



# State of Louisiana, Baton Rouge, LA

## Community Development Block Grant Disaster Recovery Assistance Funds

**Office of Audit, Region 6  
Fort Worth, TX**

**Audit Report Number: 2018-FW-1007  
Date: September 28, 2018**



**To:** Stanley Gimont, Deputy Assistant Secretary for Grant Programs, DG

**From:** //signed//  
Kilah S. White, Regional Inspector General for Audit, 6AGA

**Subject:** The State of Louisiana, Baton Rouge, LA, Did Not Always Maintain Adequate Documentation or Comply With Website Reporting Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of our review of the State of Louisiana's Restore Louisiana Homeowner Assistance program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



**Audit Report Number: 2018-FW-1007**

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**The State of Louisiana, Baton Rouge, LA, Did Not Always Maintain Adequate Documentation or Comply With Website Reporting Requirements**

## Highlights

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### What We Audited and Why

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We audited the State of Louisiana's Restore Louisiana Homeowner Assistance program as part of our annual audit plan to review Community Development Block Grant Disaster Recovery programs. Our objective was to determine whether the State ensured that it complied with (1) its eligibility requirements for the Homeowner Assistance program and (2) website reporting requirements.

### What We Found

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The State did not always ensure that it complied with (1) its eligibility requirements for its Homeowner Assistance program or (2) website reporting requirements. Specifically, it did not always maintain adequate documentation to support that (1) applicants owned and occupied properties and (2) it considered or completed the elevation of properties when required. In addition, although it did not affect applicant eligibility, the State did not always maintain adequate and accurate file documentation to support applicant status determinations. For its website reporting, the State did not always ensure that it posted its quarterly performance reports as required. This condition occurred because the State did not always follow HUD's requirements and its own program policies and procedures and did not have adequate policies and procedures. As a result, the State could not provide reasonable assurance to HUD that it administered its program effectively and efficiently, could not support \$515,149 disbursed to applicants, and lacked transparency to the public.

### What We Recommend

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We recommend that HUD require the State to (1) support that it complied with the ownership and occupancy requirements or repay \$396,905, (2) support that it complied with the elevation requirements or repay \$118,244, (3) implement additional controls and procedures to ensure that adequate and accurate supporting documentation is maintained in its applicant files and all website information is maintained and updated as required.

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# Background and Objective

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The Continuing Appropriations Acts of 2017,<sup>1</sup> Further Continuing and Security Assistance Appropriations Act of 2017,<sup>2</sup> and the Consolidated Appropriations Act of 2017<sup>3</sup> made available more than \$2.7 billion in Community Development Block Grant (CDBG) funds for disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in the most impacted and distressed areas resulting from a major disaster declared in 2016.

In 2016, Louisiana experienced severe storms and flooding in both March<sup>4</sup> and August,<sup>5</sup> collectively referred to as the 2016 Severe Storms and Flooding, with 56 of the State's 64 parishes receiving a Federal disaster declaration. As a result, the U.S. Department of Housing and Urban Development (HUD)<sup>6</sup> allocated more than \$1.7 billion of its CDBG Disaster Recovery (CDBG-DR) funds to the State. HUD regulations required the State to submit an action plan detailing its proposed use of funds and maintain comprehensive websites regarding all disaster recovery activities assisted with these funds.<sup>7</sup>

The State's action plan, approved April 10, 2017, stated that the State would implement the Restore Louisiana Homeowner Assistance program to assist eligible homeowners to reconstruct, rehabilitate, reimburse, and elevate their properties.<sup>8</sup> To initiate a request for assistance under the Homeowner Assistance program, the State required applicants to register for an account and take an initial survey. Once these requirements were completed, the State moved applicants into an open application phase, during which it collected and reviewed applicant-provided documentation to verify eligibility for the program. If the applicants were deemed eligible, the State completed an award calculation and mailed an award acknowledgment letter to the applicants. The maximum award provided was determined by the scope of work, less any disaster assistance received by other agencies, such as the National Flood Insurance Program (NFIP), Federal Emergency Management Agency (FEMA), or Small Business Administration (SBA), to prevent a duplication of benefits. In addition, funds for the elevation of properties would be included for homeowners that met requirements determined by the program and would be evaluated case by case. Before receiving the grant funds, the State required applicants to complete a grant execution process, which included reviewing all program requirements and executing a grant agreement. As of May 31, 2018, the State had spent more than \$319 million and disbursed more than \$101 million to applicants under its program.

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<sup>1</sup> Public Law 114-223 (September 29, 2016), Division C, Section 145, made available \$500 million.

<sup>2</sup> Public Law 114-254 (December 10, 2016), Division A, Section 101, made available more than \$1.8 million.

<sup>3</sup> Public Law 115-31 (May 5, 2017), Division K, Title II, Section 421, made available \$400 million.

