




Issue Date January 30, 2008
Audit Report Number: 2008-AO-1002

TO: Nelson Bregon, General Deputy Assistant Secretary, D

 for

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

SUBJECT: State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination

HIGHLIGHTS

What We Audited and Why

We audited the State of Louisiana's (State) additional compensation grant (grant) component of the Road Home homeowner assistance program, managed by the State's contractor, ICF Emergency Management Services, LLC (ICF). We initiated the audit in conjunction with the Office of Inspector General (OIG) Gulf Coast Region's audit plan and examination of relief efforts provided by the federal government in the aftermath of Hurricanes Katrina and Rita. During our audit to determine grant eligibility, we identified possible eligibility issues through a review of the electronic data. To immediately address the issues, we developed an additional objective to determine eligibility for those grants coded ineligible or lacking an eligibility determination.

What We Found

Of 22,135¹ grants, the State funded 418 (2 percent) grants, totaling \$15.8 million, coded ineligible or lacking an eligibility determination. This condition occurred because the State's contractor, ICF, did not have system controls in place to prevent these improper disbursements. File reviews of 26 (6 percent) of the 418 grants determined that as of October 13, 2007, the State had misspent federal funds for 17 ineligible and 2 unsupported grants. The remaining seven grants

¹ Total grants disbursed as of October 13, 2007.

were eligible or had input or coding errors. As a result, the State will need to review the remaining 392 grants, which total more than \$14.6 million, as the disbursements are questionable.

What We Recommend

We recommend the U.S. Department of Housing and Urban Development's (HUD) General Deputy Assistant Secretary for Community Planning and Development require the State to repay amounts disbursed for ineligible grants to its Road Home program, either support or repay amounts disbursed for unsupported grants, review all of the remaining 392 grants coded ineligible or lacking an eligibility determination and either support or repay the \$14.6 million disbursed for them, and implement system controls to prevent future improper disbursements.

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 the State's management staff. We also provided our discussion draft audit report to HUD's staff during the audit. We conducted an exit conference with the State on January 11, 2008.

We asked the executive director of the State's Office of Community Development, Disaster Recovery Unit, to provide comments on our discussion draft audit report by January 14, 2008. We gave the State an extension until January 15, 2008, to respond, and the executive director provided written comments dated that day. The State agreed at the exit conference that these grants were coded ineligible or lacked an eligibility determination and performed its own review of the 418 grants. The complete text of the written response, along with our evaluation of that response, can be found in appendix B of this report. However, we did not attach a spreadsheet and legend provided with the response as it included information that could be used to identify individual grant recipients.

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BACKGROUND AND OBJECTIVES

Between December 2005 and June 2006, Congress approved a total of \$16.7 billion in supplemental Community Development Block Grant (CDBG) Disaster Recovery Assistance funds for Gulf Coast hurricane relief. Of that amount, the U.S. Department of Housing and Urban Development (HUD) awarded \$10.4 billion to the State of Louisiana (State) for its recovery efforts.

The Disaster Recovery Unit within the State's Division of Administration's Office of Community Development administers the use of the supplemental CDBG funds. The Louisiana Recovery Authority (LRA) plans and coordinates for the recovery and rebuilding of the State. The Disaster Recovery Unit, in conjunction with the LRA, develops action plans outlining the programs and methods used to administer the supplemental CDBG funds.

With approval from the Louisiana legislature, the governor, the LRA, and the Disaster Recovery Unit created the Louisiana Road Home program. The State allocated more than \$6.3 billion of the \$10.4 billion to the homeowner assistance program,² which provides grants to eligible homeowners. ICF Emergency Management Services, LLC (ICF), the State's contractor, manages the Road Home. The State required ICF to verify applicants' eligibility and develop a management information system³ meeting State specifications and internal control requirements.

The homeowner assistance program includes four forms of available funding assistance, dependent upon the option selected, and provides compensation to applicants who select one of the following options:

- Option 1 - retain their homes;
- Option 2 - sell the home, occupied as of the date of the storms, but remain a homeowner in Louisiana; or
- Option 3 - sell the home, occupied as of the date of the storms, and either move from Louisiana or remain in Louisiana as a renter.

The four forms of available funding assistance include the (1) compensation grant, (2) elevation grant, (3) additional compensation grant (grant), and (4) additional mitigation grant.

