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| Issue Date           | August 7, 2008 |
| Audit Report Number: | 2008-AO-1005   |

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, Did Not Ensure That All Additional Compensation Grant Applicants Were Eligible

## **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. Our audit objectives were to determine whether applicants were eligible to receive the grant and whether the State ensured that grant income policies and procedures were in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations and ensured that its contractor followed them.

### **What We Found**

The State did implement grant income policies and procedures as required by HUD rules and regulations. However, those policies and procedures were not sufficient to ensure that all applicants were eligible to receive their grant. Of 45 grants sampled, the State funded nine (20 percent) grants, totaling \$263,959 that were either ineligible or unsupported. In addition, the State did not ensure that its contractor followed its policies and procedures for another 24 grants (53 percent),

but the errors did not impact the grants' eligibility. These conditions occurred because the State did not ensure that its contractor's controls were sufficient to catch errors and that its policies and procedures were followed when determining eligibility. Further, although the State's contractor performed a review of all 45 grants sampled, issues remained undetected. As a result, based on a statistical projection, our best estimate is that the State spent \$70 million on ineligible grants, and \$57.4 million on unsupported grants, disbursed between June 12, 2006, and October 13, 2007.

### **What We Recommend**

We recommend that HUD's 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, ensure that its contractor follows the established policies and procedures, ensure that its contractor's postclosing reviews detect and correct errors, and review the remaining 21,672 grants disbursed between June 12, 2006, and October 13, 2007, to ensure that grants were eligible and supported. By reviewing these grants, we estimate that the value of questioned costs will total more than \$70 million for grant disbursements to ineligible participants and more than \$57.4 million for grant disbursements to participants whose eligibility was not adequately supported.

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 and HUD. We conducted an exit conference with the State on June 6, 2008.

We asked the State to provide comments on our draft audit report by June 13, 2008. We gave the State an extension until June 20, 2008, to respond, and it provided written comments, dated that day. The State generally disagreed with the report but did agree with some of the conclusions and recommendations. Based on the State's comments, we made modifications to our statistical projections to be more conservative. The complete text of the written response, along with our evaluation of that response, can be found in appendix B of this report.

# TABLE OF CONTENTS

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|   |    |
|---|----|
| Background and Objectives   | 4  |
| Results of Audit  |    |
| Finding 1: The State Did Not Ensure That All Additional Compensation Grant Applicants Were Eligible | 5  |
| Scope and Methodology   | 10 |
| Internal Controls   | 11 |
| Follow-up on Prior Audits   | 13 |
| Appendixes  |    |
| A. Schedule of Questioned Costs   | 14 |
| B. Auditee Comments and OIG's Evaluation  | 15 |
| C. Sampling Methodology and Results   | 26 |

## BACKGROUND AND OBJECTIVES

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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 (Authority) plans and coordinates for the recovery and rebuilding of the State. The Disaster Recovery Unit, in conjunction with the Authority, develops action plans outlining the programs and methods used to administer the supplemental CDBG funds.

With approval from the Louisiana legislature, the governor, the Authority, 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,<sup>1</sup> which provides grants to eligible homeowners. ICF Emergency Management Services, LLC (ICF), the State's contractor, manages the Road Home program. The State required ICF to verify applicants' eligibility and develop a management information system<sup>2</sup> 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.

The grant is additional funding, up to \$50,000, that applicants can receive if they meet certain eligibility requirements, including whether the applicants' household income is equal to or less than 80 percent of the area median income, adjusted for household size.

Our audit objectives were to determine whether applicants were eligible to receive the grant and whether the State ensured that grant income policies and procedures were in accordance with HUD rules and regulations and ensured that ICF followed them.

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<sup>1</sup> The homeowner assistance program is one of four Road Home programs.

<sup>2</sup> The management information system principally supports the Road Home program.