<sup>4</sup> Disaster number 4263

<sup>5</sup> Disaster number 4277

<sup>6</sup> 81 Federal Register 224 (November 21, 2016) allocated more than \$437.8 million, 82 Federal Register 11 (January 18, 2017) allocated more than \$1.2 million, and 82 Federal Register 150 (August 7, 2017) allocated more than \$51.4 million.

<sup>7</sup> 81 Federal Register 224 (November 21, 2016), sections VI(A)(1)(a) and VI(A)(2)(a)

<sup>8</sup> The Louisiana governor designated the State Office of Community Development - Disaster Recovery Unit as the administering agency for these recovery funds.

Our objective was to determine whether the State ensured that it complied with (1) its eligibility requirements for the Restore Louisiana Homeowner Assistance program and (2) website reporting requirements.

# Results of Audit

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## **Finding: The State Did Not Always Maintain Adequate Documentation or Comply With Website Reporting Requirements**

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The State did not always ensure that it complied with (1) its eligibility requirements for its Homeowner Assistance program or (2) website reporting requirements. Specifically, it did not always maintain adequate documentation to support that (1) applicants owned and occupied properties and (2) it considered or completed the elevation of properties when required. In addition, although it did not affect applicant eligibility, the State did not always maintain adequate and accurate file documentation to support applicant status determinations. For its website reporting, the State did not always ensure that it posted its quarterly performance reports as required. This condition occurred because the State did not always follow HUD's requirements and its own program policies and procedures and did not have adequate policies and procedures. As a result, the State could not provide reasonable assurance to HUD that it administered its program effectively and efficiently, could not support \$515,149 disbursed to applicants, and lacked transparency to the public.

### **The State Did Not Always Maintain Adequate Documentation**

The State did not always maintain adequate documentation to support applicant eligibility and award determinations. To be eligible for the program, the State's program policies required applicants to have owned and occupied the damaged property at the time of the disaster.<sup>9</sup> Federal regulations also required that disaster-assisted residential properties located in the 100-year floodplain be elevated, with the lowest floor at least 2 feet above the floodplain elevation.<sup>10</sup> Additionally, the State's program policy stated that the State would consider elevations for properties (1) inside the floodplain and required to be elevated by local ordinance, with a determination that the property was substantially damaged or would be substantially improved, and (2) outside the floodplain and required to be elevated by local ordinance as part of a reconstruction.<sup>11</sup>

Of 70 files reviewed, the State did not maintain adequate documentation to support that it complied with eligibility requirements for 9 applicants. Specifically, for seven applicants, with disbursements totaling \$396,905, the State did not maintain documentation, such as tax records showing a homestead exemption<sup>12</sup> or other documentation showing proof of ownership and occupancy. For two applicants, with disbursements totaling \$118,244, the State did not have adequate documentation to ensure that it considered or completed elevation on properties, although the properties required elevation. For one, the applicant submitted documentation to the State showing that the local jurisdiction required elevation of the property. For the other one,

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<sup>9</sup> Restore Louisiana Homeowner Assistance Program Policy, version 3.1, section 11.f.1

<sup>10</sup> 81 FR 224, section VI, paragraph B.28.e

<sup>11</sup> Restore Louisiana Homeowner Assistance Program Policy, version 3.1, section 5.d

<sup>12</sup> Homestead exemption gives property owners a tax break on their property taxes, Louisiana State law requires that the homeowner own and occupy the property to qualify for a homestead exemption.

the applicant submitted an elevation certificate to the State showing that the property did not comply with elevation requirements. However, the State did not provide elevation funds for these applicants. Not elevating the two properties in accordance with Federal and local building requirements put the properties at risk for future flood damage and additional requests for disaster assistance.

In addition, although it did not affect applicant eligibility, the State did not always have adequate and accurate documentation in its applicant files. Federal regulations required the State to have necessary records, adequate procedures to prevent duplication of benefits, and effective internal controls.<sup>13</sup> The State's program policy also required applicants to provide a copy of the current flood insurance declaration page or declination letter before receiving a grant award.<sup>14</sup> However, the State

- Did not always maintain documentation to support its reason for recapturing funds in 10 instances. In one example, the State miscalculated an applicant's award amount because it overrode award data and changed it to an amount that was different from that reported by SBA, which resulted in the applicant's receiving more funding than the eligibility requirements allowed and, thus, being placed in recapture status. However, the State did not have documentation in the file showing the correct SBA award amount or the new award calculation. In another example, the State placed one applicant in recapture status to recover \$2,136, citing that the FEMA data and the damage assessment did not support that the applicant's property had major damage. This action reduced the applicant's award to \$0. However, the file did not include the FEMA data or other documents from FEMA.
- Did not maintain adequate documentation showing why it deemed an applicant ineligible in one instance. Although the State's letter to this applicant stated that the determination was based upon the applicant's not maintaining flood insurance after receiving previous disaster assistance, the file did not contain documentation, such as a previous grant award statement, showing that the applicant received previous disaster assistance.
- Miscalculated assistance amounts for applicants because it did not always confirm information provided by FEMA, NFIP, or SBA and in some cases did not use information provided by applicants, resulting in 1 instance of underpayment and 10 instances of overpayments. For the underpayment, the State used SBA data showing that the applicant received \$20,000, although the applicant had not received any funds from SBA, which resulted in the applicant's qualifying for additional funding and having to participate in a second award process. As an example of overpayment, one applicant provided documentation showing the amount of their NFIP award. However, the State did not use the applicant provided documentation but rather a lesser amount reflected in the State's database, resulting in an overpayment of \$9,707. The State did not notify the applicant of the error until 3 months after the grant execution process, although it had the

