

EXECUTIVE DEPARTMENT
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED DECEMBER 18, 2013

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

FIRST ASSISTANT LEGISLATIVE AUDITOR
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PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

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This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.57. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3533 or Report ID No. 80130033 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 4, 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, 2013, we conducted certain procedures at the Executive Department (department) for the period from July 1, 2012, through June 30, 2013.

- Our auditors obtained and documented an understanding of the department's operations and system of internal control, including controls over major federal award programs administered by the department, through inquiry, observation, and review of its policies and procedures, 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 March 27, 2013. The prior year findings relating to untimely review of Hazard Mitigation Grant Program (HMGP) recovery status and unsupported HMGP project costs have been resolved by management. The findings relating to inadequate grant recovery of Homeowners Assistance Program (HAP) awards, Community Development Block Grant awards identified for recovery, and inadequate recovery of Small Rental Property Program 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 liabilities resulting from claims and litigation, and revenue reported as operating and capital grants
 - Division of Administration, Office of Facility Planning and Control's capital outlay escrow fund nonpayroll expenditures, intergovernmental revenues, accrued payables, construction contracts and retainage payable, 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, 2013, 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 Circular A-133 on the following federal programs for the fiscal year ended June 30, 2013, as part of the Single Audit of the State of Louisiana:
 - Community Development Block Grants (CFDA 14.228/14.255)
 - State Energy Program (CFDA 81.041)
 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)
 - Hazard Mitigation Grant Program (CFDA 97.039)
 - Coastal Impact Assistance Program (CFDA 15.668)

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 the following significant findings for management's consideration. These findings will be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2013.

Inadequate Grant Recovery of Homeowners Assistance Program Awards

Through a post review of applicant eligibility for the Community Development Block Grant (CDBG), Homeowner Assistance Program (HAP), the Division of Administration (DOA), Office of Community Development (OCD) - Disaster Recovery Unit (DRU) identified ineligible awards for 2,035 homeowners totaling \$98.2 million. In addition, our review of 60 HAP awards not identified as ineligible during the post review process disclosed that 35 (58%) of these homeowners with awards totaling \$2.6 million had not provided adequate evidence of compliance with one or more award covenants to the DOA, OCD-DRU as required. Because the ineligible awards identified for grant recovery have not been recovered as of June 30, 2013, and OCD has not initiated grant recovery from any of these 35 additional homeowners, we consider these awards totaling \$100.8 million as questioned costs.

OCD's failure to recover benefits from noncompliant homeowners could result in disallowed costs. The state could be liable for repayment of ineligible awards if

disallowed by the federal grantor; however, it is unknown whether the federal government would demand repayment of these awards.

Our review of 60 homeowners disclosed the following:

- Twenty-seven (45%) homeowners failed to provide evidence that the damaged home has been repaired and re-occupied or a replacement property was purchased and occupied. 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.
- Twenty-eight (47%) homeowners failed to provide their homeowners insurance policy declaration page as evidence of homeowners insurance.
- Twenty-one (54%) of 39 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 21 homeowners in our sample since their homes were not located in a flood zone.
- Fifteen (71%) of 21 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 39 homeowners who did not receive elevation 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 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 homeowners 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 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-close reviews. Individual homeowner awards are generally 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 addition, 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.

OCD has prioritized award recovery for homeowners determined to be ineligible because of suspected fraud or duplication of benefits. OCD has implemented additional procedures in efforts to assist other award recipients in becoming compliant with the covenant requirements. In July 2013, HUD approved three Action Plan amendments that provide additional options for HAP participants who have not yet returned to their homes. The additional options allow the review of awards to determine if any unmet needs or additional assistance is necessary for participants to return home.

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. In addition, we recommend that OCD continue to identify those recipients who 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.

OCD concurs with the recommendation and continues to identify awards to be placed in recovery as well as its recovery efforts to collect those awards determined to be ineligible. In addition, management states it will continue to work with HUD to modify program procedures/requirements to resolve grant compliance issues to reduce or eliminate the need to recapture funds from homeowners (see Appendix A, pages 1-4).

