

GOVERNOR'S OFFICE OF HOMELAND SECURITY
AND EMERGENCY PREPAREDNESS

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 20, 2017

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Governor's Office of Homeland Security and Emergency Preparedness

December 2017

Audit Control # 80170023

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, 2017, we performed procedures at the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of GOHSEP's internal controls over financial reporting and compliance; and determine whether GOHSEP complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

GOHSEP is an office within the Executive Department with a mission to lead and support Louisiana and its citizens in the preparation for, response to, and recovery from all emergencies and disasters. GOHSEP administers the Flood Mitigation Assistance and Hazard Mitigation Grant Federal programs.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the GOHSEP management letter dated December 28, 2016. We determined that management has resolved the prior-year findings related to Inaccurate Annual Fiscal Report and Inadequate Internal Audit Function. The prior-year finding related to Hazard Mitigation Grant Program Awards Identified for Grant Recovery has not been resolved and is addressed again in this letter.

Current-year Findings

Hazard Mitigation Grant Program Awards Identified for Grant Recovery

For the fiscal year ended June 30, 2017, GOHSEP identified \$106,061 in noncompliant Hazard Mitigation Grant Program (HMGP) awards through the project closeout process. GOHSEP identified additional instances of contractor abandonment, incomplete work, or potential contractor fraud that were not reported in the prior fiscal year, amounting to \$626,982. Because

these noncompliant awards and contractor overpayments were not recovered as of June 30, 2017, the outstanding grant recovery balance identified during the fiscal year was \$733,043. Outstanding grant recovery balances from previous years are \$38 million, with awards in recovery at June 30, 2017, totaling approximately \$39 million. Due to the known overpayments in grant recovery, GOHSEP reduced its Federal funding requests to minimize the amounts due back to the Federal awarding agency. Therefore, of the \$39 million in grant recovery, \$8.2 million is considered to be Federal questioned costs.

Effective August 29, 2015, the HMGP's Office of Community Development (HMGP-OCD) projects transitioned from the Office of Community Development - Disaster Recovery Unit to GOHSEP for closeout purposes. The HMGP award agreement between the Federal Emergency Management Agency (FEMA), the federal awarding agency, and the State requires the State, through GOHSEP, 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.

As of October 2017, GOHSEP has closed out all applicant awards within the HMGP-OCD projects for submission to FEMA for review and determination of final overpayment amounts for recovery purposes. GOHSEP in conjunction with the Louisiana Department of Revenue's Office of Debt Recovery has established procedures for recovery and developed an agreement to address the unique characteristics of the debts.

GOHSEP should continue its recovery efforts in coordination with the Office of the Attorney General, the U.S. Department of Homeland Security's Office of Inspector General, the Louisiana State Licensing Board for Contractors, and the Louisiana Department of Revenue to expedite collection efforts against applicants and contractors determined to be noncompliant. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

Noncompliance with Subgrantee Monitoring Requirements for the Hazard Mitigation Grant Program

GOHSEP did not adequately monitor HMGP subgrantees to ensure that they provided the required payment support within the correct timeframe after reimbursement. Failure to obtain payment support in a timely manner increases the risk that subgrantees have not used Federal awards in compliance with applicable laws and regulations. Furthermore, any unsupported or unallowed reimbursements at the time of project closeout may result in disallowed costs that would require GOHSEP to make repayments to the Federal grantor.

Federal regulation [2 CFR 200.331(d)] requires pass-through entities to monitor the activities of subgrantees as necessary to ensure that the subaward is used for authorized purposes. The State of Louisiana HMGP Administration Plan, as approved by the Federal Emergency Management Agency, more specifically requires that subgrantees provide cancelled checks within 45 days of reimbursement. The plan also requires that no subsequent payments be made without proof of previous payments.

In a review of 58 sample items, six (10.3%) were missing supporting cancelled checks for reimbursements totaling \$270,991, which took place between 152 and 473 days prior to testing. Of these six noncompliant reimbursements, three had subsequent reimbursements to subgrantees totaling \$304,765. After notification of the audit exceptions, GOHSEP obtained copies of the cancelled checks from the subgrantees for the items in question.

