compliant in an effort to avoid costly legal proceedings against homeowners whenever possible.

HUD issued guidance in November 2011 stipulating that OCD/DRU may look at a homeowner's unmet needs or a change in circumstances when determining how to move forward with verifying the homeowner's compliance with program requirements. Through this guidance, HUD recognized the opportunities for creation of additional unmet needs and provided guidelines as follow:

"Long-term recovery is a process; however, disaster recovery needs are calculated at points in time. As a result, a subsequent change in circumstances can affect need. If, after needs are initially calculated and/or a CDBG award has been made, an applicant for CDBG disaster recovery assistance can demonstrate a change in circumstances, such as vandalism, contractor fraud, increase in the cost of materials and/or labor, a change in local zoning law or building code, or subsequent damage to a home partially repaired, the grantee may subsequently reevaluate the calculation of the award by taking into account the increased need."

These guidelines allow and encourage the State to continue working with HUD to establish clear unmet needs policies, and that process is ongoing. It is not the intention of OCD/DRU to prematurely send a file to recovery for recapture of funds, as the State agrees with HUD in recognizing that long term recovery is a process with many challenges that Louisiana residents face even after being awarded a grant. OCD/DRU continues to work with HUD to identify ways

Mr. Daryl G. Purpera

March 15, 2013

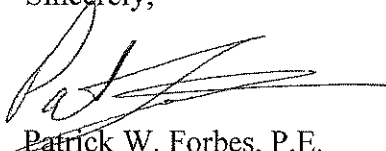
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to forgive or recalculate certain types of overpayments or to qualify the homeowner for an unmet need, thereby reducing the amount of recovery required.

In conclusion, OCD/DRU concurs with the recommendation and will continue with its post-closing review process to identify awards to be placed in recovery, as well as its recovery efforts to collect 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 HUD to modify program procedures/requirements to resolve grant compliance issues in order to reduce or eliminate the need to recapture funds from homeowners. Ms. Lara Robertson, Director, Homeowner Program, and Mr. Jeff Haley, Single Family Housing Manager, are responsible for continued efforts regarding grant recovery.

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

Sincerely,



Patrick W. Forbes, P.E.

Executive Director

Office of Community Development/DRU

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March 15, 2013

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Untimely Review of HMGP Recovery Status

Dear Mr. Purpera:

As requested in the Louisiana Legislative Auditor's (LLA's) letter dated March 11, 2013, the Division of Administration, Office of Community Development, Disaster Recovery Unit's Hazard Mitigation Grant Program (OCD/DRU HMGP) is submitting a response to the audit finding titled "Untimely Review of HMGP Recovery Status." The 43 applicants identified by LLA were previously placed in pending recovery by HMGP as a part of HMGP's Grant Review and Recovery Procedures. OCD/DRU HMGP recognizes the total award amounts of \$957,607 as potential grant recovery; however, HMGP is still confirming if the costs identified for potential grant recovery by HMGP are ineligible and in need of recapture.

Since June 30, 2012, the implementation of HMGP's recovery's process has produced returned funds due to over 300 HMGP Recovery letters being sent to applicants in a recovery stage amounting to \$1,518,592 as of March 2013. HMGP actively tracks applicants through a due diligence process and HMGP intends to continue aggressively pursuing recapture amounts at an exponential rate as well as hedge the number of applicants who are placed into a recovery through program initiatives. Additionally, applicants who are non-responsive to programmatic recovery efforts are referred for formal collection activity and enforcement, including but not limited to, the assistance of the Louisiana State Attorney Generals' Collection Division.

