

EXECUTIVE DEPARTMENT
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 28, 2016

**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



December 2016

Audit Control # 80160032

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, 2016, we performed procedures at the Executive Department to provide assurance on financial information that is significant to the 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 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 December 14, 2015. We determined that management has resolved the prior-year findings related to Inadequate Review of Procurement Exception Reports and Inaccurate Annual Fiscal Reports. 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.

In addition, the prior-year finding related to Hazard Mitigation Grant Program Awards Identified for Grant Recovery has not been resolved and is addressed again in the management letter for the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) that was issued on December 28, 2016. Projects related to the Hazard Mitigation Grant Program were transitioned to GOHSEP during fiscal year 2016.

Current-year Findings

Inadequate Grant Recovery of Homeowner Assistance Program Awards

For the fiscal year ended June 30, 2016, the Division of Administration (DOA), Office of Community Development (OCD), Disaster Recovery Unit identified \$171 million in noncompliant HAP awards for 6,577 homeowners through post-award monitoring for the Community Development Block Grants/State's Program (CDBG). Because the noncompliant awards identified for grant recovery have not been recovered as of June 30, 2016, we consider these amounts as questioned costs. In addition, questioned costs from previous years totaling \$672 million remain in recovery status. Of the \$8.9 billion total HAP awards disbursed as of June 30, 2016, 21,762 awards totaling \$843 million are in grant recovery.

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 post-award monitoring process to identify awards to be placed in recovery and 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 addition, management states it 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..." (see Appendix A, pages 1-2).

Inadequate Recovery of Small Rental Property Program Loans

For the fiscal year ended June 30, 2016, OCD's Disaster Recovery Unit identified \$5,650,504 in SRPP loans for 65 property owners under the Community Development Block Grants/State's Program 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 \$5,650,504 to be questioned costs, which if disallowed could be due back to the federal grantor. In addition, questioned costs from previous fiscal years totaling \$73,518,027 remain in recovery status. Of the \$438.3 million in SRPP outstanding loans at June 30, 2016, 941 loans totaling \$79,168,531 are in recovery status.

In response to hurricanes Katrina and Rita, the State was awarded and has allocated approximately \$649 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 lacks 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. OCD began sending out demand letters in March 2016 to all applicants who have not met a national objective as per HUD guidelines, and OCD is communicating the progress of these efforts to HUD. HUD states it will continue to monitor the State's progress on a quarterly basis. 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. Management stated in its response that it will continue the efforts to recover ineligible awards and will continue to work with homeowners to become compliant and resolve grant compliance issues to reduce or eliminate the need to recapture funds from homeowners (see Appendix A, pages 3-4).

Misclassification of State Funds

The DOA directed the Louisiana Department of Economic Development (LED) to improperly classify a \$34.6 million default payment made in March 2011 by Northrop Grumman Ship Systems (NGSS), which has ultimately cost the State of Louisiana more than \$2.1 million in interest and administrative costs as of June 30, 2016. Rather than depositing the funds to an escrow account to defease the related debt obligations, the State deposited the \$34.6 million default payment into the Louisiana Economic Development Fund, which was then "swept" as part of Act 378 of 2011 and used in the Louisiana Medical Assistance Trust Fund. The State will continue to incur additional interest and administrative costs until the debt is defeased. If not defeased prior to the October 2022 settlement date of the original obligation, the State will incur more than \$6.2 million in additional interest and administrative costs.

On August 21, 2003, the State of Louisiana entered into a Cooperative Endeavor Agreement (CEA) with NGSS to maintain employment levels at Avondale Shipyard by providing state funding through the issuance of debt to fund the purchase of equipment to modernize the shipyard and provide adequate training to the workforce. NGSS defaulted on the agreement by failing to meet the employment obligations set forth in the CEA. As a result, LED sent a Notice of Default to NGSS on January 3, 2011. A wire transfer of \$34.6 million was made from NGSS to LED on March 21, 2011, in settlement of this obligation, which was meant to represent the acquisition cost of the equipment previously purchased with debt proceeds under this agreement. Upon receipt of these funds, the State should have used the default payment to defease the debt that was issued for the purchase of the equipment. Since the debt could not be immediately defeased because of the limited prepayment options, the funds should have been segregated into a sinking account for defeasement of the debt, not a statutorily dedicated fund account that could be swept by legislative action. The State could have exercised a prepayment option to defease

the debt as early as October 1, 2014, which would have saved the taxpayers more than \$8 million in additional interest and administrative costs over the life of the agreement.