GOHSEP has not developed a consistent method of tracking the receipt of cancelled checks from subgrantees to allow for follow-up when the 45-day requirement has been exceeded. In addition, previous payment support is not considered during the reimbursement review and approval process.

GOHSEP should re-evaluate its HMGP monitoring activities to ensure that subgrantees have provided all necessary documentation within the stated 45-day timeframe and prevent subsequent payments from occurring until the proper documentation is received. Management concurred in part with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

Inadequate Control Over Subgrantee Refunds

GOHSEP does not have adequate controls over refunds from subgrantees to ensure that funds are deposited immediately in the State Treasury as required by the Article VII, Section 9 (A) of the Louisiana Constitution. The Office of Statewide Reporting and Accounting Policy's (OSRAP) policy and procedures manual generally defines "immediately" as within 24 hours of receipt. Of the 39 items tested totaling \$665,334, 37 (94.9%) items totaling \$654,974 were deposited between two and 32 days after receipt, with an average of 15 days between receipt and deposit of refunds. GOHSEP received more than \$10.3 million in subgrantee refunds during fiscal year 2017.

Refunds received at GOHSEP's Baton Rouge headquarters location are logged and physically transmitted to the Joint Field Office (JFO) location for accounting system coding determinations before being physically transmitted to the Department of Public Safety and Corrections - Public Safety Services (DPS) for deposit. For refunds received directly at the JFO, the time between receipt and deposit was not notably shorter because the physical checks or money orders are held until the purpose and related system coding can be determined. In addition, although refunds are logged upon receipt, there are no procedures in place to track or monitor logged refunds to ensure that they are ultimately deposited and classified in a timely manner.

Although all items tested were deposited and classified into the statewide accounting system, there is an increased risk of funds being lost or stolen without the design and implementation of adequate controls over refunds.

GOHSEP management, in collaboration with DPS, should design and implement adequate internal controls over refunds to ensure funds are deposited timely in accordance with State law and OSRAP policy. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-6).

Comprehensive Annual Financial Report (CAFR) - State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2017, we considered internal control over financial reporting and examined evidence supporting GOHSEP's non-payroll expenditures, Federal revenue, receivables, payables, unearned revenue, and prepayments, including critical information systems and related user controls. Our audit included tests of GOHSEP's compliance with laws and regulations that could have a direct and material effect on the financial statements, as required by *Government Auditing Standards*.

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, as adjusted, 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, 2017, 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 GOHSEP's major federal programs, as follows:

- Flood Mitigation Assistance (CFDA 97.029)
- Hazard Mitigation Grant (CFDA 97.039)

Those tests included evaluating the effectiveness of GOHSEP's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether GOHSEP complied with applicable program requirements. In addition, we performed procedures on information submitted by GOHSEP 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 HMGP Awards Identified for Grant Recovery and Noncompliance with Subgrantee Monitoring Requirements for the HMGP. These findings will also be included in the Single Audit for the year ended June 30, 2017. In addition, GOHSEP'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.

Other Procedures

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

We reviewed Article VII, Section 9 (A) of the Louisiana Constitution that requires State entities to ensure funds are deposited immediately in the State Treasury. OSRAP policy and procedures generally defines "immediately" as within 24 hours of receipt. We performed procedures to determine if GOHSEP deposited checks timely in accordance with State policy. Based on the results of these procedures, we reported a finding related to Inadequate Control Over Subgrantee Refunds, as described previously.