OCD/DRU HMGP does not believe that the resulting LLA finding properly reflects the current status of OCD/DRU HMGP Recovery. The 322 day average for follow-up reviews given by LLA is inaccurate. Each project is a unique file with unique circumstances and the standard of when recovery is to begin has no static measure that an average would be compared to. Most of

the payments sampled during LLA's review are still in the review process established under HMGP recovery procedures following the implementation of the new recovery module into HMGP's grant management database. Furthermore, OCD/DRU HMGP's Grant Review and Recovery procedures outline the prioritization order of conducting recovery reviews as files are identified for potential recovery. This prioritization begins with applicants who received advanced payments via the Alternative Payment Option (APO) and Completed Work Payments (CWPs) in accordance with current APO policy. Other files are processed by date of disbursement with aged files being reviewed first. OCD/DRU HMGP's Grant Review and Recovery procedures also outline procedures for the identification and prioritization of files with fraud allegations. As stated above, unique situations prevent a static measure of what constitutes a timely review and that timeframe may also extend as OCD/DRU HMGP establishes an open line of communication with an applicant to resolve the recovery reason and achieve compliance.

Potential grant recovery reviews of applicants from the 2011 fiscal year were in fact occurring manually. Since the implementation of the Recovery module, potential recovery files are undergoing a review for a final determination of eligibility to confirm manual recovery results in order to ensure that reporting is accurate subsequent to the module's implementation.

The LLA recovery sample consisted of the following mitigation activities: 23 Individual Mitigation Measures (IMMs), 17 Elevations, and 4 Reconstructions. 42 of the 44 sampled payments involved the misuse of funds by the applicant. Misuse of funds identified in this sample includes: twenty applicants missing proof of payment, four applicants missing other required documentation required by HMGP policy to be considered compliant, nine applicants who have been unresponsive to HMGP's contact attempts, and nine applicants who are suspected to have incomplete mitigation activities. The remaining applicant sampled by LLA failed to disclose \$10,000 in duplication of benefits received as Road Home Elevation Incentive that was disbursed while the applicant was still being processed through the HMGP payment process. This duplication of benefits required a recalculation of the applicant's award. This issue is still pending recovery. All of these applicants received Advanced Payment Option (APO) 1st Installments. As a part of the APO process all of these applicants were required to sign the Advanced Disbursement Agreement and notarized Affidavit stating that they understand the intended purpose of the advanced funds for their mitigation activity as well as educating them on the HMGP policies they are required to comply with subsequent to the advanced disbursement.

In November 2009, OCD/DRU HMGP received approval from GOHSEP to implement an advance payment system to address the needs of applicants who did not have the startup capital required to begin their mitigation activities. This lack of startup capital was preventing many applicants from participating in HMGP and receiving reimbursement for mitigation activities necessary to prevent damage to their homes in future natural disasters. OCD/DRU HMGP maintains that it acted in good faith with the appropriate internal controls when making these advance disbursements and has subsequently implemented its Grant Review and Recovery Procedures to assist in situations where applicants fail to adhere to the agreements they signed prior to their funding advances. With over 50% of the sample consisting of IMMs, HMGP would also like to note that files considered non-compliant due to missing documentation or incomplete work may be the result of IMM projects noted as incomplete due to less than one square foot of a glass panel on the front door not being mitigated.

Mr. Daryl Purpera, CPA, CFE

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The goal of OCD/DRU in administering the HMGP program has been and continues to be aimed at helping as many coastal Louisiana homeowners as possible protect their homes from damage in future natural disasters by strengthening our coastal communities through home mitigation. As a result, the focus has been on bringing applicants into compliance rather than the recapture of funds in instances where the program can help facilitate compliance.

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

Sincerely,



Craig P. Taffaro, Jr.

