



Issue Date

May 7, 2007

Audit Report Number:

2007-AO-1001

TO: Nelson R. Bregon, General Deputy Assistant Secretary, D

FROM: *Rose Capalungan*  
Rose Capalungan, Regional Inspector General for Audit, GAH

SUBJECT: The State of Mississippi's Homeowner's Assistance Grant Program, Jackson, Mississippi, Did Not Appropriately Calculate Grants and Monitor the Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the State of Mississippi's (State) calculation of homeowners' grant amounts and monitoring of the implementation of its Homeowner's Assistance Grant Program. Our audit was part of the activities in our annual audit plan.

Our objectives were to determine whether the State appropriately calculated the homeowners' grant amounts and monitored the implementation of its Homeowner's Assistance Grant Program.

### **What We Found**

The State did not appropriately calculate the homeowners' grant amounts when it allowed its contractor, Reznick Group, to deduct unnecessary costs such as unpaid state income taxes, state unemployment taxes, and local ad valorem or property taxes from the homeowners' grant amounts. These problems occurred because Reznick Group relied on the delinquent taxes shown on the title reports provided by its subcontractor and failed to confirm with state and local tax agencies the total delinquent taxes owed by the homeowners. As a result, the homeowners did not receive the maximum benefits from the program, which was designed to assist them in rebuilding or repairing their damaged homes. In addition, the

homeowners with underpaid delinquent taxes still do not have clear titles to their properties.

The State also did not monitor Reznick Group's implementation of its Homeowner's Assistance Grant Program. This deficiency occurred because the Mississippi Development Authority (Authority) did not have adequate staff to perform the monitoring and had not established its monitoring processes as required. The lack of monitoring may potentially result in noncompliance with federal requirements such as ineligible and/or unsupported program expenses being charged against the 2006 Community Development Block Grant disaster recovery funds.

### **What We Recommend**

We recommend that the U.S. Department of Housing and Urban Development's (HUD) general deputy assistant secretary for community planning and development require the Authority to immediately (1) cease withholding or deducting unnecessary tax debts from homeowners' grant amounts, (2) recalculate the grant amounts for those homeowners who have already received assistance and refund such homeowners a total of \$159,172 in state and/or local taxes inappropriately withheld or deducted from their grants, and (3) confirm with state and local tax agencies the delinquent taxes the homeowners owed such agencies.

We also recommend that the general deputy assistant secretary require the Authority to immediately establish and implement monitoring procedures and controls for the Homeowner's Assistance Grant Program to ensure that program requirements are met.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

During the audit, we provided the results of our review to Authority management. We also provided our discussion draft audit report to HUD's staff during the audit. We conducted an exit conference with Authority management on April 3, 2007.

We asked the Authority's executive director to provide written comments on our discussion draft audit report by April 11, 2007. The executive director provided written comments to the discussion draft audit report, dated April 11, 2007. The Authority generally agreed with our findings. The complete text of the written

response, along with our evaluation of that response, can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVES**

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Under the Department of Defense Appropriations Act of 2006, the State of Mississippi (State) received more than \$5 billion for recovery efforts. One of the recovery efforts is the implementation of the Homeowner's Assistance Grant Program, which provides up to \$150,000 in grant assistance to qualifying homeowners. The Mississippi Development Authority (Authority) administers the program, while its contractor, Reznick Group, implements the program. The Authority's executive director is Gray Swoope.

The Homeowner's Assistance Grant Program is designed for residents who owned homes outside the federally designated flood zone, yet still suffered structural flood damage caused by Hurricane Katrina. The amount of each homeowner's grant is based on several factors, including but not limited to the insured value of the home, the amount of damage sustained, home insurance proceeds, any proceeds the homeowner received from the Federal Emergency Management Agency, and any loans from the Small Business Administration. The Authority also is withholding homeowners' state and local tax debts from the grant amounts. To receive assistance under the program, homeowners must meet certain criteria and agree to attach several covenants to their properties.

As of February 28, 2007, the State had received 17,916 applications for the program. As of March 1, 2007, the State had disbursed more than \$755 million from the 2006 Community Development Block Grant disaster recovery funds to 11,351 qualified homeowners.