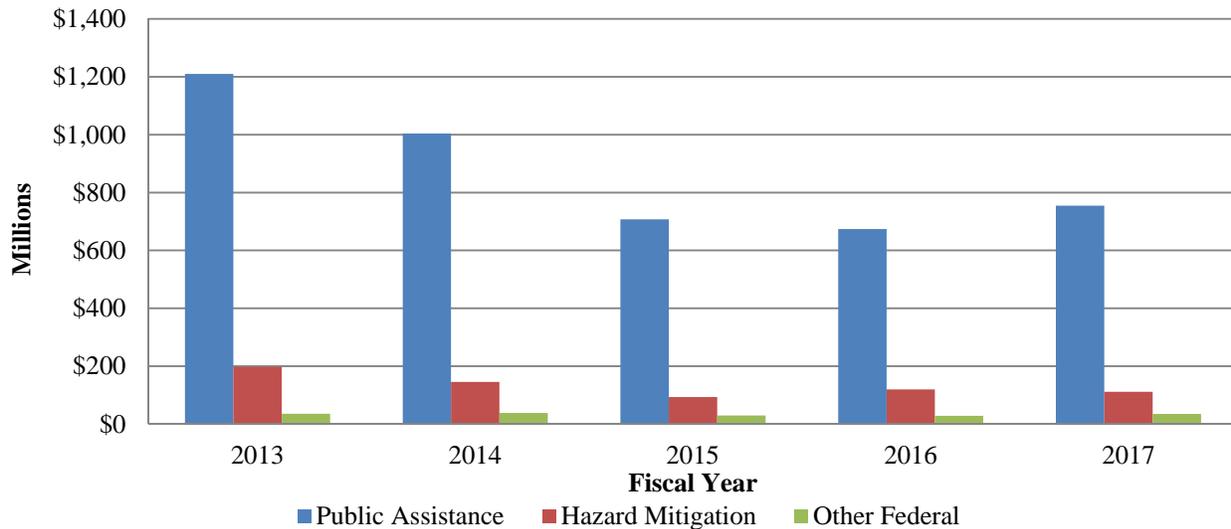
We also reviewed Louisiana Revised Statute 47:1676 regarding the procedures state agencies are required to follow for referring delinquent debt to the Office of Debt Recovery for collection. We determined that GOHSEP has complied with state laws related to the referral of delinquent debt to the Office of Debt Recovery.

Trend Analysis

We compared the most current and prior-year financial activity using GOHSEP's Annual Fiscal Reports and/or system-generated reports and obtained explanations from GOHSEP's management for any significant variances. We also prepared an analysis of total federal expenditures over the last five fiscal years and for the expenditures related to the August 2016 flood event, as shown in Exhibits 1 and 2 on the following page.

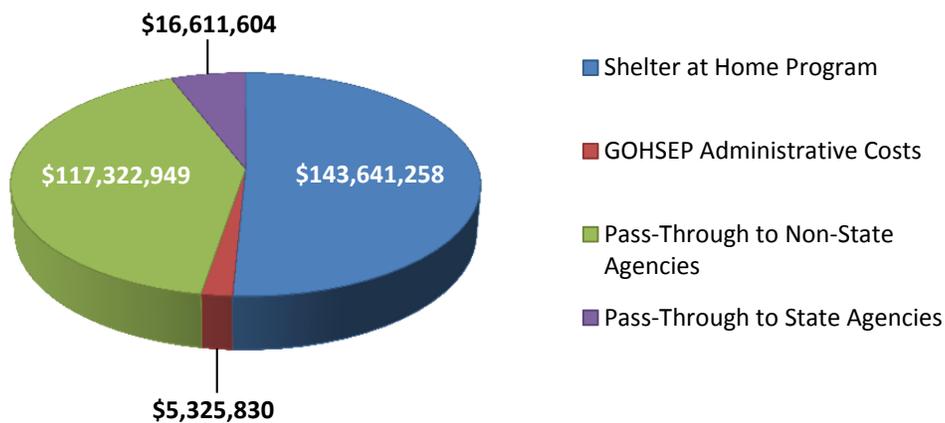
In analyzing financial trends of GOHSEP, Federal expenditures fluctuate from year to year depending on declared disasters, as well as the timing of applicants' reimbursement requests. Federal expenditures declined in fiscal years 2013 through 2016, as there were no major declared disasters. In fiscal year 17, Federal expenditures increased as a result of the March 2016 and August 2016 flood events (Exhibit 1). Exhibit 2 presents a breakdown of expenditures funded by the Public Assistance program in response to the August 2016 flood, including those expenditures related to the Shelter at Home Program.