The State should consider defeasing this debt before the next installment payment is due in April 2017, which will save more than \$5.9 million in interest and administrative costs. Management did not concur with the finding and stated the CEA contained no stipulations for the classification of any potential default payments to be received from NGSS. Management contends that the administration's decision to use the funds for other purposes was not prohibited by the terms of the CEA and with the approval of Act 378 of the 2011 regular legislative session, the legislature concurred with the use of funds (see Appendix A, pages 5-6).

Additional Comments: The reason the State should have used the default payment to defease the debt is two-fold. First, under the original agreement, the State was making the installment payments in exchange for title to the equipment at the end of the lease and for NGSS to increase and maintain certain employment levels at Avondale Shipyard. Such an agreement appears to comport with Article 7, Section 14 of the Constitution, in that there were reciprocal obligations between the State and NGSS. When NGSS defaulted for its failure to maintain the required employment levels at Avondale Shipyard, if the State had defeased the debt, the State would no longer have been obligated to continue making installment payments on the equipment. However, by not defeasing the debt, the State remains obligated to make installment payments on equipment to which it may not obtain title in the likely event of litigation of this matter.

Second, by not defeasing the debt when it received the default payment, the State has incurred additional interest that would have been avoided. The State could have exercised a prepayment option to defease the debt as early as October 1, 2014, which would have saved the taxpayers more than \$8 million in additional interest and administrative costs over the life of the agreement.

Inadequate Disaster Recovery and Business Continuity Planning

The Office of Technology Services (OTS) has not defined its comprehensive disaster recovery services for all of its user agencies. As such, OTS has not prioritized a listing of critical services and applications for its user agencies or identified personnel and resources within these agencies necessary for proper decision-making and execution of procedures in the event of a disaster. As a result, agency continuity of operation plans that rely upon OTS disaster recovery services may become inadequate or not fully executable.

On July 1, 2014, OTS was created as the centralized provider of Information Technology (IT) support services for executive cabinet agencies of state government and is designated as the sole authority for IT procurement. Without a prioritized list of critical services and applications for its agencies, OTS cannot properly determine and restore each agency's systems and services in correct order, potentially causing costly delays if agency services cannot resume in the necessary timeframe. A lack of identified personnel and resources may lead to unperformed duties or unavailable system alternatives, such as hardware, software, or offsite locations.

As an OTS user agency, DOA has not updated its continuity of operations plan since June 10, 2014. The existing DOA plan lacks the following updated components necessary for full resumption of DOA operations:

- The priorities for bringing systems online based on their criticality
- Contact information for disaster recovery teams, including current job titles and responsibilities
- Designation of a current employee as emergency management officer
- Logs of plan changes
- Logs of completed training
- A distribution log showing who has copies of the plan

Although the existing DOA plan refers to procedures adequate to restore specific DOA systems, which include but are not limited to LaGov, the Advantage Financial System, and the Budget Development System, the plan does not account for its execution in association with changes since the creation of OTS. As a result, DOA may be unable to timely resume affected administrative or financial operations such as vendor payments and employee payrolls.

OTS should implement comprehensive statewide disaster recovery services and establish an updated policy to reflect its new responsibilities. DOA should, in collaboration with OTS: (1) assign dedicated responsibilities for maintaining its continuity of operations plan; (2) perform a business impact analysis on its operations; (3) update the plan in its entirety; (4) distribute the plan to properly-trained personnel; and (5) test the plan on at least an annual basis. DOA management did not concur with the finding but outlined a corrective action plan. Management noted that OTS personnel will assist the new emergency management officer (EMO), who started on November 14, 2016, with updating the IT specific portions of DOA's comprehensive emergency management plan. In addition, the EMO is actively working to update and complete other relevant information in DOA's plan (see Appendix A, pages 7-8).

Additional Comments: DOA management mentions that each individual agency included in the consolidation of IT services was instructed to follow its existing disaster recovery and business continuity plans. However, the existing plans at user agencies cannot properly account for changes since OTS's creation until OTS defines its comprehensive disaster recovery services; therefore, agency plans that rely on these services may be inadequate.

Inadequate Internal Audit Function

The Louisiana Public Defender Board (LPDB) does not have an internal audit function as required by law, increasing the risk that internal control processes will not be effective or efficient.

Louisiana Revised Statute 36:8.2.A requires the secretary of a department (defined as the Commissioner of Administration for the Office of the Governor, which includes LPDB) that includes an agency with an appropriation level of \$30 million or more to have an internal audit function and establish an office of the chief audit executive who shall be responsible for ensuring that the internal audit function adheres to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (IIA Standards). Considering LPDB was appropriated \$33.4 million for fiscal year 2016, an effective internal audit function is important to ensure that LPDB's assets are safeguarded and management's policies and procedures are uniformly applied.