## RESULTS OF AUDIT

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### Finding 1: The State Did Not Ensure That All Additional Compensation Grant Applicants Were Eligible

The State did not ensure that all applicants were eligible to receive their grant. Of 45 grants sampled, the State funded nine (20 percent) grants, totaling \$263,959, that were either ineligible or unsupported. In addition, the State did not ensure that its contractor followed its policies and procedures for another 24 grants (53 percent), but the errors did not impact the grants' eligibility. These conditions occurred because the State did not ensure that its contractor's controls were sufficient to catch errors and that its policies and procedures were followed when determining eligibility. Further, although the State's contractor performed a review of all 45 grants sampled, eligibility issues remained undetected. As a result, based on a statistical projection, our best estimate is that the State spent \$70 million on ineligible grants, and \$57.4 million on unsupported grants, disbursed between June 12, 2006, and October 13, 2007.

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#### State's Eligibility Requirements

To be eligible for the grant, which cannot exceed \$50,000, the State required lower income applicants<sup>3</sup> to

- Document their total current household income;<sup>4</sup>
- Choose options 1 or 2;<sup>5</sup> and
- Have a gap between the estimated cost of damage and the calculated compensation amount.

Further, the State's policy defined gross household income as income before taxes and deductions for all members of the household 18 years of age and older.

#### \$263,959 Paid for Ineligible and Unsupported Grants

File reviews of 45 sampled grants<sup>6</sup> determined that nine (20 percent) grants were either ineligible or unsupported because

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<sup>3</sup> Includes homeowners with household income less than or equal to 80 percent of the area median income adjusted for household size.

<sup>4</sup> Current income is defined as income from within the past six months.

<sup>5</sup> The amount of the grant is based upon the option selected.

<sup>6</sup> For a complete description of our sampling methodology, see appendix C.

- Four had household income that exceeded HUD’s income limits,
- One did not have a gap between the estimated cost of damage and the calculated compensation amount, and
- Four lacked current income documentation.

As a result, as of October 13, 2007, the State had misspent \$145,074 in federal funds for five ineligible grants and \$118,885 for four unsupported grants. Based upon these results, we estimate that the value of questioned costs will total more than \$70 million for grant disbursements to ineligible participants and more than \$57.4 million for grant disbursements to participants whose eligibility was not adequately supported. The remaining 36 grants, totaling more than \$1.4 million were eligible.

### **Additional Policies Needed to Adequately Verify Applicants’ Income**

Although the State followed its existing policies and procedures, the steps it took to ensure that all household income was reported were inadequate. Additional testing was performed on seven applicants whose households contained family members over the age of 18, but those individuals did not report any income. Based upon income data obtained from the State’s wage database, three of seven grants (43 percent), totaling \$127,581, had unreported household income, causing the households to exceed the established income limits, thereby making the grants ineligible.

When determining eligibility, the State allowed applicants to self-certify household income for all persons in the household. The State did not perform further verifications of household income and relied upon applicant-supplied information when determining eligibility. Since 43 percent of the files with family members over the age of 18 had additional income, the State should implement policies to adequately verify income for all household members during its verification process.

### **State’s Policy Not Followed**

Although the remaining 36 of the 45 grants sampled, totaling more than \$1.4 million, were eligible, the State’s contractor did not follow the State’s policy for 24 (53 percent) of the grants when determining eligibility. CDBG reporting forms and income verification and certification worksheets were missing, unsigned, and/or incomplete; the income was annualized incorrectly on the income verification and certification worksheet; the income range on the CDBG reporting form conflicted with the annualized income on the income verification

and certification worksheet; and income documentation was inconsistent with the State's policy.<sup>7</sup> Although the eligibility for the 24 grants was not affected, the State must ensure that its contractor follows the established policies and procedures to avoid funding additional ineligible and/or unsupported grants.