Our objectives were to determine whether the State appropriately calculated the homeowners' grant amounts and monitored the implementation of its Homeowner's Assistance Grant Program.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Appropriately Calculate Homeowners' Grant Amounts

The Authority did not appropriately calculate the homeowners' grant amounts when it allowed its contractor, Reznick Group, to deduct unnecessary costs such as unpaid state income taxes, state unemployment taxes, and local ad valorem or property taxes from the homeowners' grant amounts. These problems occurred because Reznick Group relied on the delinquent taxes shown on the title reports provided by its subcontractor and failed to confirm with state and local tax agencies the total delinquent taxes owed by the homeowners. As a result, the homeowners did not receive the maximum benefits from the program, which was designed to assist them in rebuilding or repairing their damaged homes. In addition, the homeowners with underpaid delinquent taxes still do not have clear titles to their properties.

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#### Federal Requirements

The Defense Appropriations Act of 2006 appropriated \$11.5 billion in Community Development Block Grant funds for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure in the most impacted and distressed areas. For the State's Homeowner's Assistance Grant program, U.S. Department of Housing and Urban Development (HUD) officials clarified that the taxes withheld from homeowners' grant amounts were necessary costs under the intention of the Defense Appropriations Act of 2006 because such costs were necessary to clear the titles of homeowners' properties.

The appropriation also required State grantees to submit to HUD their action plans addressing how they intended to expend the disaster relief grant funds. Further, the appropriation specifically instructed the HUD secretary to waive or specify alternative requirements for any provision of any statute or regulation that the secretary administers. Such a waiver is dependent upon the grantees' assertion that such waiver is required to facilitate the use of disaster recovery funds and a finding by the secretary that such waiver would not be inconsistent with the overall purpose of the statute.

#### The Authority's HUD-Approved Action Plan

The Authority's HUD-approved partial action plan did not contain any provisions related to reducing homeowners' grant amounts for any back state income, unemployment, or ad valorem taxes due from the homeowners. The Authority also

did not request or obtain a waiver regarding its action to reduce homeowners' grant amounts for such taxes.

### **Inappropriate Reduction of Homeowner Grant Amounts**

Reznick Group, as instructed by the Authority, calculated the homeowners' grant amounts. As a result of Reznick Group's calculations, the Authority had disbursed from the 2006 disaster recovery grant funds more than \$398 million for 6,939 homeowners as of December 8, 2006. Two hundred eighty-six of the homeowners owed the State a combined total of \$326,491 in delinquent taxes for tax years 2006 and earlier. Of the 6,939 homeowners, 286 had their grant amounts reduced by the total unpaid state income, unemployment, and ad valorem taxes. Of the 286 homeowners with tax withholdings, 41 had their grant amounts reduced by the amounts of income tax liens for a combined total of \$80,302, 31 had their grant amounts reduced by the amounts of unemployment taxes for a combined total of \$46,762, and 214 had their grant amounts reduced by the amounts of local ad valorem or property taxes for a combined total of \$199,427.

HUD officials clarified that taxes withheld from homeowners' grant amounts are necessary costs under the Appropriations Act because such costs are necessary to clear the titles of homeowners' properties. Of the \$326,491 withheld from the homeowners' grant checks, \$159,172 was inappropriately withheld, and the remaining \$167,319 was appropriately withheld.

The \$159,172 was inappropriately withheld because these were not necessary costs to clear the titles of the homeowners' properties. Some of the homeowners had already paid off their delinquent taxes; therefore, the taxes withheld from these homeowners were unnecessary costs. For those homeowners who still had delinquent taxes, the taxes withheld were not necessary costs because there were no liens placed on their properties. The counties were not required to place liens on homeowners' properties for delinquent taxes. The counties were required to put homeowners' delinquent local taxes for sale to the public. The counties could still collect payments for homeowners' delinquent local taxes from the buyers of the delinquent taxes. The homeowners were given certain due dates to repay the buyers for the total amounts of delinquent taxes, interests and penalties that the buyers paid the counties. If the homeowners failed to pay back the buyers of their delinquent taxes by the required due dates, the counties would be required to transfer the ownership of the properties from the homeowners to the buyers.