Inadequate Recovery of Small Rental Property Program Loans

The DOA, OCD-DRU identified property owners with 549 Small Rental Property Program (SRPP) loans totaling \$46,113,043 who failed to comply with one or more of their loan agreement requirements and were assigned to loan recovery status. Our review of 56 property owners with SRPP loans in non-recovery status disclosed that eight (14.29%), with loans totaling \$600,433, 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 \$46,713,476 to be questioned costs, which if disallowed could be due back to the federal grantor. SRPP loans at June 30, 2013, total \$407 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 Housing and Urban Development 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 and OCD began implementing the SRPP Non-Compliance Mitigation Plan, which addresses loan recovery, loan modification, and property recovery for noncompliant property owners in May 2012. However, as of September 2013, OCD has not yet recovered loans for any noncompliant property owner. 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, 2013. Management further stated that it is assisting noncompliant property owners to bring them into compliance and is implementing a case-by-case review process to evaluate various factors when determining the actions to be taken on noncompliant property owners (see Appendix A, pages 5-7).

Inaccurate Annual Fiscal Reports

The Office of Finance and Support Services (OFSS) submitted inaccurate Annual Fiscal Reports (AFR) for the DOA and Louisiana Correctional Facilities Corporation (LCFC) for the fiscal year ended June 30, 2013. The following errors were noted:

- CDBG awards were incorrectly recorded twice in the operating and capital grants note disclosure for the DOA resulting in a \$25.8 million overstatement.

- Capital lease receivables and bond issue costs for LCFC totaling \$15.2 million were incorrectly classified as current assets instead of noncurrent assets.
- Disbursements on DOA's Schedule of Non-State Sub-recipients of Major Federal Programs were understated by \$31.6 million.
- DOA's Schedule of Expenditures of Federal Awards (SEFA) recap was not prepared in accordance with Office of Statewide Reporting and Accounting Policy (OSRAP) instructions. The recap was submitted on an incorrect form and included incorrect program and cluster names.

Management did not perform an adequate review of the AFR and SEFA and has not adequately trained its staff in reporting requirements. Failure to properly compile and review the AFR before submitting it to OSRAP for inclusion in the state's Comprehensive Annual Financial Report or the state's Single Audit report increases the likelihood that errors and omissions, either intentional or unintentional, may occur and remain undetected.

Management should strengthen its internal control over the financial reporting process and ensure that all personnel are adequately trained and supervised. In addition, management should perform a thorough review of the AFR and SEFA to identify and correct errors before submitting to OSRAP. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 8).

Hazard Mitigation Grant Program Awards Identified for Grant Recovery

Through a recovery review process for the HMGP, the DOA, OCD-DRU identified 680 noncompliant awards totaling \$22.9 million. In addition, our review of 20 awards affected by contractor abandonment, incomplete work, or potential fraud disclosed that OCD has demanded \$841,867 from contractors for work not performed. Because these noncompliant awards and contractor payments identified for grant recovery have not been recovered as of June 30, 2013, we consider these awards totaling \$23.7 million as questioned costs.

The HMGP award agreement between FEMA, 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. Awards have been identified by OCD for recapture and demand letters have been sent to applicants and contractors. Awards are generally identified for grant recovery for the following reasons:

- Required documents were not supplied to HMGP.
- Homeowners did not comply with all HMGP regulations as set forth by OCD-DRU, GOHSEP, and FEMA.

- Grant funds were not used for the purposes intended and in accordance with the policies of HMGP.

OCD should continue its grant review process to identify awards to be placed in recovery and continue its recovery efforts to collect those awards determined to be noncompliant. OCD acknowledged in its response that the 680 applicants noted in this finding were identified as noncompliant and placed in the recovery/recapture process. OCD management outlined a plan of corrective action (see Appendix A, pages 9-10).

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.