### **State's Contractor's Reviews Deficient**

The State's contractor did not ensure that it identified eligibility issues during its reviews for some of the grants. After closing, a review team conducted reviews on closed files as part of its final file review process for files being prepared for closeout. Although all the files in our sample were reviewed, issues remained undetected, as 15<sup>8</sup> (33 percent) of the 45 files contained deficiencies that needed to be corrected. For one ineligible grant, the review did not identify that there was no gap between the estimated cost of damage and calculated compensation amount, a critical eligibility requirement. As a result, the State disbursed funds for this ineligible grant. The State must ensure that its contractor adequately reviews grants in its postclosing review of the grants.

### **State Provided Additional Information**

At the exit conference, the State provided additional information concerning the four grants totaling \$118,885, for which the files lacked current income documentation. We reviewed the information at the State's request and determined that these four grants are now eligible and supported. As a result, we will close the recommendation concerning these unsupported grants upon report issuance. However, based upon our projection, additional unsupported grants exist and will need to be corrected by the State. Thus, the State needs to review the remaining 21,672 grants to ensure that they are eligible and supported.

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<sup>7</sup> To determine eligibility, in addition the eligibility requirements, the policy required a signed income verification and certification worksheet, used to calculate annualized income; acceptable documentation of income (i.e., pay stubs) or a certification of undocumented income; and a signed and completed CDBG reporting form, which indicates the household income range.

<sup>8</sup> Four of these grants were determined ineligible, as previously discussed.

## Conclusion

Of 45 grants sampled, the State made disbursements totaling more than \$263,000 for nine (20 percent) ineligible and unsupported grants, and based upon a statistical projection, the State spent more than \$70 million on ineligible grants and more than \$57.4 million on unsupported grants disbursed between June 12, 2006, and October 13, 2007 (see appendix C). Three of the grants were determined to be ineligible due to the applicants' not providing complete household income documentation. Although the remaining 36 grants were eligible, the State's contractor did not follow the State's policy for 24 (53 percent) of the grants when determining eligibility. The review also showed that errors were not caught during reviews.

Since the total number of issues identified is significant (73 percent), the State must review the remaining 21,672 grants disbursed between June 12, 2006, and October 13, 2007, to verify eligibility status. By reviewing these grants, we estimate that the value of questioned costs will total more than \$70 million for grant disbursements to ineligible participants and more than \$57.4 million for grant disbursements to participants whose eligibility was not adequately supported.<sup>9</sup> In addition, the State must repay funds disbursed for ineligible grants and support or repay funds disbursed for unsupported grants. Further, the State must develop and implement a policy or procedure as part of its review process to ensure that it verifies that all household members over the age of 18 have reported their income, ensure that its contractor follows the policies and procedures in place when determining eligibility, and ensure that postclosing reviews detect and correct errors.

## Recommendations

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

- 1A. Repay \$145,074 disbursed for five ineligible grants to its Road Home program.
- 1B. Either support or repay \$118,885 disbursed for four unsupported grants.
- 1C. Review the remaining 21,672 grants disbursed between June 12, 2006, and October 13, 2007, to ensure that grants were eligible and supported. The State must repay funds disbursed for grants determined ineligible.

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<sup>9</sup> For a complete description of estimated amounts, see appendix C.



- 1D. Develop and implement a policy or procedure as part of its review process to ensure that it verifies that all household members over the age of 18 have reported their income.
- 1E. Ensure that its contractor implements adequate controls to ensure that it follows the established policies and procedures when determining eligibility.
- 1F. Ensure that its contractor implements adequate controls in its postclosing reviews to ensure the detection and correction of errors.

## SCOPE AND METHODOLOGY

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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 2007 and April 2008.

To accomplish our objectives, we used the electronic data received from the State's contractor's management information system to select a sample of 45 grants for review. Comprised of different databases combined into a central data warehouse, the management information system, developed and maintained by the State's contractor, principally supports the Road Home homeowner assistance program. Based on the data, a total universe of 21,717 additional compensation grants, totaling more than \$842 million, were funded between June 12, 2006, and October 13, 2007 (see appendix C for the complete sampling methodology and results). We reviewed the scanned documentation, via the management information system, for each of the 45 grant files to determine whether the grant applicant met the eligibility requirements as established in prevailing policies. Through our file review, we determined that the grant data were generally reliable. However, we relied upon the total universe to determine questioned costs.