Types of delinquent taxes	Total taxes withheld (\$)	Total taxes inappropriately withheld (\$)	Total taxes inappropriately withheld (%)
State income	\$ 80,302	\$ 8,930	11%
Unemployment	\$ 46,762	\$ 30,628	65%
Ad valorem/property	\$ 199,427	\$ 119,614	60%
<b>Totals</b>	<b>\$ 326,491</b>	<b>\$ 159,172</b>	<b>49%</b>

The remaining \$167,319 was appropriately withheld; however, this amount was not sufficient to clear the homeowners' tax liens due to accumulation of penalties and monthly interests.

Although the homeowners' grant amounts were reduced by the amounts of unpaid taxes, the Authority has not withdrawn funds from the 2006 disaster recovery grant to pay such taxes. The Authority planned to account the taxes withheld as "grants to individual" expenditures. The homeowners owed the income taxes, unemployment taxes, and ad valorem taxes to the Mississippi State Tax Commission, Mississippi Employment Security Commission, and local municipalities, respectively.

These problems occurred because Reznick Group relied on the delinquent taxes shown on the title reports provided by its subcontractor, Mississippi Title and Appraisal/First American Title. Reznick Group's failure to confirm with the Mississippi Department of Employment Security and local counties the actual delinquent tax amounts owed by the homeowners resulted in discrepancies between the amounts withheld and the amounts owed.

As a result, the homeowners did not receive the maximum benefits from the program, which was designed to assist them in rebuilding or repairing their damaged homes. In addition, the homeowners who received their grant checks and with underpaid delinquent taxes still do not have clear titles to their properties.

## Recommendations

We recommend that HUD's general deputy assistant secretary for community planning and development

- 1A. Require the Authority to immediately cease withholding or deducting unnecessary tax debts from homeowners' grant amounts.
- 1B. Require the Authority to recalculate the grant amounts for those homeowners who have already received assistance and refund such homeowners a total of



\$159,172 in state or local taxes inappropriately withheld or deducted from their grants.

- 1C. Require the Authority to confirm with state and local tax agencies the delinquent taxes the homeowners owed such agencies.

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## Finding 2: The Authority Did Not Monitor the Implementation of Its Homeowner's Assistance Grant Program

The State did not monitor Reznick Group's implementation of its Homeowner's Assistance Grant Program. According to Authority management, this occurred because the Authority did not have adequate staff to perform the monitoring and had not established its monitoring processes as required. The lack of monitoring may potentially result in noncompliance with federal requirements such as ineligible and/or unsupported program expenses charged against the 2006 Community Development Block Grant disaster recovery funds.

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The State, as the grantee, is responsible for compliance with federal requirements. According to the Department of Defense Appropriations Act of 2006 and its HUD-approved action plan, the Authority is required to (1) establish and implement monitoring processes to ensure that program requirements are met and (2) provide continuous quality assurance.

On February 21, 2006, the Authority contracted with Reznick Group to implement its Homeowner's Assistance Grant Program. On March 15, 2006, the contract was amended to stipulate the different services that the subcontractors of Reznick would perform under the program. As of December 6, 2006, the Authority had not monitored Reznick Group's implementation of the program.

Authority management advised us that it had neither hired additional staff to assist in monitoring the use of program funds nor established monitoring processes as required. Management stated that it approves the grant checks to homeowners.

Authority management contended that Eubanks and Betts, a contractor of Reznick Group, is responsible for monitoring the implementation of the program. We verified that Eubanks and Betts redetermined the applicants' eligibility, recalculated the homeowners' grant amounts, and through e-mail communications, advised Reznick Group of any discrepancies it found after redetermination of applicants' eligibility and recalculation of homeowners' grant amounts. Eubanks and Betts did not provide such e-mail communications and/or other related reports to the State. Eubanks and Betts contracted with Reznick Group and not with the State, and, therefore, it neither agreed to establish and implement monitoring processes nor to provide quality assurance and independent reporting to the State nor to monitor the use of grant funds on behalf of the State.

The Authority's lack of monitoring of the implementation of the Homeowner's Assistance Grant Program may potentially result in Reznick Group's not complying with federal requirements and paying Reznick Group for ineligible and/or unsupported program expenses out of program grant funds.