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

EXECUTIVE 2013

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

October 10, 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 (LLA) letter dated September 26, 2013, the Division of Administration's Office of Community Development, Disaster Recovery Unit (OCD/DRU) is submitting its response to the audit finding entitled, "Inadequate Grant Recovery of Homeowners Assistance Program Awards." OCD/DRU acknowledges the following information from the audit;

- that through its post-closing review of applicant eligibility for the Community Development Block Grant (CDBG) Homeowner Assistance Program (HAP), as of June 30, 2013, OCD/DRU identified ineligible awards for 2,035 homeowners totaling \$98.2 million;
- that the Auditor's review of 60 Homeowner Assistance Program (HAP) awards, which were not identified as ineligible during the post-closing review process, disclosed that 35 (58%) of these homeowners with awards totaling \$2.6 million had not provided adequate evidence of compliance with one or more award covenants to OCD/DRU as required; and
- that since the ineligible awards identified for grant recovery have not been recovered as of June 30, 2013, and OCD/DRU has not initiated grant recovery from any of the 35 additional homeowners, these awards totaling \$100.8 million are considered questioned costs.

OCD/DRU disputes the conclusions drawn with respect to the effect of the condition, however. OCD/DRU is exercising due diligence in its process of identifying ineligible awards made to applicants. We are providing additional assistance to applicants to enable them to become compliant, and our process for recapturing/recovering ineligible awards is in accordance with policies and procedures that are acceptable to the U.S. Department of Housing and Urban Development (HUD). 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. As such, OCD/DRU does not expect any disallowance of costs by HUD as long as due diligence is exercised in the recovery process, as is OCD/DRU's intent.

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 follows:

“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 allowed and encouraged the State to continue working with HUD to establish clear unmet needs policies. Per this guidance, HUD and OCD/DRU developed three unmet needs Action Plan Amendments, APAs 58, 59 and 60. HUD approved these APAs on July 26, 2013. It was 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 delayed aggressively pursuing many homeowners the Auditor considered noncompliant, knowing that approval of the unmet needs APAs would eliminate the need for grant recovery for some 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. After HUD's approval of the three APAs addressing unmet needs, OCD/DRU mailed approximately 55,000 letters on August 26, 2013 notifying homeowners that they have until November 25, 2013, the compliance deadline date, to provide OCD/DRU with documentation to support compliance. OCD/DRU will aggressively pursue those homeowners who are still considered noncompliant after the November 25 deadline date with recovery letters being mailed to them in the first quarter of Calendar Year 2014. In addition, OCD/DRU is conducting outreach events to assist homeowners by explaining and/or determining if the homeowner can be assisted through one of the three recently approved APAs, as well as helping homeowners complete the compliance process. OCD/DRU continues to work with HUD to identify ways to forgive or recalculate certain types of overpayments or to qualify the homeowner for an unmet need, thereby reducing the amount of recovery required.

OCD/DRU reviews files that have been identified for recovery to determine the appropriate course of action and 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, then to the Attorney General's (AG's) office for collection, as appropriate. Below is a breakdown of the status of the files reviewed by the Auditor during the audit.

With respect to the ineligible awards to 2,035 homeowners whose grants totaled \$98.2 million, OCD/DRU has determined that of this amount and as of the audit date, 1,402 grant recipients were overpaid a total amount of \$68.4 million, due to error on the part of a prior contractor, ICF, Emergency Management Services, LLC. A demand for repayment has been sent to ICF for the entire \$68.4 million.

In total, the current repayment demand from ICF is for 1,643 files in the amount of \$70.4 million, and continues to grow as files are reviewed. 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. OCD/DRU and ICF have begun discussions regarding the mediation process.

Another 664 files of the 2,035 ineligible awards, with a total value of \$40.3 million, have been sent to the AG's office for collection, at which point the AG is attempting 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 OCD/DRU to determine the feasibility of further collection efforts and authorization for filing suit. OCD/DRU will need to re-review these files, as homeowners may no longer owe funds back as a result of APAs 58, 59 and 60. As of October 3, 2013, a total of 651 files valued at \$38.8 million are at the AG for recovery.