Using data obtained from the State's wage database, we performed additional testing for those family members over 18 years of age in seven households, who did not report income. However, we did not assess the reliability of the database and only used the data to assess whether those individuals had income.

In addition to data analyses and file reviews, we

- Interviewed HUD and State officials, as well as key personnel of the Louisiana Recovery Authority and ICF, and made inquiries with U. S. Department of Labor staff;
- 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.

# 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 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 Weaknesses

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

- The State did not ensure that its contractor had adequate controls to ensure that its staff followed the State's policies and procedures when determining eligibility and gathering documentation for the grant (finding 1).
- The State's policies and procedures did not to adequately ensure that income was reported for all family members over the age of 18 (finding 1).

## FOLLOW-UP ON PRIOR AUDITS

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This audit report is the second OIG audit of the State's additional compensation grant component of the Road Home homeowner assistance program. Our first audit, issued on January 30, 2008, is discussed below.

### **Report Number: 2008-AO-1002**

Our audit report (2008-AO-1002) disclosed that of 22,135 grants, the State funded 418 (2 percent) grants coded ineligible or lacking an eligibility determination, totaling \$15.8 million. 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 grants and two unsupported grants. The remaining seven grants were eligible or had input or coding errors. As a result, the State needed to review the remaining 392 grants, which totaled more than \$14.6 million, as the disbursements were questionable. The State had a total of \$15,528,378 in questioned costs. We recommended that HUD's 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. The recommendations are still open.

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

| Recommendation<br>number | Ineligible 1/ | Unsupported<br>2/ |
|--------------------------|---------------|-------------------|
| 1A                       | \$145,074     |                   |
| 1B                       |               | \$118,885         |

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 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

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### Ref to OIG Evaluation

### Auditee Comments

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| <b>BOBBY JINDAL</b><br>GOVERNOR  | <b>ANGELE DAVIS</b><br>COMMISSIONER OF ADMINISTRATION |
| <b>State of Louisiana</b><br>Division of Administration<br>Office of Community Development<br>Disaster Recovery Unit   |   |
| June 20, 2008  |   |
| <p>Ms. Rose Capalungan<br/>Regional Inspector General for Audit,<br/>Gulf Coast Region<br/>Hale Boggs Federal Building<br/>500 Poydras Street, 11<sup>th</sup> Floor<br/>New Orleans, Louisiana 70130</p>  |   |
| RE: Audit Control Number 2008-AO-1005, Audit of Additional Compensation Grants   |   |
| Dear Ms. Capalungan:   |   |
| <p>The Division of Administration, Office of Community Development (OCD) is providing this letter in response to the HUD Office of Inspector General (OIG) audit report 2008-AO-1005, on Affordable Compensation Grants (ACGs) disbursed in the period June 12, 2006 to October 13, 2007. We appreciate the work that the HUD OIG has performed and have taken under consideration the recommendations contained in this report.</p>                 |   |
| <p>The objectives of the HUD OIG's audit were to determine whether applicants were eligible to receive the ACG and whether the State ensured that grant income policies and procedures were in accordance with HUD rules and regulations and ensured that ICF followed them. We are pleased that the HUD OIG acknowledged that the State did ensure that grant income policies and procedures were in accordance with HUD rules and regulations.</p> |   |
| <p>The following section of our response addresses the HUD OIG's finding that "The State did not ensure that all additional compensation grant applicants were eligible." We provide our comments in the same order as presented in the audit report.</p>  |   |
| <u>Response to Ineligible and Unsupported Grants</u>   |   |
| <p>The report indicates that <i>The Road Home</i> Program funded nine ineligible or unsupported ACGs of the 45 sampled, based on the following reasons:</p>  |   |
| <small>301 Main Street, Suite 600 • Baton Rouge, Louisiana 70801 • (225) 219-9600 • 1-800-272-3587 • Fax (225) 219-9605<br/>An Equal Opportunity Employer</small>  |   |

Ms. Rose Capalungan  
June 20, 2008  
Page 2

- Four ACGs have household income that exceeded HUD's income limits
- One ACG did not have a gap between the estimated cost of damages and the calculated compensation amount
- Four ACGs lacked current documentation.