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<sup>13</sup> Public Law 114-223, Continuing Appropriations Act, 2017, Section 145; 2 CFR 200.303(a); and 81 FR 224, section VI, paragraph A.14

<sup>14</sup> Restore Louisiana Homeowner Assistance Program Policy, version 3.1, section 10.c

updated information 19 days after the grant was executed. These errors potentially caused undue burden and delayed these applicants in their recovery.

- Did not have documentation in its files to support proof of flood insurance in 10 instances until after the grant execution process.
- In two instances, cited in its letters the wrong criteria for rejecting applicants from the program. For example, one letter cited damage level as a reason for ineligibility; however, the file showed that the damage level complied with program requirements.

### **The State's Website Did Not Provide Required Information**

The State's public website did not always provide the required public information showing how it used, managed, and administered grant funds.<sup>15</sup> HUD required the State to certify that it had adequate procedures to maintain a comprehensive website regarding all disaster recovery activities, including posting quarterly performance reports. To comply, the State developed a website maintenance policy,<sup>16</sup> which required it to update the site on at least monthly. However, in May 2018, the State's website did not include the 2017 HUD quarterly performance reports as required.

### **The State Did Not Follow Requirements and Policies Were Not Adequate**

In addition to not following HUD's requirements and its own written program policies and procedures to ensure that program staff processed applicant files in a consistent manner and in compliance with program requirements, the State's did not have adequate policies and procedures. Although the State had policies to determine whether applicants received disaster assistance from FEMA, SBA, and NFIP, it did not have mechanisms to verify and process conflicting award data received from applicants and these agencies. For example, the State's policy required it to use the information in the dataset received from individual agencies; however, it required staff to consider documentation provided by the applicant only if the data could not be verified from the individual agencies. In addition, the State's procedures did not require supporting documentation when it made system overrides that changed applicant award amounts to an amount different from that reported by FEMA, SBA, and NFIP. Further, the State's website maintenance policy did not include oversight procedures to ensure that website updates occurred as required.

### **The State Had Begun To Take Action To Resolve Deficiencies Identified**

After our June 2018 update meeting with the State, the State began taking measures to correct the deficiencies identified in the report. Specifically, the State (1) began obtaining the permits and quotes from contractors regarding elevating one property, (2) updated its website to include the HUD quarterly reports for 2017, and (3) asserted that it had corrected its override procedures.

### **Conclusion**

Because the State did not always follow program requirements and its own policies and procedures, it did not have adequate documentation to support applicant eligibility and

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<sup>15</sup> Public Law 114-223, Continuing Appropriations Act, 2017, Section 145, and 81 FR 224, sections VI, paragraph A.1.a.(5) and A.23

<sup>16</sup> Policy and Procedure for Maintaining a Comprehensive Website, sections I and II

compliance with all Homeowner Assistance program requirements and did not comply with website reporting requirements. As a result, the State could not provide reasonable assurance to HUD that it administered its program effectively and efficiently, could not support \$515,149 disbursed to applicants, and lacked transparency to the public.

### **Recommendations**

We recommend that the Deputy Assistant Secretary for Grant Programs require the State to

- 1A. Support that seven applicants met the ownership and occupancy requirements or repay \$396,905 to its program from non-Federal funds.
- 1B. Support that it complied with the elevation requirements for two applicants or repay \$118,244 to its program from non-Federal funds.
- 1C. Implement additional controls and revise policies and procedures to ensure that adequate documentation is maintained in its files to support (1) recapture decisions, (2) eligibility related to ownership or occupancy, (3) ineligible decisions, (4) elevation considerations, and (5) mitigation of duplication of benefits issues related to override procedures and incorrect data provided by other agencies.
- 1D. Implement additional controls and revise policies and procedures to ensure that the website is maintained and updated in compliance with requirements.

# Scope and Methodology

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We conducted our audit at the State's offices in Baton Rouge, LA, and the HUD Office of Inspector General's (OIG) offices in New Orleans and Baton Rouge, LA, between March and August 2018. Our audit scope generally covered the period between September 29, 2016, and February 28, 2018. We expanded the audit period to May 7, 2018, to review documentation related to applicant eligibility as needed to accomplish our audit objective.

To accomplish our objective, we reviewed

- Relevant laws, regulations, and program guidance.
- HUD and State grant agreements.
- HUD monitoring reports.
- The State's organizational structure and written policies and procedures.
- The State's action plans, consolidated plan, and quarterly performance reports.
- The State's single audit report for 2017.
- The State's disaster recovery website, homeowner applicant files, procurement files, and expenditure files.