During our audit to determine grant eligibility, we identified possible eligibility issues through a review of the electronic data. To immediately address the issues, we developed an additional objective to determine eligibility for those grants coded ineligible or lacking an eligibility determination.

Since ICF coded more than \$15 million in grants ineligible or did not indicate an eligibility determination, we issued this report to address and correct the system flaw that allowed such disbursements. We plan to issue the results of our audit regarding applicant eligibility in a separate report.

² The homeowner assistance program is one of four Road Home programs.

³ The management information system principally supports the Road Home program.

RESULTS OF AUDIT

Finding 1: The State Funded Additional Compensation Grants Coded Ineligible or Lacking an Eligibility Determination

Of 22,135 grants, the State funded 418 (2 percent) grants, totaling \$15.8 million, coded ineligible or lacking an eligibility determination. This condition occurred because the State's contractor, ICF, did not have system controls in place to prevent these improper disbursements. File reviews of 26 (6 percent) of the 418 grants determined that as of October 13, 2007, the State had misspent federal funds for 17 ineligible and 2 unsupported grants. The remaining seven grants were eligible or had coding or input errors. As a result, the State will need to review the remaining 392 grants, which total more than \$14.6 million, as the disbursements are questionable.

Eligibility Requirements

To be eligible for the grant, which cannot exceed \$50,000, lower income applicants⁴ must, among other requirements,

- Document their total household income. Upon receipt, ICF enters the high and low amounts of the income range into the management information system. If eligible, ICF enters "Yes" for the grant eligibility question, and the management information system calculates the appropriate grant amount. If not eligible, ICF enters "No" for the grant eligibility question, and the management information system calculates the grant amount as zero.
- Choose options 1 or 2. The amount of the grant is based upon the option selected and the elevation grant amount. ICF also enters the option selected into the management information system.

418 Grants Coded Ineligible or Lacking an Eligibility Determination

ICF coded 418 (2 percent) of 22,135 grants, totaling \$15,842,207, ineligible or did not indicate an eligibility determination. The following table summarizes the issues identified for the 418 grants.

⁴ Includes homeowners with household income less than or equal to 80 percent of the area median income adjusted for household size.

Issues	Number of instances	Total disbursed
1. Eligibility column "No"	220	\$7,966,947
2. Eligibility column blank	137	5,572,505
3. Option column blank	33	1,240,495
4. Option 3 (sell home)	3	127,800
5. Option 4 (decline assistance)	1	22,523
6. Option 5 (unable to decide)	4	200,000
7. Option 6 (cannot process)	11	465,070
8. Grant amount greater than \$50,000 ⁵	9	246,867
Total issues identified	418	\$15,842,207

More Than \$15 Million in Ineligible and Unsupported Costs

File reviews of 26⁶ (6 percent) of the 418 grants determined that seven (27 percent) grants were eligible or had input or coding errors, consisting of three eligible and four data input errors, and 19 (73 percent) grants were either ineligible or unsupported because

- 14 had household income that exceeded HUD's income limits,
- One homeowner signed the "Income Waiver Acknowledgement"⁷ form,
- One homeowner chose Option 3,
- ICF chose Option 6 for one homeowner,⁸ and
- ICF did not verify household income for two, making the grants unsupported.

As a result, as of October 13, 2007, the State misspent \$743,344 in federal funds for 17 ineligible grants and \$87,222 for 2 unsupported grants. The remaining seven grants, totaling \$263,829, were eligible or had input or coding errors, thereby reducing the questioned costs to \$14,747,812 and questioned grants to 392. In addition, the file review for one ineligible grant included a \$50,000 data input error, further reducing questioned costs to \$14,697,812.

System Controls Not in Place before August 2007

Before August 23, 2007, ICF had not implemented system controls to prevent payment for grants coded ineligible or lacking an eligibility determination in its

⁵ The total disbursed amount reported is only the amount that exceeded \$50,000 for each of the nine grants.

⁶ See Scope and Methodology section for an explanation of the selection methodology for the 26 grants.

⁷ The form allowed the homeowner to decline providing household income documentation. Upon signing the form, the homeowner acknowledged that he/she would not be eligible for the grant.

⁸ This grant also included a \$50,000 data input error.

management information system. The majority of the 418 grants that were coded ineligible or lacked an eligibility determination were disbursed before August 2007.