Ineligible Grants

The HUD OIG reports that the State misspent \$145,074 in federal funds for five ineligible grants. The concern on three of these ACGs, totaling \$127,581.28, was that based on income data the HUD OIG obtained from the State's Department of Labor wage database, the household income exceeded the established limits rendering the applicant ineligible for the ACG. For one of the ACGs, totaling \$15,768.13, the OIG calculated an income amount greater than the amount supported in the applicant's file causing the applicant to be ineligible for the ACG. In the last ACG, totaling \$1,725, the OIG found that there was no gap between the estimated cost of damage and the calculated compensation gap; therefore, the applicant was not eligible for the ACG.

Except for one grant, these results are not correct based on applying *Road Home* Program policy, ICF's calculations, and available documentation. We have reviewed the five ACGs cited as ineligible and our review shows that four of the five applicants are eligible for ACGs, pursuant to the program policies. The HUD OIG cited three ACGs with family members over the age of 18 reporting zero income that were checked against the State wage database showing sufficient income that causes the applicant to be ineligible. OCD's procedures require self certification of income for family members over 18 years of age. Use of the State wage database is not in accordance with program policy as specified by OCD, nor is it required by CDBG regulations or recommended in CDBG guidance.

This program has been operating for nearly two years, reviewed by HUD several times, and this is the first mention that OCD's income verification policies and procedures are not adequate. It is too "late in the game" to impose a requirement that the State verify household income through a third-party database. In designing the program, OCD developed income verification policies and procedures that rely on the information furnished and certified by applicants to determine ACG eligibility. Applicants sign a document certifying that the income amounts are true and correct, and if not, may result in civil liability and/or criminal penalties. Further discussion on the third-party income verification is contained in the Additional Income Verification and the 1D Recommendation sections of this response. For one ACG, the grant file supports the ACG eligibility, as income does not exceed the threshold. In the last ACG, the applicant has been determined to be ineligible, which in turn resulted in an incorrect payment of \$1,725.

Comment 1



Ms. Rose Capalungan  
June 20, 2008  
Page 3

Our research and comments on each of these files is summarized below.

Comment 1

- 06HH01xxxx – The documentation cited by the HUD OIG as lacking to support the applicant’s eligibility has been obtained and the updated income documents are in the file which supports the applicant’s eligibility as required by OCD policy. In addition to the lacking documentation, which has now been provided, the HUD OIG used data from the State wage database to conclude that the applicant was ineligible. The HUD OIG determined through the use of the wage database that the applicant underreported household income for family members over the age of 18 to the State. Based on the household income, as determined through the wage database, the household income exceeded the amount to be eligible for an ACG. Use of this database for verification purposes is not required by program policy, and therefore the determination that this applicant is eligible for an ACG award is correct based on existing policy.

Comment 1

- 06HH03xxxx – As with the above applicant, the HUD OIG is using data from the State wage database to make the case for ineligibility. Use of this database for verification purposes is not required by program policy, and therefore the determination that this applicant is eligible for an ACG award is correct based on existing policy.

Comment 1

- 06HH07xxxx – ICF obtained the Social Security Administration (SSA) Benefit Letter after closing, which provided the income documentation needed to determine ACG eligibility. Pursuant to our established policies, the eligibility determination date is the closing date, or April 11, 2007. Accordingly, this applicant qualifies for an ACG using the 2007 CDBG limits for St. Bernard Parish. As with the above applicants, the HUD OIG is using data from the State wage database to make the case for ineligibility. As stated above, use of this database for income verification purposes is not in accordance with program policy.