In regard to the Auditor's sample of 60 homeowners and subsequent determination that 35 (58%) had not provided adequate evidence of compliance with one or more covenants, as well as the notation that OCD/DRU has not initiated grant recovery for the \$2.6 million in awards to these homeowners, OCD/DRU notes that, per current policy, a homeowner who does not provide adequate evidence of compliance with one or more covenants is not automatically subject to grant recovery. As of June 30, 2013, OCD/DRU had placed all of these 35 files into a no response stage anticipating HUD's approval of the unmet needs APAs, and all 35 homeowners in the no response stage have received the compliance deadline letter. 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 above, it would have been premature to place homeowners

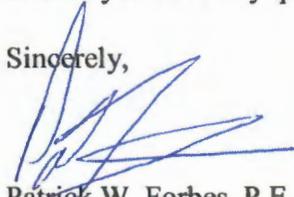
Mr. Daryl G. Purpera
October 10, 2013
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who are noncompliant due to non-responsiveness into grant recovery prior to HUD's approval of the unmet needs APAs.

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

C: Kristy Nichols
Ray Stockstill
Steven Procopio
Douglas Baker
Monique Appeaning
Marsha Guedry
Charlotte Hawkins

BOBBY JINDAL
GOVERNOR



KRISTY H. NICHOLS
COMMISSIONER OF ADMINISTRATION

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

October 10, 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 Legislative Auditor's letter dated September 26, 2013, 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, 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, counter to the program's objectives and the overall goal of recovery. While there may be files that are ultimately identified for recapture, the primary focus of the Program is to assist applicants in becoming compliant.

Following the finalization of the initial Non-Compliance Mitigation (NCM) Plan in May 2012, SRPP began determining all necessary system requirements for monitoring and addressing noncompliance within the SRPP. In July 2012, the Program tasked its IT vendor with developing the needed applications. The system was deployed on May 16, 2013, and SRPP began training appropriate staff and designing the system user guide. On July 9, 2013, initial data entry began, outbound phone calls were made and letters were mailed. To date, 1,145 loans have been entered into the long-term compliance and monitoring system and are being worked, of which 60

Mr. Daryl G. Purpera, CPA, CFE

October 10, 2013

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files have become compliant. The overwhelming majority of the noncompliance noted for these loans is the result of borrowers failing to meet an initial deadline to become compliant as of August 31, 2013. These borrowers have now been given a subsequent deadline of December 1, 2013 to mitigate their noncompliance. It is important to note the mitigation process is 90 days, during which time some loans will become compliant without a need for SRPP to take recovery actions. Therefore, SRPP must ensure it does not prematurely begin the recapture process.

With respect to collection activities, the Executive Compliance Committee (ECC) conducted its initial review of noncompliant files on July 24, 2013. The ECC is responsible for the review of files and for making recommendations regarding the disposition of the files that have exhausted all non-compliance mitigation efforts within the established timeframe of the NCM process. Except in cases where the property owner has agreed in writing with the overpayment amount and requests a repayment plan, the ECC makes a final recommendation with regard to the disposition of the file. The initial meeting served to establish the protocol, schedule and expectations for future meetings and was an opportunity to begin reviewing non-compliant cases. The ECC provides direction to the Program for each file reviewed, and Program staff has begun taking the appropriate actions.

In order to ensure that all available courses of action and all potential outcomes involved with recapturing funds and/or property are being accounted for, the Louisiana Housing Corporation (LHC) has ongoing discussions with HUD staff to determine the level of flexibility that the state has in addressing each non-compliant applicant's situation. To this end, SRPP management has developed draft guidelines for implementing a case-by-case review, which will take into account each applicant's particular circumstances and a number of other factors (e.g. condition of the property, SRPP's lien position, cost-benefit of pursuing foreclosure, etc.). These circumstances will be considered in making decisions with regard to actions taken on noncompliant borrowers. Once finalized, the guidelines will be sent to HUD for final approval prior to being put into action. Pending approval of the proposed guidelines, in conjunction with the December 1, 2013, deadline to become compliant, LHC anticipates mailing the initial recovery letters in the first quarter of 2014.

As of June 30, 2013, OCD/DRU identified a total of 635 noncompliance issues with the terms of loan agreements in the files of 549 SRPP applicants. The awards of these 549 applicants total \$46,113,043. Nearly one-third of the noncompliance issues (28%) involved failure to meet post certificate of occupancy requirements under the Advanced Funding Option. Failure to meet this requirement indicates that applicants, although complete with construction, have been unable to identify and secure eligible renters for the properties. Another 10 percent failed to rent their units to eligible renters under other funding options. The 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. On June 15, 2013, LHC organized and conducted a workshop/meet-and-greet targeted to SRPP landlords who had vacant units in the Program. Five hundred individual tenants attended, and 255 tenant applications were collected at the event.