**Exhibit 1
Five-Year Trend in Federal Expenditures**



Source: Fiscal Years 2013-2017 GOHSEP Annual Fiscal Reports

**Exhibit 2
Public Assistance Expenditures in Response
to the August 2016 Flood**



Source: Fiscal Year 2017 ISIS financial data

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of GOHSEP. The nature of the recommendations, their implementation costs, and their potential impact on the operations of GOHSEP should be considered in reaching decisions on courses of action. The findings related to GOHSEP’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 that reads "Daryl G. Purpera". The signature is written in a cursive style with a large initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

BEJ:NWM:WDG:EFS:aa

GOHSEP 2017

APPENDIX A: MANAGEMENT'S RESPONSES

Governor's Office of Homeland Security
and Emergency Preparedness
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



JAMES B. WASKOM
DIRECTOR

DIR-2017-1204-128

December 4, 2017

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

RE: Hazard Mitigation Grant Program Awards Identified for Grant Recovery

Dear Mr. Purpera:

I have reviewed the finding in the letter dated November 14, 2017 from your office, which covers activities for Fiscal Year 2017 for the Hazard Mitigation Grant Program (HMGP) projects that transferred to the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) on August 29, 2015. GOHSEP has completed the closeout review of 9,745 properties, which received funding. As a result of these reviews and FEMA clarification of closeout requirements, GOHSEP has identified non-compliant funding and continues to actively pursue the recovery of these funds.

GOHSEP management **concurs** with the finding.

As indicated in your letter, GOHSEP is continuing its efforts to recover these costs. These recovery efforts, initiated by the Office of Community Development – Disaster Recovery Unit (OCD-DRU) and continued by GOHSEP, have resulted in the recovery of over \$14 million. As noted in your letter, these efforts have recently been strengthened to include coordination with Louisiana Department of Revenue's Office of Debt Recovery (ODR). Since the projects are still under review with FEMA as part of the closeout process, GOHSEP is working with FEMA on the submission of additional documentation received during the recovery process, which may reduce the non-compliant amount. GOHSEP continues to work with a number of homeowners and contractors on resolving disputed amounts and gathering additional documentation.

Person responsible: Casey Tingle, Deputy Director/Chief of Staff of GOHSEP.

Anticipated Date of Completion: The official notification process for potential ODR transfers is December 22, 2017. Due to the number, age, and complexity of each case, the actual transfers to ODR will begin in January 2018.

If you have any questions, please contact me at (225) 925-7345.

Sincerely,

A handwritten signature in blue ink that reads "James B. Waskom". The signature is fluid and cursive, with the first name being the most prominent.

James B. Waskom

**Governor's Office of Homeland Security
and Emergency Preparedness**
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



JAMES B. WASKOM
DIRECTOR

DIR-2017-1127-125

November 27, 2017

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

RE: LLA Finding – Noncompliance with Subgrantee Monitoring Requirements for the HMGP

Dear Mr. Purpera:

I have reviewed the finding in the letter dated September 11, 2017 from your office, which covers activities of the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for Fiscal Year 2017.

GOHSEP management **concurs in part** with this finding.

GOHSEP agrees that cancelled checks were not provided within the required timeframe. GOHSEP does not agree that there are increased risks for not having used federal awards in compliance with applicable laws and regulations.

As part of the closeout process, federal regulation requires the recipient conduct final inspections for projects, reconcile subrecipient expenditures, resolve negative audit findings, obtain final reports from subrecipients, and reconcile the closeout activities of subrecipients with HMGP grant award requirements (44 CFR Section 207.8(d)). Also, as required by 44 CFR 206.438(d), the Recipient will submit a letter signed by the Governor's Authorized Representative or equivalent certifying that reported costs were incurred in performance of eligible work.