Comment 2

- 06HH05xxxx – ICF calculated the income for this applicant to be \$33,042, which qualifies the applicant for an ACG. The OIG calculated income for the applicant to be \$42,932, which, if accurate, would make the applicant ineligible. The file contained conflicting income information. When the applicant first applied only one paycheck stub was provided in which to calculate annual income. Policy requires that three consecutive paycheck stubs be provided. The applicant later provided the required three consecutive paycheck stubs, however they were from a different employer than the original submitted paycheck. HUD OIG calculated income assuming the applicant was employed by both employers. OCD contacted the applicant and the applicant stated that she only worked for the original employer for about a month and at the time she submitted the three consecutive paycheck stubs that was her only employer. The income calculation to determine ACG eligibility was done in accordance with policy. The income documents

Ms. Rose Capalungan  
June 20, 2008  
Page 4

Comment 3

in the file support the income as calculated by ICF and are available for review by the auditors.

- 06HH11xxxx – OCD concurs that this applicant is ineligible for the ACG which resulted in a relatively small overpayment of \$1,725. Repayment from the applicant will be sought as appropriate in the Grant Recovery process. This is not a typical ACG file. This ineligible payment occurred when Elevation Program was temporarily suspended but known that it would resume. When the Elevation Program was suspended the reprogramming of the electronic Calculator would have to be rewritten, a two to three month process. It was decided that rather than suspend grant payments while the reprogramming was being performed, knowing that the Elevation Program would resume, grants continued to be processed. We have verified both that the applicant's household income qualified them for an ACG and that there was a gap between the Type 1 estimated elevation cost and the elevation compensation that they were qualified to receive. An ACG based on this elevation gap was awarded, pursuant to the June 20, 2007 Policy Alert on the Status of the Elevation Program. Subsequently, it was determined that the applicant's home is not located in a floodplain based on the Advisory Base Flood Elevation (ABFE) or Base Flood Elevation (BFE) maps, making the applicant ineligible for elevation assistance.

Response to Grants Lacking Current Documentation

Comment 4

The HUD OIG indicates that the State misspent \$118,885 in federal funds for four unsupported grants. The OIG's concern on each of these ACGs was that not all income documents provided by the applicants were current. In two ACGs, the 2006 Income Tax return was submitted after June 30, 2007. In one ACG, a Supplemental Security Income (SSI) benefit statement was for 2006 and not for 2007. In the last ACG, an unemployment benefit statement expired prior to the applicant closing.

ICF has since obtained updated income documentation for the four ACGs, the income documents have been uploaded pursuant to policy (2006 Tax + Certificate of Current Income), and all four applicants are eligible. Therefore, no federal funds have been misspent.

Additional Income Verification

Comment 5

The HUD OIG performed additional testing on applications where the household contained family members over the age of 18 that did not report any income to the program. This additional testing consisted of comparing applicant reported and certified income to income data obtained from the Louisiana Department of Labor wage database. Of the seven applications in the sample with family members over the age of 18 that did not report income to the program,

Ms. Rose Capalungan  
June 20, 2008  
Page 5

Comment 5

the HUD OIG found that three applicants had additional household income that made the applicants ineligible to receive an ACG.

As indicated above, OCD established a policy of self-certification of household income by applicants, and relying on applicant provided back-up data, not independently verifying income through any third-party data bases, such as the wage database used by the auditors. OCD's policy is consistent with applicable CDBG regulations, which afford states flexibility in how income is defined, documented, and verified, so long as applicants are being treated consistently and the policies are reasonable. We consider the policy reasonable in light of the fact this program is a disaster relief program which was designed to quickly assist the hundreds of thousands of Louisiana residents whose property and more importantly their lives were devastated by two catastrophic hurricanes. It is unreasonable to expect Louisiana to delay processing ACGs for its most at need residents while performing third-party income verification, when CDBG regulations grant States maximum feasible deference in providing disaster assistance.