## Recommendations

We recommend that HUD's general deputy assistant secretary for community planning and development

- 2A. Require the Authority to immediately establish and implement monitoring procedures and controls for the Homeowner's Assistance Grant Program to ensure that program requirements are met.

## SCOPE AND METHODOLOGY

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We performed our audit work between August 2006 and March 2007. We conducted our audit at the Authority and Reznick Group's offices in Jackson, Mississippi, and HUD's New Orleans, Louisiana, and Jackson, Mississippi, field offices.

To achieve our objectives, we relied on hard-copy data from the Authority and Reznick Group and data contained in Reznick Group's systems for the Homeowner's Assistance Grant Program. We reviewed tax information, data, and tax-related requirements that state and local tax agencies provided. As of December 8, 2006, two hundred eighty-six of the 6,939 homeowners who received their grant checks had delinquent taxes withheld. We performed 100 percent testing on all homeowners with delinquent taxes.

In addition, we interviewed homeowner grant recipients and the appropriate Authority management, staff, and contractors involved in administering the program and processing accounts payable and receivable related to the Homeowner's Assistance Grant Program. We also interviewed Reznick Group's management and staff involved in managing the implementation of the program; processing homeowners' grant applications; obtaining data from federal, state, and local agencies and insurance companies; calculating grant amounts; and transmitting the calculated amounts to the Authority. We interviewed the State's and counties' management and staff involved in monitoring and managing delinquent taxes and maintaining tax records, respectively.

Further, we requested and received a legal opinion from our counsel regarding taxes withheld from homeowners' grant amounts and reviewed the provisions of the *Federal Register* issued in February 2006 for the Community Development Block Grant disaster recovery grants and other applicable federal requirements, the provisions included in the Authority's HUD-approved partial action plan and any amendments, the terms and conditions of the contract between Reznick Group and the Authority, and Reznick Group's calculations of homeowners' grant amounts along with supporting documentary evidence and electronic data.

The audit covered the period February 15 through August 15, 2006. This period was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weakness

Based on our audit, we believe the following item is a significant weakness:

- The Authority did not monitor Reznick Group's implementation of its Homeowner's Assistance Grant Program (finding 2).

## **FOLLOWUP ON PRIOR AUDITS**

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This is the first audit of the Authority by HUD's Office of Inspector General (OIG).

During the period August 21-25, 2006, HUD performed a management review that focused on the State's Homeowner's Assistance Grant Program and the overall management and financial management systems of the Authority and its contractors. On November 27, 2006, HUD issued its management review report, citing the details of its findings and concerns. HUD found that the Authority failed to follow the State's action plans, waivers, and amendments; did not have a strategy to monitor subcontractors and subrecipients; and did not monitor its contractor that prepared the damage assessments for homeowners participating in the Homeowner's Assistance Grant Program. In addition, HUD reported that payments made to Reznick Group for travel claims lacked the documentary details necessary to ensure that costs paid from grant funds were allowable. Further, HUD cited that the Authority's management internal control system is highly centralized. The controller has a dual role. She acts as program reviewer and accounting reviewer on requests for payments by vendors. She is also the primary source of all program-related information disseminations and lacks the necessary knowledge and skills to help manage the program. The Authority is in the process of addressing HUD's findings, concerns, and recommendations; therefore, HUD has not closed any of the findings cited in its report.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1B	<u>\$159,172</u>
Totals	<u>\$159,172</u>

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In these instances, if the Authority implements our recommendations, it will cease withholding or reducing taxes from homeowners' grant amounts to maximize the amounts granted to the homeowners.




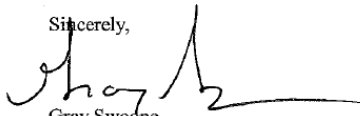
## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