We also interviewed HUD and State staff.

The homeowner applicant universe included 30,572 applicants, with eligible applicants at various stages of the award process, ineligible applicants, and withdrawn applicants. Of the 30,572 applicants, the State awarded more than \$274.5 million, disbursed more than \$101 million for 10,320 applicants, and deemed 2,258 applicants not eligible to participate in the program.<sup>17</sup> Using nonstatistical random sampling, we selected 70 applicant files for review. The 70 files included 61<sup>18</sup> applicants with awards totaling more than \$3.18 million and disbursements totaling more than \$2.9 million and 9 applicants deemed ineligible. We reviewed these files to determine whether the State adequately ensured that it complied with its eligibility requirements for the Homeowner Assistance program. We assessed the reliability of the computer-processed applicant data for the Homeowner Assistance program and determined that the data were generally reliable. Although this approach did not allow us to project the results of the sample to the population, it was sufficient to meet the audit objective.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

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<sup>17</sup> The remaining 17,994 applicants were not awarded or disbursed any funding as they were still in the verification process, had withdrawn from the program, or qualified for a zero award amount.

<sup>18</sup> The 61 samples included 45 applicants who were awarded and disbursed amounts more than or equal to \$50,000, 3 applicants who had no award date or award amount but had funds that were disbursed, and 14 applicants who were awarded and disbursed funds and were in recapture status. One of these samples was both in recapture status and did not have an award date or amount and should be counted only once.

objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

We determined that the following internal controls were relevant to our audit objective:

- The effectiveness and efficiency of policies and procedures used to implement the State's CDBG-DR grant.
- The reliability of data concerning CDBG-DR expenditures.
- Compliance with applicable Federal requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiencies**

Based on our review, we believe that the following items are significant deficiencies:

- The State's Homeowner Assistance program policies and procedures were not always sufficient to ensure that program staff processed applicant files in a consistent manner and in compliance with program requirements (finding).
- The State's policies and procedures for maintaining its website were not adequate to ensure that all website information was updated as required (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Unsupported 1/</b>
1A	\$396,905
1B	118,244
<b>Totals</b>	<b>515,149</b>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

## Appendix B

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

September 17, 2018

Kilah White  
Acting Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
819 Taylor Street, Suite 13A09  
Fort Worth, TX 76102

**RE: Response to HUD Regional Inspector General for Audit Draft Report  
2018-FW-100x dated September xx, 2018**

Dear Ms. White:

The Division of Administration, Office of Community Development, Disaster Recovery Unit is providing this letter in response to the HUD Office of Inspector General Audit Draft Report 2018-FW-100x, issued September xx, 2018 regarding the HUD OIG Audit of the State of Louisiana's Restore Louisiana Homeowner Assistance program. The report had four recommendations which are as follows:

***HUD Recommended Corrective Action:***

- 1A Support that seven applicants met the ownership and occupancy requirements or repay \$396,905 to its program from non-Federal funds.
- 1B Support that it complied with the elevation requirements for two applicants or repay \$118,244 to its program from non-Federal funds.
- 1C Implement additional controls and revise policies and procedures to ensure that adequate documentation is maintained in its files to support (1) recapture decisions, (2) eligibility related to ownership or occupancy, (3) ineligible decisions, (4) elevation considerations, and (5) mitigation of duplication of benefits issues related to override procedures and incorrect data provided by other agencies.
- 1D Implement additional controls and revise policies and procedures to ensure that the website is maintained and updated in compliance with requirements.

## Ref to OIG Evaluation

## Auditee Comments

### Comment 1

#### ***OCD-DRU Response for HUD Recommendations 1A:***

Recommendation 1A seeks support that seven specific applicants met the ownership and occupancy requirements for the program in lieu of repayment of \$396,905 from non-Federal funds. OCD-DRU disagrees with this recommendation. OIG cited 24 CFR 570.490, Recordkeeping Requirements which states:

*The content of records maintained by the state shall be as jointly agreed upon by HUD and the states and sufficient to enable HUD to make the determinations described at 570.493*

It is the policy and procedure of the Restore Program to establish ownership/occupancy via automated interface of eGrants with a 3<sup>rd</sup> party local tax assessor data set. These data are received electronically from the tax assessors and that information is maintained in our system, which includes the data warehouse. The documentation of the verification is evidenced via a "green check" in the eGrants Go Screen for an applicant file. This is evident in each of the seven files questioned by OIG. Of the seventy files reviewed by OIG, all seventy (100%) show evidence of this ownership/occupancy eligibility.

Prior to the issuance of the draft report, OCD-DRU made available to OIG and offered to demonstrate its system of record, specifically eGrants, an Oracle Database commonly referred to as the "Data Warehouse". The offer to review the source data was declined, so OCD provided screen shots for samples of the source feed for those data.