On August 23, 2007, ICF placed into production a new version of the management information system, which incorporated system controls intended to prevent disbursement for such grants. The control changes greatly reduced the number of grants with issues. However, improper disbursements could continue since the State disbursed funds for one grant coded ineligible and one lacking an eligibility determination after August 23, 2007. Thus, ICF's and the system's ability to catch all of these errors appears to be questionable. Therefore, the State must ensure that ICF implements the necessary system controls to prevent future improper disbursements.

Recommendations

We recommend that HUD's General Deputy Assistant Secretary for Community Planning and Development require the State to

- 1A. Repay \$743,344 disbursed for the 17 ineligible grants to its Road Home program.
- 1B. Either support or repay \$87,222 disbursed for two unsupported grants.
- 1C. Review all of the remaining 392 grants coded ineligible or lacking an eligibility determination and either support or repay \$14,697,812 disbursed for them.
- 1D. Implement system controls to prevent future improper disbursements and to ensure that its management information system accurately reflects only those grants that have been closed and disbursed.

SCOPE AND METHODOLOGY

We conducted our audit at the State's Office of Community Development, Disaster Recovery Unit; ICF's offices in Baton Rouge, Louisiana; and the HUD Office of Inspector General (OIG) office in New Orleans, Louisiana. We performed our audit work between September and December 2007.

To accomplish our objective, we performed analyses of the electronic data within ICF's management information system to identify potentially ineligible grants. Comprised of different databases combined into a central data warehouse, the management information system, developed and maintained by ICF, principally supports the Road Home homeowner assistance program. Based on the data, a total universe of 22,135 additional compensation grants was funded between June 12, 2006, and October 13, 2007. We sorted the data for the 22,135 grants to identify indicators that clearly documented that the grant was either ineligible, lacked an eligibility determination, or exceeded the established funding limits.⁹ Those indicators included "No" or blank answers in the eligibility column, option numbers other than the eligible 1 or 2 or blanks in the option column, and grant disbursement amounts greater than \$50,000. We identified a total of 418 potentially ineligible grants or grants that lacked an eligibility determination.

To confirm the reliability of the data used to identify the 418 grants, we selected a nonstatistical representative sample of 26 grants for file review. We reviewed the documentation for each file to determine whether the grant was eligible based on HUD's and the State's eligibility criteria and whether grant and funding information was accurate. Through our file review, we determined that the grant data were generally reliable, but there were data input and coding errors (4 of 26). However, we relied on the entire universe rather than the sample to determine total questioned costs.

In addition to data analyses and file reviews, we

- Interviewed State officials and key personnel of the Louisiana Recovery Authority and ICF;
- Reviewed the HUD-approved action plan and amendments, the Road Home written policies and procedures, the contract executed between the State and ICF and amendments, the *Code of Federal Regulations*, waivers, and other applicable legal authorities relevant to the CDBG Disaster Recovery Assistance grants; and
- Reviewed reports issued by the Louisiana legislative auditor's office.

Our audit period covered June 12, 2006, through October 13, 2007. We expanded this period as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

⁹ Those grants with more than one indicator were only counted once.

INTERNAL CONTROLS

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.

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 persons are eligible to participate in the additional compensation grant program.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data within the management information system are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that CDBG disaster fund use is consistent with HUD's laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that CDBG disaster funds are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management 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 review, we believe the following item is a significant weakness:

- Because the State's contractor, ICF, did not have adequate system controls, the State funded 418 grants coded ineligible or lacking an eligibility determination (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$743,344	
1B		\$87,222
1C		\$14,697,812
Totals	<u>\$743,344</u>	<u>\$14,785,034</u>


- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ 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