	HUD OIG NEW ORLEANS 2007 APR 13 AM 11:28
<b>STATE OF MISSISSIPPI</b> HALEY BARBOUR, GOVERNOR <b>MISSISSIPPI DEVELOPMENT AUTHORITY</b> GRAY SWOOPE EXECUTIVE DIRECTOR	
April 11, 2007	
Rose Capalungan Regional Inspector General For Audit, Gulf Coast Region U.S. Department of HUD – Office of Inspector General 500 Poydras Street, 11 <sup>th</sup> Floor New Orleans, LA 70130	
Dear Ms. Capalungan:	
Enclosed is our response to the Discussion Draft Audit Report on the Office of Inspector General's Audit of State of Mississippi dated March 23, 2007. The audit objectives were to determine whether the State appropriately calculated the homeowners' grant amounts and monitored the implementation of its Homeowner's Assistance Grant Program.	
The Mississippi Development Authority (MDA) acknowledges the responsibilities for managing in excess of \$5 billion of CDBG Disaster Recovery Funds. Since August 29, 2005, the residents of the Mississippi Gulf Coast have suffered significant hardships, including financial hardships, as a result of Hurricane Katrina, the worst natural disaster to ever hit the United States. Due to the urgency of the needs of these homeowners, MDA's mission has been to provide assistance both efficiently and timely.	
MDA would like to thank the HUD - OIG staff for their assistance in implementing these unprecedented programs. If you have any questions regarding this response, please contact Donna Sanford, Director, Disaster Recovery, at (601) 359-3449.	
Sincerely,  Gray Swoope Executive Director	
Enclosures	
<small>POST OFFICE BOX 849 • JACKSON, MISSISSIPPI 39205-0849 TELEPHONE (601) 359-3449 • FAX (601) 359-2832 • www.mississippi.org</small>	

**Office of Inspector General Audit Report:  
Mississippi Development Authority Response**

**Community Development Block Grant  
State of Mississippi  
2007-AO-1001**

The Mississippi Development Authority (MDA) offers the following responses to the findings and recommendations as a result of the audit report dated March 23, 2007.

Finding 1: The Authority Did Not Appropriately Calculate Homeowners' Grant Amounts

**Comment 1**

MDA is in agreement that the program did not contemplate the prohibition of using Federal funds to pay state obligations or county ad valorem taxes. However, the State of Mississippi statute (see Section 7-7-43 below) restricts the issuance of any warrant (state check) to anyone indebted to the state. As a result, MDA must withhold from any individual state issued warrant (check) amounts owed to another state agency in compliance with state statute. Thus, MDA is required to withhold outstanding Mississippi state tax lien and Mississippi Employment Security Commission lien amounts from the grant award.

*MS. Code Ann. § 7-7-43. Warrants not to be issued to state's debtors; notice for state tax claim; liability for disregard of notice.*

*(1) The State Fiscal Officer, any chancery or city clerk, or the fiscal officer of any county or separate school district, institution of higher learning, state college, university or state community college, shall not issue any warrant upon any allowance made to, or claim in favor of, any person, his agent, or assignee who shall be indebted to the state, or against whom there shall be any balance appearing in favor of the state; but such officer shall allow such debtor a credit on his account for such allowance or claim.*

*(2) For state tax claims, the Tax Commissioner is required to furnish the appropriate fiscal officer with notice that state taxes have not been paid. This notice shall serve as a stop order upon any allowance made to, or claim in favor of, any person, his agent, or assignee who shall be indebted to the state, or any political subdivision thereof, or against whom there shall be any balance appearing in favor of the state or any political subdivision thereof. Disregard of the stop order notice shall create a personal liability against such fiscal officer for the full amount of state taxes due, plus interest and penalty.*

**Comment 2**

Accordingly, MDA issued a technical modification to the action plan to address this statute by designing a clear process by which these state tax liens, and ad valorem taxes will be withheld. The technical modification process is outlined as follows:

- 1) When a grant recipient owes state taxes, MDA will issue a joint check to the grantee and the state agency in recognition of each of their rights to such proceeds and to ensure compliance with state statute Section 7-7-43. Proceeds would not be restricted by Federal regulations since the withholdings and payments for these tax liens represent the actions authorized by the grant recipient in accordance with their

**Ref to OIG Evaluation**

**Auditee Comments**

grant agreement and would not be considered by HUD to be restricted by Federal regulations.

This position is based on the fact that grant recipients are giving MDA permission to satisfy their tax obligation with the use of grant proceeds. This is not a condition of the grant, but a post award action that allows the grant recipient to comply with the terms of the grant agreement and covenant agreement.