In addition, 256 (40%) of the noncompliance issues are attributable to property owners failing to respond to requests for information, allowing access to property, and/or missing documentation.

Mr. Daryl G. Purpera, CPA, CFE

October 10, 2013

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Other than failing to respond with adequate documentation, the property owner may actually be compliant with the requirements of the loan agreement. LHC continues to actively pursue acceptable documentation from the property owners to bring them into compliance.

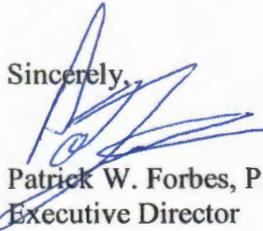
Of the 549 files LHC reported as having noncompliance issues as of June 30, 2013, 76 (14%) are now compliant. Therefore the total value of awards for these noncompliant applicants has been reduced from \$46,113,043 to \$39,473,172, a 14 percent decrease since the time of the audit. This is an indication that the NCM process is effective in reducing the noncompliance rate.

In summary, it is evident that the approach of assisting noncompliant property owners to come into compliance with program rules continues to produce effective results in line with the program's mission.

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

C: Kristy Nichols
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Charlotte Hawkins

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KRISTY H. NICHOLS
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State of Louisiana
Division of Administration
Office of Finance and Support Services

November 22, 2013

Daryl G. Purpera, CPA, CFE
Legislative Auditor
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Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

Management of DOA's Office of Finance and Support Services (OFSS) acknowledges that misstatements that occurred in the preparation of the fiscal year 2013 Annual Fiscal Reports (AFRs) and concurs with LLA's recommendation to strengthen existing internal controls over the financial reporting process. Immediate corrective action has been implemented to address the finding titled, "Inaccurate Annual Fiscal Reports."

The individuals working within the OFSS accounting staff that are responsible for preparing the notes and schedules required in the AFR were provided managerial level guidance on the issues causing the audit adjustments during fiscal year 2013. In addition, instructions were provided to the staff on how to adequately review internal work papers supporting the notes and schedules within the AFR to ensure they are complete and accurate.

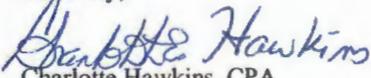
Additional measures have been taken to ensure that the accounting staff possess the competencies to accurately prepare future AFRs, including the Schedule of Expenditures of Federal Awards (SEFA). All staff will participate in annual formalized training sessions that will include exercises that replicate the preparation of specific notes and schedules required in the AFR. The focus of this training will be on those notes and schedules that have previously resulted in audit adjustments.

The training sessions will be conducted by the assistant director and accountant managers within the office prior to March 31, 2014. The recurring annual training will occur at a time near the receipt of the AFR instructions from DOA's Office of Statewide Reporting and Accounting Policy (OSRAP) so that the information provided to the staff will be relevant.

Assistant Director, Charlotte Hawkins is responsible for the corrective action outlined above and can be reached via e-mail at charlotte.hawkins@la.gov or by telephone (225) 342-5277.

The OFSS welcomes the continued dialogue and appreciates the work you and your team provide to the overall process. We appreciate all the assistance provided by your office, and look forward to working with you and your team in future years.

Sincerely,


Charlotte Hawkins, CPA
Assistant Director

cc: Ray Stockstill, Deputy Commissioner
Steven Procopio, Chief of Staff
Monique Appeaning, Assistant Commissioner Management and Finance
Ruth Johnson, Assistant Commissioner for Statewide Services
Afranie Adomako, Director, Office of Statewide Reporting and Accounting Policy
Marsha Guedry, Internal Audit Administrator



BOBBY JINDAL
GOVERNOR

KRISTY H. NICHOLS
COMMISSIONER OF ADMINISTRATION

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

December 4, 2013

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

RE: HMGP Awards Identified for Grant Recovery

Dear Mr. Purpera:

As requested in a letter from your financial audit staff dated November 26, 2013, the Division of Administration, Office of Community Development, Disaster Recovery Unit's Hazard Mitigation Grant Program (HMGP) is submitting its response to the audit finding titled "HMGP Awards Identified for Grant Recovery."