Following State Policy

Comment 6

The HUD OIG states that 24 of 45 grants did not completely follow State policy for ACG documentation. OCD and ICF have reviewed these ACGs, and agree that the income worksheet and the CDBG forms were not yet correctly completed in these cases. It should be noted that all of these applicants were eligible for the ACG award, and that resolution of these documentation issues was planned to be addressed in the post-closing function. ICF has obtained updated documents for all 24 of these ACGs. OCD has verified that the need documentation was obtained, and the documentation is available for review by the auditors.

Please keep in mind that an important guiding principle for the program is that it is better for homeowners to receive their *Road Home* funds, including ACGs, much faster than originally planned, by completing certain documentation, compliance, and review activities, as needed, post closing, not pre-closing. To this end, many important but necessarily time-consuming activities that had earlier been planned to be preformed pre-closing were shifted to post close activities. Therefore, criticism related to missing documents prior to completion of the post closing review may be premature. Delays in obtaining certain documentation was an expected byproduct of attempting – for humanitarian reasons in an unprecedented disaster recovery operation – to balance getting Road Home funds to applicants faster than planned. As outstanding documentation and other compliance matters are addressed and completed post-closing, as planned, it should be recognized that such matters do not necessarily constitute problems with applicant files and possible ineligibility, but rather the deferred completion of grant processing.

Ms. Rose Capalungan  
June 20, 2008  
Page 6

Comment 7

State's Contractor's Reviews Deficient

The HUD OIG states that the State's contractor, ICF, did not ensure that it identified eligibility issues during its reviews for some of the grants. The OIG states that although all of the files in its sample were reviewed by ICF, issues still remained undetected, as 15 of the 45 files contained deficiencies that needed to be corrected. OCD has reviewed all 15 files. The OCD review indicated that all files were properly reviewed by the contractor's ACG Review Team. The contractor's Review Team has corrected all OIG cited deficiencies in accordance to current program policy. For other issues not concerning ACG, those issues will be detected and corrected in the Final Grant Review. A spreadsheet documenting OCD's and ICF's analysis of these files along with supporting documentation is available for review by the auditors.

Response to Statistical Analysis in the Conclusion, Including Appendix C Results

As discussed with the HUD OIG in the exit conference, the staff of OCD does not possess the technical expertise to comment on the validity of the auditor's statistical projections. One of ICF's statisticians, however, has raised questions concerning the validity of the projections contained in the audit report. The discussion presented below is the assertions of ICF's statistician and are included in this response to make HUD OIG aware of the concerns that have been raised and for HUD OIG consideration.

Comment 8

In ICF's view, a serious problem with the report is that the ranges associated with the projected overpayments are not clearly disclosed. In the body of the report, there are four references to the point estimates of \$91 million and \$76 million in overpayments without any accompanying disclosure of the confidence interval ranges. In Appendix C, where the sampling methodology is presented, there is a discussion in the text of a range, but it is stated as the total value of ACG awards that should have been awarded (\$649 million to \$855 million, on page 16), not overpayments. Only in the tables on pages 16 and 17 in this appendix is it indicated that the margin of error associated with the auditor's projection of overpayments to ineligible applicants is +/- 13.7 percent of the total ACGs, or +/- \$ 103 million, compared to its point estimate of \$91 million. Similarly, an Appendix C table indicates that the margin of error associated with the projection of overpayments to applicants with inadequate documentation is +/- 13.1 percent of the total ACGs, or \$101 million, compared to the point estimate of \$76 million. In both cases, the margin of error is *greater* than the estimated overpayment, making the findings statistically meaningless.