- 2) If a grant recipient owes ad valorem taxes, MDA will issue a joint check to the grantee and the respective county clerk. Proceeds would not be restricted by Federal regulations since the withholdings and payments for these ad valorem taxes represent the actions authorized by the grant recipient in accordance with their grant agreement and would not be considered by HUD to be restricted by Federal regulations.
  - a) With respect to ad valorem taxes, the grant recipient must ensure that the restrictive covenant that runs with the land maintains its first title position. To ensure that this occurs, all ad valorem taxes shall be satisfied and kept current. The withholding of such tax liens and subsequent payment using a "joint check" is both an acknowledgement of the obligation and provides the grant recipient with a practical mechanism for satisfying their ad valorem tax liability with these grant proceeds.

MDA agrees that due to the time between grant calculation and the resolution of the ability to make payment of the withholdings for unpaid state income taxes, state unemployment taxes, and local ad valorem or property taxes that the amounts withheld may differ from the amount currently owed by the homeowner.

Prior to disbursing the withholding, MDA will verify with the appropriate entity to determine if the homeowner has settled the amount. If the amount has been settled, the disbursement will be made solely to the homeowner(s). If the amount has not been settled, the disbursement will be a co-pay to the homeowner(s) and the appropriate entity.

MDA will establish procedures for determining the most current amount owed by a grant recipient for unpaid state income taxes, state unemployment taxes, and local ad valorem taxes prior to future grant payments and withholdings.

Finding 2: The Authority Did Not Monitor the Implementation of Its Homeowner's Assistance Grant Program

**Comment 3**

MDA is in agreement that it did not monitor the implementation of its Homeowner's Assistance Grant Program during the timeframe covered in this review dated February 15, 2006 to August 15, 2006. MDA has taken steps to establish and implement monitoring procedures and controls for the grant program by creating a specific bureau for monitoring and reporting. This bureau is developing processes to monitor the use of all program funds, and the implementation and compliance with policies and procedures. The bureau is performing preliminary test work to determine the scope of these reviews. The bureau will ensure that program requirements for all activities funded with CDBG Disaster Recovery Funds are met.

## OIG Evaluation of Auditee Comments

**Comment 1**

The state statute section 7-7-43 is correct. However federal funds must be used in accordance with the applicable federal requirements. The Defense Appropriations Act of 2006 appropriated \$11.5 billion in Community Development Block Grant funds for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure in the most impacted and distressed areas. HUD officials clarified that the taxes withheld from homeowners' grant amounts were necessary costs under the intention of the Act because such costs were necessary to clear liens on the titles of homeowners' properties. However, not all taxes withheld were necessary to clear liens on the titles of homeowners' properties and were considered unnecessary expenses. We recommend that HUD's general deputy assistant secretary for community planning and development require the Authority to immediately cease withholding or deducting unnecessary tax debts from homeowners' grant amounts and to recalculate the grant amounts for those homeowners who have already received assistance and refund such homeowners for taxes of any kind inappropriately withheld or deducted from their grants.

**Comment 2**

HUD did not approve the Authority's technical modification to the action plan. The Authority's HUD-approved partial action plan did not contain any provisions related to reducing homeowners' grant amounts for any outstanding state income, unemployment, or ad valorem taxes due from the homeowners. The Authority also did not request or obtain a waiver regarding its action to reduce homeowners' grant amounts for such taxes.

**Comment 3**

While the Authority's management agreed to implement monitoring and control procedures over the State's Homeowner's Assistance Grant Program, the Authority has not offered any detail regarding its development. Such detail should come in the form of an action plan with definitive milestones and dates for anticipated achievement of those milestones. There should be details regarding resources used to date and those expected to be used. Generally, there should be all the detail necessary to establish a basis for audit, such that assurance can be reached that the Authority is monitoring and controlling the State's Homeowner's Assistance Grant Program adequately and in accordance with applicable laws and regulations.