HMGP acknowledges that the 680 applicants noted in the finding as being noncompliant have been identified by the recovery/recapture process that HMGP has in place. Noncompliant applicants identified by HMGP are placed into HMGP's recovery/recapture grant stage as required by HMGP's established Grant Review and Recovery Procedures. HMGP also acknowledges that the group of applicants noted in the finding total approximately \$22.9 million at June 30, 2013.

A critical factor to note regarding HMGP's monitoring of program applicants is that applicants identified as noncompliant and moved into the recovery/recapture stage of the HMGP process can subsequently provide documentation that will bring them into grant compliance. When this occurs, these applicants are removed from recovery/recapture and the need for recoupment is alleviated. As of November 2013, through program compliance measures HMGP has been able to remove a total of \$3.4 million in awards provided to applicants from the recovery/recapture stage. These measures include contacting homeowners to obtain the remaining documentation needed to make them compliant with program requirements. For example, there are 242 projects currently in HMGP's recovery/recapture grant stage where the final inspection criteria are met and a Certificate of Occupancy or Certificate of Completion has been issued. These 242 projects represent approximately \$14.6 million and are completed mitigation projects that merely lack some component to evidentially support the completed activity.

HMGP's staff is administering the program in compliance with the requirements of its federal awarding agency, U.S. Department of Homeland Security, Federal Emergency Management Agency (FEMA). HMGP is pursuing the collection and/or reconciliation of all grant funds as required by FEMA's regulations. Through continued joint efforts with other agencies, to date HMGP has referred approximately \$2.6 million to be collected from applicants who owe funds back to the program. HMGP continues to work with applicants and contractors to achieve grant compliance and arrange recoupment

Mr. Daryl G. Purpera, CPA, CFE

December 4, 2013

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payment plans where possible. Another measure HMGP uses is to send demand letters to contractors regarding funds owed to the program due to non-compliance. Notifications of noncompliant contractors are also sent to the Office of the Attorney General, the Office of State Inspector General, the U.S. Department of Homeland Security's Office of Inspector General, and the Louisiana Department of Revenue to assist with collecting the funds owed to the program. For those contractors that are willing to settle the amounts owed to the program, HMGP staff schedules face-to-face meetings to begin the process of working through appeals and repayment plans.

HMGP would also like to acknowledge that as of November 2013, the program has cumulatively recovered over \$10.9 million in total grant payments from both homeowners and contractors. HMGP's processes for monitoring, review, and recovery/recapture have directly produced a recovery of over \$1.1 million from homeowners in the recovery stage. The majority of the \$10.9 million (\$9.6 million) resulted from many applicants and contractors voluntarily returning funds or working with the program to meet the final grant requirements.

HMGP would like to emphasize that the value of completed mitigation projects far exceeds the value of potential amounts to be recovered on relative projects. Successes of HMGP's administration of the program are reflected in not only the \$9.6 million of funds recovered through applicants and contractors volunteering to pay the program back for funds they owe, but also in the number of applicants being removed from recovery/recapture through measures taken by HGMP to bring both homeowners and contractors into compliance with requirements of the program. HMGP will continue to vigorously recover and reconcile all grant funds in accordance with the regulations set by FEMA.

HMGP has seen immense success through its measures to work with applicants and contractors to bring them into compliance. In addition, HMGP continues to meet the goals of the program and the State of Louisiana by helping as many coastal Louisiana homeowners as possible protect their homes from damage in future natural disasters by strengthening coastal communities through home mitigation.

If you have questions or require additional information, please feel free to contact us. Craig Taffaro is responsible for these actions taken by HMGP.

Sincerely,



Craig P. Taffaro, Jr.

Director, Hazard Mitigation and Recovery Coordination

- cc: Kristy Nichols
Ray Stockstill
Steven Procopio
Doug Baker
Monique Appeaning
Ruth Johnson
Marsha Guedry
Charlotte Hawkins