	
BOBBY JINDAL GOVERNOR	ANGELE DAVIS COMMISSIONER OF ADMINISTRATION
State of Louisiana Division of Administration Office of Community Development Disaster Recovery Unit	
January 15, 2008	
<p>Ms. Rose Capalungan Regional Inspector General for Audit, Gulf Coast Region U.S. Department of Housing and Urban Development Office of Inspector General for Audit, Gulf Coast Region Hale Boggs Federal Building 500 Poydras Street, 11th Floor New Orleans, Louisiana 70130</p>	
RE: Audit Control #2008-AO-1002	
Dear Ms. Capalungan:	
<p>The purpose of this letter is to respond to the report prepared by your office on the review of 418 Road Home funded grants coded ineligible or lacking an eligibility determination. We appreciate the work that the HUD OIG has performed and has taken under consideration the recommendations contained in the report.</p>	
<p>The objective of the audit report was to identify possible eligibility issues with the <i>Road Home</i> Program through a review of the electronic data. An additional objective was developed to determine eligibility for those grants coded ineligible or lacking an eligibility determination.</p>	
<p>Finding 1: The State Funded Additional Compensation Grants Coded Ineligible or Lacking an Eligibility Determination</p>	
<p>At the time of the audit OIG found that 418 (2%) out of the 22,135 additional compensation grants disbursed were coded ineligible or lacked an eligibility determination, totaling \$15.8 million. A non-statistical representative sample of 26 files was reviewed to determine eligibility based on HUD's and the State's eligibility criteria and whether grant and funding information was accurate. The majority of the files reviewed by the OIG closed prior to June 1, 2007.</p>	
<p>418 Grants Coded Ineligible or Lacking an Eligibility Determination</p>	
<p>OCD conducted a review after some changes to the eGrants system and applicable policies had occurred. Therefore, our analysis differs from the OIG due to system and policy changes. The</p>	
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Comment 1

OCD review of the 418 ACGs identified by the OIG reveals that 152 applicants (0.7% of the 22,135 ACG grants disbursed) are ineligible as opposed to 2% identified by the OIG. However, the additional compensation grant was not disbursed for 30 out of the 152, resulting in 122 (0.6 %) applicants receiving the additional compensation grant that were deemed ineligible, totaling an overpayment of \$4,755,114.60.

Comment 3

Comment 2

OCD found that 19 of the 418 ACG applicants are eligible. Two of these applicants fall into the low to moderate income range, but did not qualify because there was not a gap or penalty, totaling an overpayment of \$ 55,460. OCD found that 131 of the 418 ACG applicants are eligible with corrective action. One of these applicants does fall into the low to moderate income range, but did not qualify because there was not a gap or penalty, totaling in an overpayment of \$50,000. OCD found that 115 of the 418 ACG applicants did not provide sufficient income documentation to support the additional compensation grant. However, the additional compensation grant was not disbursed for 9 of the 115, resulting in 106 applicants receiving the additional compensation grant that were deemed not determinable, resulting in a possible overpayment of \$4,026,134.64. Three out of the 115 did not qualify because there was not a gap or penalty, totaling in an overpayment of \$ 90,000. The total amount of overpayments is \$5,050,574.60. As the total amount of ACG funds disbursed in the period under review by the OIG (through October 13, 2007) is an estimated \$818 million, the resulting overpayments is 0.6% of the ACG funds awarded. The following table summarizes the applicants identified for the 418 grants:

Comment 3

HUD OIG Findings

Issues	Number of Instances	Total Disbursed
1. Eligibility column 'No'	220	\$ 7,966,947
2. Eligibility column blank	137	5,572,505
3. Option column blank	33	1,240,495
4. Option '3' (sell home)	3	127,800
5. Option '4' (decline assistance)	1	22,523
6. Option '5' (unable to decide)	4	200,000
7. Option '6' (cannot process)	11	465,070
8. Grant amount greater than \$50,000	9	246,867
Total Issues Identified	418	\$15,842,207

OCD Findings

Issues	Not Determinable	Ineligible	Total Ineligible Overpayment
1. Eligibility column 'No'	42	132	\$ 4,109,536.50
2. Eligibility column blank	53	15	\$ 481,038.10
3. Option column blank	8	2	\$ 100,000.00
4. Option '3' (sell home)	0	0	
5. Option '4' (decline assistance)	0	0	
6. Option '5' (unable to decide)	0	0	
7. Option '6' (cannot process)	0	0	
8. Grant amount greater than \$ 50,000	0	0	
Total Issues Identified	103	149**	
			\$4,685,114.60

Comment 2

* Total Universe 22,135 Total number of eligible applicant 21,867 See attached spreadsheets and appendices. ** The difference in the 149 applicants ineligible from the 152 applicants ineligible previously noted is explained below.