## Appendix C

### STATE INCOME TAXES WITHHELD AS OF DECEMBER 8, 2006

Count	Application number	State income taxes withheld (\$)
1	06HA001567	4,409
2	06HA001842	268
3	06HA001858	392
4	06HA001986	2,485
5	06HA002691	743
6	06HA003132	650
7	06HA003919	2,996
8	06HA005211	59
9	06HA005415	2,276
10	06HA005512	559
11	06HA005773	109
12	06HA008270	7,437
13	06HA008278	285
14	06HA009023	202
15	06HA010030	213
16	06HA010662	5,612
17	06HA010711	782
18	06HA011073	1,045
19	06HA011594	323
20	06HA012736	477
21	06HA013378	18,558
22	06HA013591	628
23	06HA013872	3,048
24	06HA014167	483
25	06HA014209	385
26	06HA014217	59
27	06HA014988	347
28	06HA015686	1,251
29	06HA015819	729
30	06HA016548	1,073
31	06HA016646	392
32	06HA016779	1,108
33	06HA016978	1,044
34	06HA017388	345
35	06HA017718	14,093
36	06HA017787	1,374
37	06HA017970	2,280
38	06HA018017	251
39	06HA018304	57
40	06HA018381	1,287
41	06HA019002	188
	<b>Totals</b>	<b>\$ 80,302</b>

**Appendix D**  
**UNEMPLOYMENT TAXES WITHHELD AS OF DECEMBER 8,**  
**2006**

<b>Count</b>	<b>Application number</b>	<b>Unemployment taxes withheld (\$)</b>
1	06HA001941	642
2	06HA002363	880
3	06HA002390	3,647
4	06HA004170	1,720
5	06HA004552	854
6	06HA005694	1,953
7	06HA006449	243
8	06HA006711	721
9	06HA006771	4,615
10	06HA007166	434
11	06HA007657	2,763
12	06HA007820	4,873
13	06HA008434	865
14	06HA008903	2,450
15	06HA009385	218
16	06HA009422	2,339
17	06HA010193	3,400
18	06HA010468	1,088
19	06HA012636	3,824
20	06HA012651	225
21	06HA012777	766
22	06HA013547	3,400
23	06HA013697	435
24	06HA014209	447
25	06HA014670	649
26	06HA016145	218
27	06HA016150	200
28	06HA016464	1,901
29	06HA016759	218
30	06HA017999	552
31	06HA018345	223
	<b>Totals</b>	<b>\$ 46,762</b>

## Appendix E

### AD VALOREM TAXES WITHHELD AS OF DECEMBER 8, 2006

Count	Application number	Ad valorem taxes withheld (\$)
1	06HA001372	431
2	06HA001504	2,112
3	06HA001596	303
4	06HA001639	162
5	06HA001646	892
6	06HA001780	1,873
7	06HA001881	1,003
8	06HA001883	644
9	06HA001914	327
10	06HA001927	729
11	06HA001954	1,410
12	06HA001986	968
13	06HA002021	488
14	06HA002228	194
15	06HA002247	137
16	06HA002291	523
17	06HA002293	311
18	06HA002343	1,109
19	06HA002345	373
20	06HA002456	631
21	06HA002479	994
22	06HA002570	1,083
23	06HA002633	391
24	06HA002827	123
25	06HA002842	751
26	06HA002891	1,848
27	06HA002959	628
28	06HA003031	1,194
29	06HA003060	662
30	06HA003079	1,127
31	06HA003100	382
32	06HA003149	3,437
33	06HA003162	110
34	06HA003305	846
35	06HA003337	391
36	06HA003365	1,104
37	06HA003406	162
38	06HA003483	682
39	06HA003544	313
40	06HA003567	1,243
41	06HA003632	1,110
42	06HA003635	533

<b>Count</b>	<b>Application number</b>	<b>Ad valorem taxes withheld (\$)</b>
43	06HA003863	240
44	06HA004019	494
45	06HA004254	1,186
46	06HA004302	481
47	06HA004370	354
48	06HA004469	308
49	06HA004481	222
50	06HA004643	1,095
51	06HA004761	1,132
52	06HA004809	497
53	06HA005013	442
54	06HA005201	1,516
55	06HA005206	883
56	06HA005208	1,067
57	06HA005211	15
58	06HA005234	1,458
59	06HA005278	1,389
60	06HA005288	710
61	06HA005350	1,523
62	06HA005413	246
63	06HA005468	594
64	06HA005475	1,064
65	06HA005512	79
66	06HA005598	6,008
67	06HA005705	743
68	06HA005736	758
69	06HA005930	14,101
70	06HA005954	250
71	06HA005992	1,022
72	06HA006002	492
73	06HA006069	1,980
74	06HA006342	224
75	06HA006426	653
76	06HA006600	1,050
77	06HA006668	2,306
78	06HA006685	522
79	06HA006872	451
80	06HA007008	1,005
81	06HA007217	270
82	06HA007439	593
83	06HA007458	1,261
84	06HA007470	60