OCD-DRU believes it is compliant with 24 CFR 570.490 and all files reviewed demonstrate evidence of eligibility and that the Restore policies and procedures regarding eligibility were accurately implemented. Further, the verification is considered a best practice ensuring third party accuracy, cost savings, and less delays for recovery to homeowners. The Restore program has been monitored two separate times by HUD CPD with the most recent visit being August 13 – 17, 2018. During these monitoring visits, OCD-DRU demonstrated the above process to CPD as part of their file review and record keeping checklist with no concerns stated by CPD personnel.

Finally, although it is not the State's policy or procedure to verify the final results of the 3<sup>rd</sup> party data set, for the seven applicants identified by OIG, a print screen of the local tax assessors records showing that each of the seven applicants owned the property and maintained a homestead exemption at the time of the flood has been provided. See attached exhibit A.

#### ***OCD-DRU Response for HUD Recommendations 1B:***

Recommendation 1B seeks support that OCD-DRU complied with the elevation requirements for two applicants in lieu of repayment of CDBG-DR funds from non-Federal funds. Our response with respect to support for elevation outcomes for the two applicant files follows.

Sampled applicant 6/Account ID [REDACTED], award date September 29, 2017

OCD-DRU disagrees with this exception. We acknowledge that an elevation certificate, procured by the applicant is present in this Solution 2,3 applicant file, and that there are no additional documents supporting a requirement to elevate such as a Substantial Damage Letter (SDL) or a substantial improvement determination.

The existence of an elevation certificate in a file does not constitute a requirement that the home needs to be elevated or an indicator that it should have been elevated when repairs were completed. The

### Comment 2

## Ref to OIG Evaluation

## Auditee Comments

### Comment 3

observation that there is no SDL in the file is substantiated by the fact that there was never an SDL for this applicant property. This applicant did not appear on the OCD-DRU master list of SDL issued by local jurisdictions. The applicant property is in the City of Central's district. An SDL was never issued for the property according to [REDACTED], the Certified Floodplain Manager for Central. [REDACTED] further verified that Central issues an SDL on existing structures if damage exceeds 50% of pre-flood property value as determined by damage calculations using FEMA's Cost Estimator Program. The applicant structure is less than 50% substantially damaged and the base flood elevation for existing property in Central is 47.00 feet. Therefore, the property was eligible for rehabilitation.

The applicant property would also not meet a substantial improvement determination when based on the reconstruction square footage standard (\$108) for the Restore program. With no other means to substantiate an elevation requirement for this property, the decision to not require elevation scope in the reimbursed repair work is justifiable.

Sampled applicant 7/Account ID [REDACTED], award date December 22, 2017

OCD-DRU acknowledges that an SDL for this applicant property was uploaded in the eGrants file prior to the award date and that the scope for the repair portion of the award should have been adjusted either prior to the award determination or via a change order prior to execution of the grant agreement. Once detected, OCD-DRU put the applicant in a payment hold status to assess an appropriate corrective action.

On September 12, 2018, OCD-DRU received notice that the SDL for this applicant was rescinded; therefore, according to program policies, elevation is not required for this property. See attached exhibit B.

#### ***OCD-DRU Response for HUD Recommendations 1C:***

Recommendation 1C addresses the addition of controls and revision of policies to ensure adequate documentation is maintained in Restore Louisiana program files to support five specific decision, determination or mitigation issues. In many cases OCD-DRU has either added controls to address issues identified with files awarded earlier in the program or is continuing the process towards full implementation of planned controls that OCD supports are adequate to ensure compliant files. The following narrative addresses each of the five topics in Recommendation 1C in the order presented.

#### Support for Recapture Decisions

The eGrants system of record currently has not fully been activated with the planned recapture workflow in the system production environment. Given critical outstanding award impacts based on pending policy decision in reimbursement percentages and the SBA duplication of benefits legislation, the program delayed full programming in eGrants to avoid duplicative and costly efforts to manage recapture decisions. For that reason, manual controls were put into place; such as, QC inspection, one-over-one reviews and full file review prior to advancing an applicant to payment requisition. Further, OCD-DRU established a file status of "Recapture" in eGrants to enable the functionality for a file to be notably assigned to that status and held from proceeding to any further action or statuses. As detections occurred that resulted in a file going to Recapture status, the documentation and description of the justification for the file status change is noted in the eGrants file transaction log and/or the applicant file Notes area.

### Comment 4

## Ref to OIG Evaluation

## Auditee Comments

OCD-DRU does not agree that the documentation and decision support for Recapture was inadequate, given the basic core information of date/time, status at the time of detection, and reason for designating the applicant as Recapture status in eGrants are readily available and noted in the transaction log notes, or secondarily in technical notes logged via the eGrants Help Desk ticket system. The key data on a recapture determination is available and reproducible. The recommendation for improvement areas on the process for recapture are acknowledged for upcoming implementation, particularly with respect to use of automated controls and consistency in documenting the decisions.