Other Options and Grant Amounts Exceeding \$50,000

Comment 2

The OIG identified nine ACGs exceeding the limit of \$50,000 for an ACG. OCD reviewed the settlement statements in the closing documents of the nine ACGs exceeding \$50,000 and found that all nine grants closed on amounts equal to or less than \$50,000. OCD found that two of the nine applicants were ineligible, totaling an overpayment of \$100,000. Four of the nine applicants were eligible for the additional compensation grant. Three of the nine applicants did not provide sufficient income documentation to support the additional compensation grant. ICF has contacted the three applicants and requested homeowners send in sufficient documentation supporting their eligibility for the additional compensation grant.

Comment 3

The OIG identified 18 applicants receiving an additional compensation grant with a benefit option selected other than option 1 or option 2. The OIG identified 3 grants that received an additional compensation grant as an option 3. One of three applicants changed to option 2 before closing. One of the three grants was not disbursed. One of the three grants was an input error. The applicant received the correct grant amount, but it was coded as an additional compensation grant instead of a compensation grant. The OIG identified one grant that received an additional compensation grant as an option 4. The applicant closed as an option 2. There was a data feed error in the system. The OIG identified four applicants that received an additional compensation grant as an option 5. All five of the applicants changed to an option 1

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before closing. The OIG identified ten applicants receiving an additional compensation grant as an option 6. All six of the applicants changed to options 1 or 2 before closing.

Over \$15 million of Ineligible and Unsupported Costs

The OIG reviewed a non-statistical sample of 26 (6%) of the 418 grants. It was determined by the OIG that seven (27%) were eligible or had input coding errors and 19 were ineligible or unsupported. OCD reviewed the 26 files and found the following:

- 8 had a household income that exceeded HUD's income limits
- 1 homeowner was eligible but there was not a gap or penalty
- 6 did not have sufficient income documentation to determine eligibility
- 6 homeowners were eligible with corrective action
- 5 had input or coding errors or were not disbursed

As a result, of the 26 reviewed files, 9 applicants were overpaid \$364,364.13 and 6 were unsupported resulting in a possible overpayment of \$240,288.72. ICF has contacted the six applicants and requested the homeowners send in sufficient documentation supporting their eligibility for the additional compensation grant. The remaining 11 grants consisted of 7 eligible homeowners and 2 input errors and 3 were not disbursed, so there was no overpayment.

Systems and Controls Not in Place Prior to August 2007

The OIG stated that the majority of the grants that were coded ineligible or lacked an eligibility determination were disbursed before August 2007. ICF has implemented several system control and process changes over the past several months to help ensure that all *Road Home* monies are properly awarded to qualified applicants. The following identifies actions taken to prevent or minimize future occurrences:

Systems Controls

Automated controls for the additional compensation grant began in late May 2007, when the eGrants calculator was modified to include the loan eligibility flag when determining if an applicant was qualified for the additional compensation grant. The automation of this control required that the loan eligibility flag be set to "yes" or "no" for ACG to be populated in the eGrants calculation. If the status was left blank, the eligibility flag triggered a complex calculation using the gross household income reported, the number of household members, and the median income for the parish to determine ACG eligibility. If the flag is set to "no", the ACG amount is set to zero and no ACG will be calculated in eGrants.

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Process Improvements

In August, ICF developed a centralized QA/QC team to support all pre-closing activities at the Baton Rouge location. Prior to the centralization of the QA/QC function, teams had embedded QC advisors which allowed the potential for inconsistent policy application. The centralized QC team received the same guidance and training which helped to ensure consistency in ACG eligibility determinations.

In October, an additional layer of quality control was implemented. A Tier 2 QZ/QC team received dedicated training on ACG eligibility determination. This team follows a QC process that closely resembles the current OCD bathing review process. Teams and/or individuals (pre-closing advisor or Tier 1 QC advisor) are tracked for accuracy rates. If an unusually high error percentage is reported, their files are removed from the batch to be reviewed again by another team. Individuals with a consistently high error rate are required to receive additional training.

Training

Timely training on current income policy has been key factor to improving ACG determinations. In September, in conjunction with changes to income policy, each pre-closing person was required to receive on-line income training and successfully pass an examination following the training. Additional targeted training was delivered to key individuals and/or teams that demonstrated a need for further instruction. These individuals were retested for proper application of ACG determination requirements.

Following the new income policy released on December 28th, the *Road Home* revised the income training module. Effective, January 3rd training sessions began with the purpose of training all pre-closing advisors and staff. The training session consisted of a 2 hour session that reiterated the eligibility requirements for ACG. Moreover, the training reviewed again, the correct documentation required to establish eligibility.