<b>Count</b>	<b>Application number</b>	<b>Ad valorem taxes withheld (\$)</b>
85	06HA007752	1,028
86	06HA007772	448
87	06HA007824	1,151
88	06HA007882	341
89	06HA007958	341
90	06HA008122	19
91	06HA008255	440
92	06HA008268	650
93	06HA008270	650
94	06HA008276	210
95	06HA008329	564
96	06HA008344	1,201
97	06HA008473	487
98	06HA008589	1,577
99	06HA008825	1,962
100	06HA008975	314
101	06HA009023	546
102	06HA009026	383
103	06HA009042	2,714
104	06HA009050	442
105	06HA009116	500
106	06HA009426	101
107	06HA009487	1,123
108	06HA009557	336
109	06HA009636	1,310
110	06HA009884	596
111	06HA009940	300
112	06HA010159	538
113	06HA010169	2,356
114	06HA010471	1,192
115	06HA010534	346
116	06HA010727	398
117	06HA010766	226
118	06HA010845	673
119	06HA010863	940
120	06HA010882	12,798
121	06HA010957	1,107
122	06HA011193	119
123	06HA011223	166
124	06HA011698	416
125	06HA011725	348
126	06HA011781	139

<b>Count</b>	<b>Application number</b>	<b>Ad valorem taxes withheld (\$)</b>
127	06HA011804	419
128	06HA011806	262
129	06HA011824	1,131
130	06HA011882	457
131	06HA012055	387
132	06HA012171	119
133	06HA012552	520
134	06HA012636	1,144
135	06HA012682	787
136	06HA012693	1,220
137	06HA012737	1,168
138	06HA012801	1,045
139	06HA012862	1,011
140	06HA013204	475
141	06HA013416	792
142	06HA013437	414
143	06HA013471	164
144	06HA013476	2,774
145	06HA013562	1,783
146	06HA013564	703
147	06HA013626	1,060
148	06HA013722	1,204
149	06HA013872	1,890
150	06HA013957	2,258
151	06HA014011	1,094
152	06HA014021	687
153	06HA014061	355
154	06HA014209	463
155	06HA014210	764
156	06HA014321	536
157	06HA014408	571
158	06HA014544	505
159	06HA014682	355
160	06HA014761	2,894
161	06HA015026	476
162	06HA015089	936
163	06HA015096	2,893
164	06HA015103	398
165	06HA015117	92
166	06HA015125	579
167	06HA015650	2,063
168	06HA015695	882

<b>Count</b>	<b>Application number</b>	<b>Ad valorem taxes withheld (\$)</b>
169	06HA015719	762
170	06HA015951	923
171	06HA016008	93
172	06HA016058	1,299
173	06HA016178	429
174	06HA016230	472
175	06HA016302	553
176	06HA016319	332
177	06HA016356	588
178	06HA016367	3,611
179	06HA016478	455
180	06HA016643	226
181	06HA016681	489
182	06HA016689	1,173
183	06HA016697	794
184	06HA016759	404
185	06HA016779	2,461
186	06HA016963	429
187	06HA017058	410
188	06HA017102	1,098
189	06HA017356	653
190	06HA017377	665
191	06HA017412	765
192	06HA017636	180
193	06HA017694	127
194	06HA017781	654
195	06HA017790	535
196	06HA017993	228
197	06HA017999	1,622
198	06HA018064	116
199	06HA018095	1,207
200	06HA018099	1,946
201	06HA018103	452
202	06HA018207	32
203	06HA018278	650
204	06HA018373	259
205	06HA018393	505
206	06HA018449	896
207	06HA018511	108
208	06HA018534	757
209	06HA018771	1,120
210	06HA018802	899

<b>Count</b>	<b>Application number</b>	<b>Ad valorem taxes withheld (\$)</b>
211	06HA018865	360
212	06HA018977	1,255
213	06HA019004	423
214	06HA019109	309
	<b>Totals</b>	<b>\$ 199,427</b>