As an interim measure, OCD-DRU analyzed the root causes of the small number of Recapture files currently in the program (63 out of over 13,900 positive award Restore Louisiana applicants are in Recapture status to date, 29 at the time of the audit). From this relatively small sample, the program took responsible actions to add further controls that would prevent additional recapture scenarios such as applied to the applicant previously discussed in our response to Recommendation IA (Account ID [REDACTED]), specifically:

- 1) The program started development in February 2018 of an eGrants enhancement to specifically control for differences between applicant provided data and automated pulls of 3<sup>rd</sup> party data; and
- 2) The enhancement (eGrants version 3.0.3) was implemented in the production environment in May 2018 with the full set of automated controls to significantly reduce the potential for errors or omission due to the manual controls and quality sampling methods previously used.

As a next step OCD-DRU will prioritize recapture requirements for eGrants development to provide additional structure and consistency into the handling of recapture cases that result from the controls detections. This will further enhance the documentation of the recapture decisions and actions and will more efficiently address the reproducibility of the information.

### Support for Eligibility Related to Ownership or Occupancy

The eGrants system of record was designed to automate third party verification for eligibility requirements in accordance with program policies and procedures. The OCD-DRU intent with the automated verification implementation is to create efficiencies, reduce processing and other operational costs, and mitigate human error in processing applications. The confirmation of valid Tax Assessment documents are confirmed through the third-party data feed that is stored in the eGrants program data warehouse. Based on the automated feed, a positive confirmation of document proof will appear as a green check and for those homeowners lacking documentation in the third-party database, or an unsuccessful match are marked with a red 'x' within the user interface of eGrants. Additional documentation is not required under program policies to be printed and uploaded to individual applicant files, which would be both time consuming and costly, to confirm what is already validated by the systematic data feed process. *Please refer to the policy reference and expanded discussion on verification of occupancy and ownership in our earlier response to Recommendation IA.* OCD-DRU maintains that it has implemented an effective policy and system, with a reproducible result, that eliminates the need for collection and upload of additional documents for inclusion in the applicant file.

### Support for Ineligible Decisions

OCD-DRU has implemented a series of clear policies and procedures in support of ineligible decisions, including the following:

Comment 5

Comment 6

## Ref to OIG Evaluation

## Auditee Comments

### Comment 6

- RLHP Ineligible Due to Failure to Provide Required Documentation Procedures (7/20/18)
- RLHP Ineligible Due to Non-Responsiveness Procedures (6/11/18)
- Restore LA Homeowner Policies and Procedures V3.1 (3/16/18)
- PCA – Documentation of Requirement to Maintain Flood Insurance (8/10/18)

OCD-DRU will continue to update procedures taking into consideration the OIG recommendations. A discussion follows concerning the specific file in the sample that led to the HUD OIG recommendation.

#### Sampled applicant 64/Account ID [REDACTED]

OCD-DRU disagrees with the unsupported ineligible determination issue as this applicant previously received Federal flood disaster assistance and did not maintain required flood insurance according to third party data, specifically the March FEMA data set. The determination is documented in both the transaction log comments and notes history and is supported by program policy. Finally, the applicant received a “Notice of Ineligibility” dated May 18, 2018. See attached supporting documents in exhibit C.

#### Support for Elevation Considerations

OCD-DRU continues to implement procedure updates that add visibility and improve communications regarding elevation considerations and interaction with local officials. The following policies and procedures provide additional guidance and clarification on documentation requirements and communications with applicants regarding elevation considerations:

- Procedure Change Alert – Elevation Documentation Process (2/28/18)
- Substantial Damage Letter Procedures (7/3/18)
- RLHAP SDL SOP (8/29/18)
- Restore LA Homeowner Policies and Procedures V3.1 (3/16/18)

OCD-DRU maintains a master list of SDL properties using information provided by parish and municipality floodplain departments and maintains an active dialog with the floodplain managers. The relationships fostered through this communication process allowed OCD-DRU to quickly reach a no-elevation determination for the first applicant cited by HUD OIG for Recommendation IB and to respond quickly when reconsideration was given on the second applicant cited in the Recommendation.

The increased attention and our increased communications with the flood plain managers will serve to minimize the risk of missed or delayed elevation determinations. OCD-DRU will increase emphasis on documentation for rationale and determinations via the applicant Notes in applicable files.

#### Mitigation of Duplication of Benefits Issues Related to Override Procedures and Incorrect Data Provided by Other Agencies

With regards to duplication of benefits, OCD-DRU continued to build upon initial controls, resulting in improvements that may not have been in place during earlier stages of the Restore program. These automated controls are specifically designed to mitigate the risk of issues related to override procedures. For example, eGrants release 3.0.3 (March 2018) improved the accuracy of the auto verification process for third party DOB data by updating the logic used to match damage addresses within the affected parishes.