The training emphasized calculating (annualizing) current income, proper documentation, filling out the ICW, using the correct CDBG form along with stressing all new issues addressed in the current policy. The power point presentation delivered was provided to all attending to use as a resource when working with applicants receiving an ACG. The income job aide was updated and is available on the portal for all levels of program staff to use as guidance for ACG determinations.

Audit Recommendations

1A. Repay \$ 743,344 disbursed for the 17 ineligible grants to its *Road Home* program.

Comment 4

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Comment 4

OCD review revealed that 8 applicants were ineligible resulting in \$358,904.13 in overpayments. ICF has identified the files and is in the process of collecting the funds from the applicants.

ICF established a Grant Recovery Team as part of its Audit, Monitoring, and Appeals Division. As problem files are identified through internal reviews and audits, they are sent to the Grant Recovery Team for a final review and analysis. If the homeowner is not able to provide sufficient documentation to prove eligibility, the homeowner is moved into the grant recovery process. This process includes sending the homeowner a letter explaining the basis for their ineligibility and a copy of the Acknowledgement Form signed at closing which states:

I understand that if the current grant award that I receive today is determined to be an overpayment, I will refund the overpayment to the State of Louisiana Office of Community Development.

The letter contains a 1-800 number that allows them to call and speak with someone about their status. The homeowner is informed of their right to appeal the determination.

If the homeowner does not refund the grant amount in response to the first letter, contact the recovery team, and/or appeal their determination, they will receive a call from a grant recovery staff person as a follow-up to the letter. A second letter also will be mailed to these applicants and each will be given 30 days to respond. Homeowners may be given the opportunity to repay the ineligible grant amount through a negotiated installment agreement, if necessary. Each of these agreements will be approved by the State prior to execution with the homeowner.

1B. Either support or repay \$87,222 disbursed for two unsupported grants.

Comment 4

ICF has contacted these two homeowners and requested the homeowners send in sufficient documentation supporting their eligibility for the additional compensation grant. As problem files are identified through internal reviews and audits, they are sent to the Grant Recovery Team for a final review and analysis. The first step is to review the information in the homeowner's file and ensure that proper eligibility documentation is contained in the file. There are two levels of eligibility that homeowners are required to meet. First, they must be determined eligible for the program. Second, if the homeowner has received an Additional Compensation Grant, there must be adequate income verification documents to determine that the household meets the Low-Mod Income requirements under HUD. The homeowner is contacted and offered an opportunity to provide the missing information.

Comment 4

1C. Review all of the remaining 392 grants coded ineligible or lacking an eligibility determination and either support or repay \$14,697,812 disbursed for them.

Comment 4

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OCD reviewed all of the 418 grants identified in the audit. OCD has already recovered \$102,596.08. ICF has contacted every applicant that did not provide sufficient income documentation. Thirty-three of the ineligible grants had been determined ineligible prior to the audit through grant recovery. The results of the review are on page one of this letter. Also, OCD has attached the spreadsheet and appendices that further support our findings.

Comment 5


1D. Implement system controls to prevent future improper disbursements.

In addition to the automated controls mentioned on page 2, ICF has implemented additional checks to reduce the number of files with improper income documentation. Updated training and testing was required for all pre-closing advisors in early September. QA/QC of files was significantly increased with the formation of the Tier 2 review teams.

ICF continues to monitor its system controls and procedures, and will prudently modify controls and procedures as necessary. In July 2007, OCD began reviewing a random sample of files before closing. Also, OCD reviews a random sample of files after closing.

If you have any questions or want to discuss these issues further, please do not hesitate to call me. Thank you for your assistance.