The Commissioner of Administration should ensure that internal audit activities are performed in accordance with IIA Standards and contribute to the effectiveness and efficiency of LPDB operations, including internal control processes. Management indicated concurrence with the finding and outlined a plan of corrective action (see Appendix A, pages 9-10).

Comprehensive Annual Financial Report (CAFR) - State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2016, 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
- Revenue reported as operating and capital grants

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 over procurement at DOA, Office of State Procurement.

Based on the results of these procedures on the financial statements, we reported a finding related to Inadequate Disaster Recovery and Business Continuity Planning, which will also be included in the State of Louisiana's Single Audit Report for the fiscal year ended June 30, 2016. 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, 2016, 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 (CFDA 14.228)

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 DOA's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to Inadequate Grant Recovery of Homeowner Assistance Program Awards and Inadequate Recovery of Small Rental Property Program Loans. These findings will also be included in the Single Audit for the year ended June 30, 2016. In addition, the department's federal expenditures, loan information, and the status of prior-year findings, as adjusted, are 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 the Executive Department's internal control and compliance with related laws and regulations over the internal audit function.

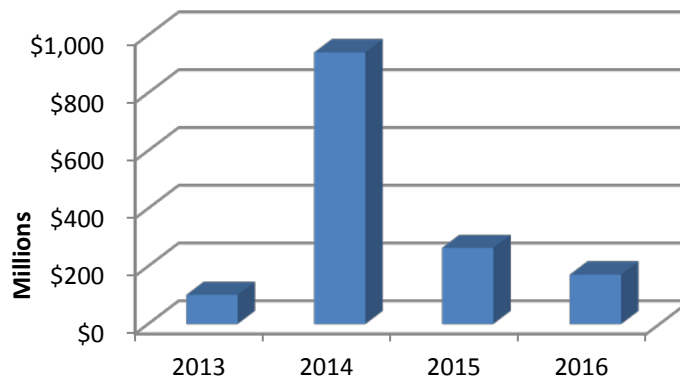
Based on the results of these procedures, we reported a finding related to Inadequate Internal Audit Function.

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 2013 through 2016.

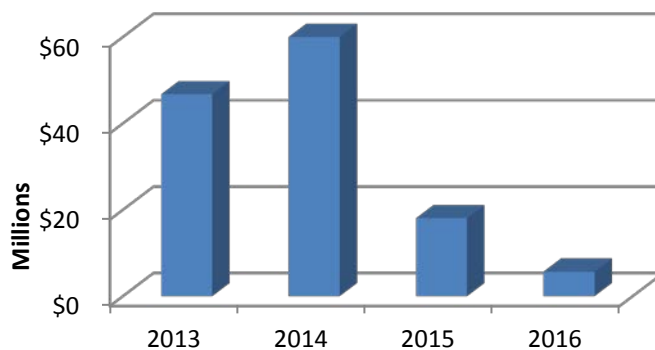
Both programs show a steep increase in recovery efforts in fiscal year 2014, with a decline in amounts added to recovery in subsequent years. OCD-DRU has continued its monitoring to identify awards to be placed in recovery.

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 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.

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

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

GM:ETM:BQD:EFS:ch

EXECUTIVE2016

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

November 14, 2016

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 (LLA) letter dated October 31, 2016 the Division of Administration's 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 continues fulfilling obligations of the amended grant agreement and Road Home close-out plan executed with HUD as of August 2015. The amended grant terms and conditions formalized a partnership between the state and HUD continuing to address noncompliance. The additional opportunities allowed for the reclassification of some or all of the Road Home Elevation Incentive award for 80% of those applying, thus reducing non-compliance and questioned costs. The approval of APA 65 which allows for interim housing as an unmet need, has reduced recapture amounts for over 200 homeowners, decreasing repayment amounts by \$5.4 million so far. Finally, OCD-DRU has forwarded noncompliant awards to a law firm for collection in accordance with the collection process for handling.

Since the last LLA audit, OCD-DRU has identified an additional \$171 million of non-compliant grants. This process has also resulted in \$388 million of previously non-compliant grants being removed from the list, either through documentation of compliance or grant recovery. This is a net reduction of \$217 million or 20% reduction in non-compliant grants.

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

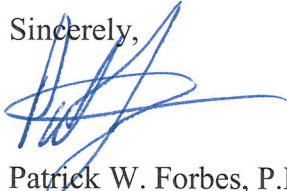
Mr. Daryl G. Purpera
November 14, 2016
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grant compliance issues in order to reduce or eliminate the need to recapture funds from homeowners where appropriate.