### Comment 8

## Auditee Comments

The Go Screen of eGrants was also modified to display “Not Found” for scenarios in which no match of benefits was discovered within a given dataset. This limits the number of cases that would be subject to override since the business rules were fully implemented in that release to apply the correct logic to determine the appropriate applicant provided value versus the 3<sup>rd</sup> party data value, and ensure that value populates the file. Focusing the override only on cases where a data value is missing will thereby limit the potential for incorrect overrides. The history for any override is maintained in the user interface so that a one-over-one review and a QA/QC review can easily determine if the correct override value was applied.

The eGrants release 3.1 (May 2018) included additional functionality that required a justification comment to be entered for all Go Screen program verifications or overrides, which is retained in the criteria history for each respective value. This justification comment, which is required to proceed with an override action, provides an additional automated control and enhances the file transaction history further.

With respect to the HUD OIG observation that the grantee should mitigate errors in 3<sup>rd</sup> party datasets, particularly those belonging to other federal agencies, OCD-DRU advises that it would require a significant level of effort to do independent verification and validation of that data, especially since these datasets update continually. This forces OCD-DRU to rely on the organic quality and data assurance practices of the source agencies. From a risk management perspective, OCD-DRU is comfortable with this position since there have not been a significant number of data anomalies detected since the 3<sup>rd</sup> party data sets were implemented in the program delivery and there are adequate controls in place to detect issues.

### ***OCD-DRU Response for HUD Recommendations 1D:***

OCD-DRU has updated its Internal Policies and Procedures – RGR Reporting to include a Quarterly Performance Reports Process Flow Checklist.

Quarterly Performance Reports Process Flow				
Task	Date	Responsible Party	Responsible Party Signature	Check
Request End Date updates from Program Managers	Beginning 2-4 weeks before end of quarter		n/a	
Inform all Program Managers of pending closeout of DRGR and final call for changes	3 weeks before end of quarter		n/a	n/a
Update End Dates	Before end of quarter		n/a	
Submit DRGR Action Plan	Within one week after quarter end close		n/a	
	Qtr end 03/31: 04/01-04/07		n/a	
	Qtr end 06/30: 07/01-07/07		n/a	
	Qtr end 09/30: 10/01-10/07		n/a	
	Qtr end 12/31: 01/01-01/07		n/a	
Send quarterly change log to HUD	Within one week after quarter end close		n/a	
Request QPR Program narratives from Program Managers	Within 10 days after quarter end close		n/a	
Request QPR Grant narratives from Grant Managers	Within 10 days after quarter end close		n/a	
Complete QPRs	Months of April, July, October, January		n/a	
Submit QPRs into CPD DRGR	04/30, 07/30, 10/30, 01/30 for each quarter		n/a	
Distribute QPRs in PDF to HUD and DRU staff with instructions for addition to website	04/30, 07/30, 10/30, 01/30 for each quarter		n/a	
Check online to confirm that QPRs are on DRU website and links work	04/30, 07/30, 10/30, 01/30 for each quarter			
Check online to confirm that QPRs are on DRU website and links work	04/30, 07/30, 10/30, 01/30 for each quarter			
Check online to confirm that QPRs are on DRU website and links work	04/30, 07/30, 10/30, 01/30 for each quarter			

See attached exhibit D.

Comment 9

## Ref to OIG Evaluation

## Auditee Comments

OCD-DRU believes HUD-OIG will find the information contained herein to be sufficient to address the outstanding recommendations in their audit. As always, should you have any questions or require additional information, please do not hesitate to notify me.

Sincerely,

Patrick W. Forbes, P.E.  
Executive Director  
Office of Community Development

cc:

Desirée Honoré Thomas  
Marsha Guedry

## OIG Evaluation of Auditee Comments

Comment 1 The State stated that prior to the issuance of the draft report, it made available to OIG and offered to demonstrate its system of record. The State further stated that the offer to review the source data was declined, so it provided screen shots for samples of the source feed for those data. In addition, the State believed that it was compliant with HUD regulations at 24 CFR 570.490 and that its files supported ownership and occupancy of the 70 files reviewed by HUD OIG. The State provided additional documentation with its response.

We disagree. The State did not offer to provide a demonstration but rather to provide OIG with access to the system during a July 2018 update meeting. During this update meeting, we explained to the State that for security reasons, the OIG does not typically access sensitive database systems. In addition, the State had ownership and occupancy documentation in its other files. Further, 24 CFR 570.490 required the State to establish recordkeeping requirements sufficient to facilitate reviews and audits. We requested and the State agreed to provide the documentation, but did not do so until after the exit conference. Due to the volume of documentation and extensive review and clarification needed to verify that the applicants owned and occupied the properties, we were unable to clear this issue before we issued the final report. Therefore, the State will need to provide the additional documentation to and work with HUD to resolve the finding and recommendations during the audit resolution process.