Sincerely,


for Suzie Elkins
Executive Director
Office of Community Development/DRU

cc: Mr. Mike Spletto
Mr. Michael Taylor
Mr. Richard Gray
Mr. Thomas Brennan
File

Comment 2

Eligibility	Result	Count of Eligibility	Disbursed ACG Amount	Total Award Amount	Funds Overpaid	Funds Recovered
0	(blank)	1				
0 Total		1				
Eligible	Overpayment	2	\$55,460.00	\$69,910.85	\$55,460.00	
	Reconciled	17	\$585,190.12	\$1,470,906.09	\$0.00	\$0.00
Eligible Total		19	\$640,650.12	\$1,540,816.94	\$55,460.00	\$0.00
Eligible w/ Corrective Act	Overpayment	1	\$50,000.00	\$50,000.00	\$50,000.00	
	Reconciled	122	\$5,029,337.23	\$10,878,016.83	\$0.00	\$0.00
	TBD	6	\$270,680.00	\$555,462.10	\$0.00	
	Underpayment	1	\$445.63	\$82,069.51	\$0.00	
	ACG Not Disbursed	1	\$0.00	\$51,968.16	\$0.00	
Eligible w/ Corrective Action Total		131	\$5,350,462.86	\$11,517,516.60	\$50,000.00	\$0.00
Not Determinable	Overpayment	3	\$90,000.00	\$167,050.45	\$90,000.00	
	TBD	103	\$3,936,134.64	\$9,331,485.53	\$100,000.00	\$0.00
	ACG Not Disbursed	9	\$0.00	\$765,510.72	\$0.00	
Not Determinable Total		115	\$4,026,134.64	\$10,264,046.70	\$190,000.00	\$0.00
Not Eligible	Overpayment	120	\$4,755,114.60	\$10,597,524.09	\$4,755,114.60	\$102,596.08
	ACG Not Disbursed	30	\$0.00	\$2,242,259.82	\$0.00	
	No Closing Docs	2	\$0.00	\$76,063.00	\$0.00	
Not Eligible Total		152	\$4,755,114.60	\$12,915,846.91	\$4,755,114.60	\$102,596.08
Grand Total		418	\$14,772,362.22	\$36,339,227.15	\$6,050,574.60	\$102,696.08

Previous Status	Eligibility	Count of Previous Status	Disbursed ACG Amount
Not Determinable	Eligible	5	\$77,094.15
	Eligible w/ Corrective Action	18	\$748,610.84
	Not Eligible	37	\$1,203,477.01
Not Determinable Total		60	\$2,029,182.00

OIG Evaluation of Auditee Comments

- Comment 1** The State agreed at the exit conference that these grants were coded ineligible or lacked an eligibility determination and stated in its response that it performed its own review of the 418 grants. We commend the State for taking prompt action.
- Comment 2** The State's response included various totals as to which grants were and were not eligible. However, we were unable to verify the totals in the text or match the totals to the information provided in the summary and detail spreadsheet format. For example, in the text on pages 2 and 3, the State stated that the total number of ineligible grants was 130 with overpayments totaling \$5,050,574.60. However, the table on page 3 indicated a total of 149 ineligible grants totaling \$4,685,114.60, and the detail spreadsheet had a total of 127 ineligible grants which totaled \$4,980,934.60. Further, the State reported the 418 grants in the summary totaled \$14,772,362.22, whereas we reported a summary total of \$15,842,207. Additionally, when we attempted to summarize the ineligible grants in the detail spreadsheet, we noted that the State used grant amounts for a few grants that differed from what was reported in the management information system data.
- Comment 3** The State also indicated that some grants (40 in its written response, 41 in the summary spreadsheet, or 42 in the detail spreadsheet) were not disbursed. We find this information disconcerting as we requested that ICF provide data for testing for all grants that had been closed and awarded funds. Further, 39 of the 42 grants were still listed as disbursed in the management information system as of January 24, 2008, and 36 of the 39 had a closed grant value. Based on this information, the management information system does not accurately reflect the number or amount of grants disbursed, which impacts the accuracy of State's reporting. HUD will need to ensure that the State and ICF include system controls to update the management information system when a loan goes to closing but does not disburse. We have modified the report to include this requirement in recommendation 1D.
- Comment 4** The State indicated that only 8 of the 17 grants we reviewed were ineligible; 2 unsupported grants were unsupported and being researched; and the remaining 392 grants had been reviewed, and recovery and verification actions were underway. However, we stand by our original conclusions and recommendations as we are unable to reconcile our results to the conflicting information provided by the State.
- Comment 5** The State stated that ICF had implemented additional checks to reduce the number of files with improper income documentation. In addition, the State stated that ICF will prudently modify its controls and procedures as necessary. However, the State did not address how it would ensure that ICF would stop funding loans coded ineligible or lacking an eligibility determination. System controls are still needed as the two loans funded after the new controls were implemented in August 2007 were both ineligible at closing according to the State's response, although one may be eligible with additional corrective action.