The contact person responsible for the corrective action is Edwin Legnon, Audit Manager 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,

A handwritten signature in blue ink, appearing to read 'P. Forbes', with a stylized flourish extending to the right.

Patrick W. Forbes, P.E.
Executive Director

C: Jay Dardenne, Commissioner of Administration
Desirée 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

Nov. 22, 2016

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:

As requested in the Legislative Auditor's (LLA) letter dated Nov. 9, 2016, the Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD-DRU) is submitting its 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 maintains an ongoing monitoring process to ensure compliance.

In June 2016, OCD-DRU, working with the Louisiana Housing Corporation (LHC) and the US Department of Housing and Urban Development (HUD), identified 397 SRPP applicants that did not meet a National Objective. To date, all applicants received a demand letter and 23 have become compliant and the remaining 374 applicants representing \$4,836,517 in funds are being processed using OCD-DRU's Collection Guidelines.

The remaining files identified by the 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. Since June 30, 2015, the number

¹An 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 on the loan.

Mr. Daryl G. Purpera
November 22, 2016
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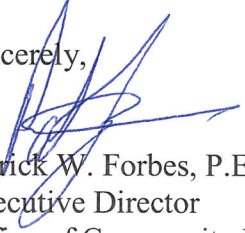
of non-compliant files has decreased by 251 applicants representing \$20,734,935 and we believe this decreasing trend will continue as more applicants complete the program.

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 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.

The contact person responsible for the corrective action is Edwin Legnon, Audit Manager for OCD-DRU. The anticipated completion date for this corrective action plan will coincide with the closing of the SRPP program, once approved by HUD.

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

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

Office of the Commissioner
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

December 7, 2016

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

Dear Mr. Purpera:

We have received the finding titled, "Misclassification of State Funds" presented as a result of your fiscal year 2016 financial audit of the Louisiana Economic Development Department (LED). The finding indicates that the Division of Administration (DOA) directed LED to improperly classify a \$34.6 million default payment made in March, 2011, by Northrop Grumman Ship Systems (NGSS). In addition, your finding recommends that the State consider defeasing the related debt before the next installment payment is due.

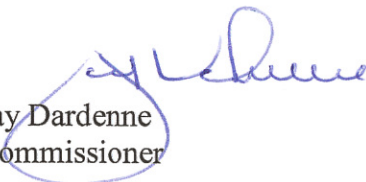
The DOA does not concur with the finding. The parameters included in the Cooperative Endeavor Agreement (CEA) for this Louisiana Economic Development endeavor contained no stipulations for the classification of any potential default payments to be received from NGSS. The default payment was made by NGSS as a result of failing to comply with the terms of the CEA. The administration's decision to use the funds for other purposes was not prohibited by the terms of the CEA. In addition, with the approval of Act 378 of the 2011 regular legislative session, the legislature concurred with the use of the funds as set forth in the act.

In response to your recommendation, we offer that managing state debt is an ongoing process for DOA that occurs in conjunction with the global management of balancing the state's budget and other state activities. What sets priorities for a state administration is an attempt to meet the challenge of managing the state's activities so that efficiency is maximized and costs are minimized while continuing to provide critical services to the people of the State of Louisiana. Decisions for managing state debt have been and continue to be part of administering overall state government operations.

Daryl G. Purpera, CPA, CFE,
Legislative Auditor
December 7, 2016
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We appreciate the opportunity to respond to this matter. If you have any questions, please feel free to contact me.

Sincerely,


Jay Dardenne
Commissioner

c: Barbara Goodson, Deputy Commissioner
Rick McGimsey, Executive Counsel
Desiree Honore Thomas, Assistant Commissioner
Randy Davis, Assistant Commissioner
Anne Villa, Undersecretary, LED
Marsha Guedry, Internal Audit Administrator

Office of Technology Services
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

December 1, 2016

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

Dear Mr. Purpera,

In response to your letter dated November 18, 2016, we offer the following response to the audit finding titled "Inadequate Disaster Recovery and Business Continuity Planning." This finding results from an Information Technology (IT) audit of the Division of Administration's (DOA's) statewide IT systems to include the Office of Technology Services (OTS).

The DOA does not concur with the finding. Each individual agency included in the consolidation of IT services was instructed to follow their existing Disaster Recovery (DR) and Business Continuity Plans (BCPs) through the Agency Relationship Managers (ARMs) until OTS completes the labor intensive process of updating and provisioning a comprehensive OTS DR/BCP. As IT consolidation has progressed, data integrity and backup processes have continued and have even been improved. System availability has improved through existing DR processes that have been enhanced with additional infrastructure and redundancy across data centers. Civil Service just recently approved the official OTS reorganization on November 9, 2016. This approval will allow OTS to make strides in all IT processes that need to be addressed for future efforts, including DR/BCP.