Director, Hazard Mitigation and Recovery Coordination

cc: Kristy Nichols
Ray Stockstill
Steven Procopio
Michael DiResto
Monique Appeaning
Marsha Guedry
Belinda Olivier



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March 15, 2013

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Unsupported HMGP Project Costs

Dear Mr. Purpera:

As requested in the Louisiana Legislative Auditor's (LLA's) letter dated March 11, 2013, the Division of Administration, Office of Community Development, Disaster Recovery Unit's Hazard Mitigation Grant Program (OCD/DRU HMGP) is submitting a response to the audit finding titled "Unsupported HMGP Project Costs." OCD/DRU HMGP works closely with the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) in preparing the payment requests that are submitted, incorporating GOHSEP's input throughout the process. All payment requests submitted to GOHSEP are reviewed by an HMGP team lead as well as OCD/DRU's Quality Control (QC) group for the HMGP program. HMGP mitigation projects are paid based on an approved cost guidance model and no payments are disbursed for any work not performed.

When preparing the payment requests, controls are in place within OCD/DRU to ensure that the costs requested for payment are reasonable and meet the federal guidelines stipulated in 44 CFR Part 13. HMGP considers the controls in place to be adequate, and they are designed to detect unallowable costs; however, homeowners sometimes encounter unique situations and circumstances involving certain costs that cause OCD/DRU HMGP to seek approval from both GOHSEP and the Federal Emergency Management Agency (FEMA) prior to determining if the costs are allowable.

GOHSEP issued a "Reasonable Cost Analysis for HMGP Home Elevations" memorandum for guidance on October 7, 2011. OCD/DRU HMGP follows this guidance in determining reasonable costs for the HMGP. The memorandum explains that a reasonable cost analysis was performed for HMGP Home Elevations. The results of this analysis established a baseline for determining the reasonable costs of a standard home elevation for slab-on-grade and open pier foundation types. GOHSEP adopted this cost guidance as a method for determining reasonable costs in HMGP elevation projects, and OCD/DRU HMGP uses the guidance to determine allowable costs.

Mr. Daryl Purpera, CPA, CFE

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The majority of the costs identified by LLA during the audit as unsupported “other” project costs contain notes by GOHSEP referencing the “Reasonable Cost Analysis for HMGP Home Elevations” memorandum. The notes that GOHSEP included in the files regarding these costs state the following:

“Through a cost analysis conducted by RS Means, it has been determined that as long as components of mitigation activity are eligible, and are equal to or less than the ECG – they are deemed to be cost reasonable. Therefore, if the structure is mitigated and the costs are eligible and within the ECG, the project is considered cost reasonable. – Per GOHSEP’s memorandum for the file dated 10-7-2011, regarding reasonable cost analysis for HMGP elevations.”

It is important to note, OCD/DRU HMGP internal Quality Control Group (QC) reviews applicant files based on policies that were in effect at the initiation of an applicant’s project. Included in the process are procedures to ensure that all documentation required to comply with the grant is included in the request for payment submitted to GOHSEP. Furthermore, LLA’s Recovery Assistance Services (RAS) reviewed the development and final version of the Elevation Cost Guidance (ECG) utilized by OCD/DRU HMGP.

As LLA’s Recovery Assistance Services (RAS) reviews the information included in the payment requests submitted to GOHSEP, they may identify certain situations where they perceive a particular cost has not been supported with detail invoices or a particular source of documentation is not included to support the payment request. As unique situations arise in processing the requests for payment, OCD/DRU HMGP and GOHSEP management may convene to determine if a particular cost item or source of documentation warrants development of a new policy or procedure to address the unique situation or decide the file has met programmatic guideline requirements. Notes regarding the final decision are documented in the files.

If a new requirement is implemented, the requirement is implemented going forward. OCD/DRU HMGP’s main concern is to ensure that the supporting documentation for the payment requests meets FEMA’s overall compliance requirements. OCD/DRU HMGP will continue to work closely with GOHSEP in preparing payment requests and including documentation to support reimbursement requests. We will also continue to seek guidance from GOHSEP and FEMA when unique circumstances arise regarding the allowance of project costs under 44 CFR Part 13.

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

Sincerely,



Craig P. Taffaro, Jr.

Director, Hazard Mitigation and Recovery Coordination

cc: Kristy Nichols
Ray Stockstill
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