Corrective Action Plan:

In an effort to ensure proper administration of the program, we have worked with our vendor LouisianaHM.com to make improvements that will notify the applicant of the requirement to submit the cancelled checks. These changes are currently being tested in the system's test site and will be moved to production within the next 45 days.

Louisiana Legislative Auditor
Management Response: Noncompliance with Subgrantee Monitoring Requirements for the
HMGP
November 27, 2017
Page 2

Additionally, grants management procedures will be revised to ensure the project complies with these requirements prior to subsequent payments.

GOHSEP has worked and continues to work to improve processes and values feedback that your staff provides to remedy any outstanding issues. Thank you again for your review, insight and assistance as we improve our processes in the administration of the hazard mitigation programs.

Person Responsible: Tenesha Wilson, Section Chief for Hazard Mitigation Grants Management.

Anticipated Date of Completion: January 1, 2018

If you have any further questions, please contact me at (225) 925-7345.

Sincerely,

A handwritten signature in blue ink that reads "James B. Waskom". The signature is fluid and cursive, with the first name being the most prominent.

James B. Waskom

**Governor's Office of Homeland Security
and Emergency Preparedness**
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



JAMES B. WASKOM
DIRECTOR

DIR-2017-0928-099

September 28, 2017

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

RE: Inaccurate Control Over Subgrantee Refunds

Dear Mr. Purpera:

I have reviewed the finding in the letter dated September 11, 2017 from your office, which covers activities of the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for Fiscal Year 2017.

GOHSEP management **concurs** with this finding.

Corrective Action Plan:

- GOHSEP requested a seven (7) day exception to the 24 hour check deposit timeframe, through the Department of Treasury from the Cash Management Review Board (CMRB), due to the multiple office locations of GOHSEP that receive checks, and the requirement to interoffice the checks to another State agency (Department of Public Safety and Corrections, Public Safety Services (DPS)), which provides back office functions as GOHSEP's finance office. Action by the CMRB is currently pending their next scheduled meeting.
- GOHSEP notified all agency employees and sections, which send out letters of demand or invoices to require the remittance address list the GOHSEP Headquarters Office address at Independence Boulevard, which will expedite receipt, coding and deposit of checks.
- GOHSEP developed, and is in the final phase of testing, an intraoffice SharePoint check deposit log, which will be used by GOHSEP staff at the Headquarters Office on Independence Boulevard and the Recovery Office on Florida Boulevard, in addition to the staff of the DPS Finance Office. This updated tracking system will reduce the multiple check logs to one overall shared

check log and streamline the coding process of the numerous federal grants to provide DPS Finance accurate information for the initial check deposits.

- DPS Finance will begin monthly reconciliation of GOHSEP's check deposits based on checks received and the sharepoint check deposit log.

Person Responsible: Christina Dayries, Assistant Deputy Director, Grants and Administration

Anticipated Date of Completion: October 31, 2017

If you have any further questions, please contact me at (225) 925-7345.

Sincerely,



James B. Waskom

JW:cld

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for the period from July 1, 2016, through June 30, 2017, 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, 2017.

- We evaluated GOHSEP'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 GOHSEP.
- Based on the documentation of GOHSEP'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 Flood Mitigation Assistance (97.029) and the Hazard Mitigation Grant (CFDA 97.039) Federal programs for the year ended June 30, 2017, as a part of the 2017 Single Audit.
- 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, 2017, as a part of the 2017 Single Audit.
- We compared the most current and prior-year financial activity using GOHSEP's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from GOHSEP's management for significant variances.

In addition, we performed procedures on GOHSEP's internal control and compliance with related laws and regulations over cash receipts and debt recovery. 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 GOHSEP, and not to provide an opinion on the effectiveness of GOHSEP'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 GOHSEP's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. GOHSEP's accounts are an integral part of the State of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.