The DOA recently hired an emergency management officer (EMO), who came on board November 14, 2016. OTS personnel will assist the new EMO with updating the IT specific portions of DOA's comprehensive emergency management plan. Prior to bringing on the new EMO, DOA had updated the contact lists of each individual DOA agency and section to be included in the overall emergency management plan. The new EMO is already actively working to update and complete other relevant information in DOA's overall emergency management plan.

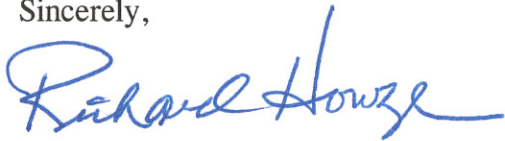
OTS will work with the EMO to ensure the IT hardware and software essential to statewide business units are available to be restored in a minimal amount of time in the event the business

units need to be relocated. The existing DOA plan includes the necessary procedures for restoring specific DOA systems, to include LaGov, the Advantage Financial System, and the Budget Development System. OTS performs a testing restoration on LaGov twice a year. In addition, a cold site has been established in Atlanta, Georgia in the event there is outage in the Data Center Operations (DCO) located in the Baton Rouge area.

Once alternate work locations are finalized by the EMO, OTS will help document procedures that may be required to procure and provision IT equipment at those locations. In addition, the EMO will work with the DR/BCP team that was created within OTS. This team has initiated the process of reviewing agency DR/BCP plans, starting with completing a business impact analysis of the IT systems used by the Department of Transportation and Development (DOTD). The review and update of the DOTD plan is approximately two-thirds complete. Once the DOTD review is complete, the team will begin a review of the Department of Natural Resources and continue until all agencies served by OTS have been reviewed, and plans have been updated, approved, and communicated. Complete documentation of the team's efforts will culminate in the release of a comprehensive DR/BCP plan which will include the overall responsibilities of OTS as it relates to DR/BCP.

We appreciate the opportunity to respond to this issue and welcome your continued recommendations and support to ensure that OTS continues to provide services based upon best practices.

Sincerely,



Richard "Dickie" Howze
Chief Information Officer

Office of the Commissioner
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

November 16, 2016

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

Dear Mr. Purpera:

We have received the finding titled, "Inadequate Internal Audit Function" presented as a result of your fiscal year 2016 financial audit of the Executive Department to include agencies within the Governor's Office. The finding indicates that the Louisiana Public Defender Board (LPDB) does not currently have an internal audit function in place. We offer the following information in response to the audit finding.

We acknowledge that Revised Statute 36:8.2.A requires the secretary of a department that includes an agency with an appropriation level of \$30 million or more to have an internal audit function and establish an office of the chief audit executive who shall be responsible for ensuring that the internal audit function adheres to the Institute of Internal Auditors' Standards. In addition, we acknowledge that the statute designates the commissioner of administration as the secretary for the office of the governor for the purpose of this law. Because the LPDB was appropriated \$33.4 million for fiscal year 2016, the board is required to have an internal audit function to ensure that LPDB's assets are safeguarded and management's policies and procedures are uniformly applied.

The Commissioner of Administration's Office is currently working with the LPDB to establish a position to perform the internal audit function as required. We appreciate the opportunity to respond to this matter. If you have any questions, please feel free to contact me.

Sincerely,


Jay Dardenne, Commissioner
Division of Administration

Daryl G. Purpera, CPA, CFE,
Legislative Auditor
November 16, 2016
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c: James T. Dixon, Jr., LPDB
Barbara Goodson, Deputy Commissioner
Rick McGimsey, Executive Counsel
Desiree Honore Thomas, Assistant Commissioner
Randy Davis, Assistant Commissioner
Marsha Guedry, Internal Audit Administrator

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Executive Department for the period from July 1, 2015, through June 30, 2016, 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, 2016.

- 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 the Executive Department's account balances and classes of transactions to support our opinions on the CAFR.
- We performed procedures on the Community Development Block Grants/State's Program (CFDA 14.228) for the year ended June 30, 2016, as a part of the 2016 Single Audit.
- We performed procedures on federal expenditure and loan information used in the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of prior-year findings used in the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2016, as a part of the 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 management for significant variances.

In addition, we performed procedures on the Executive Department's internal control and compliance with related laws and regulations over the internal audit function. 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.