Comment 2 The State disagreed and asserted that for sampled applicant 6, the property was not required to be elevated because it was not substantially damaged. The State explained that the existence of an elevation certificate in a file does not constitute a requirement that the home needs to be elevated nor is it an indicator that it should have been elevated when repairs were completed. The State further explained that (1) a substantial damage letter was never issued for the property, (2) the applicant structure is less than 50 percent substantially damaged and (3) the base flood elevation for existing property is 47 feet. Therefore, the property was eligible for rehabilitation and would not meet a substantial improvement determination; and, with no other means to substantiate an elevation requirement for this property, the decision to not require elevation scope in the reimbursed repair work is justifiable.

The State's policies and procedures required an elevation certificate only in the event that an elevation has taken place or should take place to demonstrate compliance with the base flood elevation requirements. At the time of our review, the file included an elevation certificate and did not have documentation showing that the State considered elevation for the applicant's home. In addition, the file did not include the explanation or additional documentation mentioned in the State's response. Due to the extensive review and additional clarification needed to verify that the applicant did not require elevation, we were unable to clear this issue before we issued the final report. Therefore, the State will need to provide documentation to and work with HUD to resolve the finding and recommendations during the audit resolution process. The applicant account

numbers and names included in the auditee comments were hidden for privacy reasons.

- Comment 3 The State acknowledged that it uploaded a substantial damage letter for this applicant property prior to the award date and that the scope for the repair portion of the award should have been adjusted either prior to the award determination or via a change order prior to execution of the grant agreement. The State put the applicant in a payment hold status to assess an appropriate corrective action. On September 12, 2018, the State received notice that the substantial damage letter was rescinded; therefore, according to program policies, elevation is not required for this property. The State provided additional documentation with its response.

The State did not provide this explanation or documentation during our review. Due to the extensive review and additional clarification needed to verify that the applicant did not require elevation, we were unable to clear this issue before we issued the final report. Therefore, the State will need to provide documentation to and work with HUD to resolve the finding and recommendations during the audit resolution process.

- Comment 4 The State asserted that it added controls to address issues identified within the files awarded earlier in the program or is continuing the process towards full implementation of planned controls. For recapture decisions, the State indicated that the recapture workflow had not yet been fully implemented in its system due to pending program policy decisions and it believed that it had adequate support in its files for those applicants that had been placed in recapture status.

We acknowledge the State's efforts to make improvements to its program and policies. However, based upon our file reviews, the State's transaction log notes referenced additional documentation which was not located in the files to support the decision to place the applicant in recapture status. Therefore, the State did not always have adequate and accurate documentation in its applicant files.

- Comment 5 The State stated that its system was designed to automate third party verification for eligibility requirements in accordance with program policies and procedures. Based on an automated feed, a positive confirmation of document proof will appear as a green check, and for those homeowners lacking documentation in the third-party database that result in an unsuccessful match are marked with a red 'x.' The State asserted that additional documentation is not required under program policies to be printed and uploaded to individual applicant files, which would be both time consuming and costly, to confirm what is already validated by the systematic data feed process.

We acknowledge the State's intention to defray cost and time when administering its program. However, due to potential errors in third party data, which may result in applicants having to repay funds, the State should maintain documentation showing that it verified the validity of third party data. In addition, the State did not establish recordkeeping requirements sufficient to

facilitate our audit, as required by 24 CFR 570.490. Thus, we stand by our original conclusion.

- Comment 6 The State asserted that its policies and procedures regarding ineligible decisions was clear and that it would continue to update its procedures taking into consideration OIG recommendations. Additionally, it disagreed with OIG's conclusion that the ineligible decision for sampled applicant 64 was unsupported.

We acknowledge the State's efforts to update its procedures; however, we disagree. Although the transaction log showed that the applicant was ineligible, the file did not include documentation to support that determination. Therefore, the State did not always have adequate and accurate documentation in its applicant files.

- Comment 7 The State indicated that it continues to implement procedure updates regarding elevation considerations. It also stated that it was able to quickly reach a no-elevation determination for the first applicant in Recommendation 1B and respond quickly when reconsideration was given to the second applicant cited in the recommendation.

We acknowledge the State's efforts to continue to implement procedural updates regarding elevation consideration. However, the State should adequately document its determinations in the files. The State should provide the updated policy to and work with HUD to resolve the finding and recommendations during the audit resolution process.

- Comment 8 The State stated that it continued to build upon initial controls related to duplication of benefits, resulting in improvements that may not have been in place during the earlier stages of the program and were specifically designed to mitigate the risk of issues related to override procedures. The State also stated that it believed it would require a significant level of effort to mitigate errors in third party datasets, which forced the State to rely on the data assurance practices of the source agencies.

We acknowledge the State's intention to defray cost and time when administering its program. However, due to potential errors in third party data, which may result in applicants having to repay funds, the State should maintain documentation showing that it verified the validity of third party data.

- Comment 9 The State asserted that it updated its internal policies and procedures to include a quarterly performance reports process flow checklist.

We acknowledge the State's efforts to improve its policies and procedures to ensure that the website is maintained and updated in compliance with requirements. The State should provide the updated policy to and work with HUD to resolve the finding and recommendations during the audit resolution process.