These wide margins of error are the result of a relatively small sample size (45 ACGs out of a population of 21,717 ACGs awarded during the audit period, or 0.2 percent) combined with the choice of a 90-percent level of confidence that the true value of overpayments lies within the ranges specified. Accordingly, to have high confidence in the projections, the ranges

Ms. Rose Capalungan  
June 20, 2008  
Page 7

Comment 8

surrounding the projections necessarily are broad. The calculated confidence intervals for the overpayments are from a lower bound of -\$12 million to an upper bound of \$194 million (\$91 million plus or minus \$103 million) for ineligible ACGs, and from -\$25 million to \$177 million for ACGs not adequately supported (\$76 million +/- \$101 million). As the auditors identified some overpayments in their sample, the lower bounds would be replaced by these amounts, as total overpayments in the population must be at least equal to that identified in the sample (and cannot be negative).

Because the point estimates of overpayments have such wide confidence intervals means that such estimates are highly uncertain and, frankly speaking, mean nothing. Statisticians would refer to the auditor's point estimates as not being statistically significant, given they are overwhelmed by the margin of error and thus could have simply occurred by chance. In other words, there is a high probability that another sample of 45 ACGs would result in point estimates far different than the ones provided by the auditors, even estimates of \$0 in overpayments could occur for the remaining population of 21,672 ACGs.

Stated another way, in percentages, the HUD OIG estimates that 11 percent of the amount of ACGs disbursed was paid to ineligible applicants (the point estimate provided of \$91 million divided by \$843 million in ACG disbursements, in round figures). The lower and upper bounds of the range associated with this 11-percent estimate, to be 90-percent confident that the true overpayment percentage is within the range, is very wide: from 0 percent to 23 percent (-\$12 million divided by \$843 million and \$194 million divided by \$843 million).

In conclusion, the amount of overpayments in the sample analyzed by the HUD OIG is far smaller than the amount they reported.

#### Response to HUD OIG Recommendations

In the draft audit report, it is recommended that HUD Office of Community Planning and Development (CPD) require the State to:

- IA. Repay \$145,074 disbursed for five ineligible grants to its Road Home Program. As discussed above, four of the five applicants are eligible for ACGs based on the established program income policy. For the one applicant determined not eligible, this overpayment of \$1,725 will be addressed through the Grant Recovery process. For the one applicant the HUD OIG deemed ineligible because it calculated a higher income based on income from two employers than the income calculated by ICF. OCD has reviewed this file and determined the applicant was not employed by both employers at the same time and that the income calculated by ICF is correct the applicant is eligible, and no repayment is due. For the three ACGs the auditor's determined were ineligible

Comment 1  
Comment 2  
Comment 3

Ms. Rose Capalungan  
June 20, 2008  
Page 8

because of the underreporting of household income by the applicant, we suggest that the HUD OIG submit these cases to OIG Investigations or the Louisiana Attorney General for further review. We believe this information should be turned over to one or both of these bodies because the applicants signed documents certifying that the income amounts are true and correct, and if not, may result in civil liability and/or criminal penalties. Since OCD does not have access to the State's wage database, we are not able to obtain the information the HUD OIG has obtained and cannot further review these cases. Therefore, we are requesting the HUD OIG provide its documentation for these cases to bodies which can fully review them and take appropriate action.

Comment 4

- 1B. Either support or repay \$118,885 disbursed for four unsupported grants. As indicated in our analysis above, all four of these ACGs have documentation available supporting the grants and they were confirmed as eligible.

Comment 7

- 1C. Review the remaining 21,672 grants disbursed between June 12, 2006 and October 13, 2007 to ensure grants were eligible and supported. The State must repay funds disbursed for grants determined ineligible. One of the decisions made in this program was that it was better for homeowners to receive their *Road Home* funds, including ACG's quickly, knowing that additional controls would have to be developed and implemented as post-closing functions. One of the activities in the post-closing function includes a final ACG review to ensure accuracy. These grants will be reviewed at that time.

Comment 9

- 1D. Develop and implement a policy or procedure as part of its review process to ensure that it verifies that all household members over the age of 18 have reported their income. OCD does not concur with this recommendation. Since the beginning of this program State policy has allowed self certification of household members over the age of 18. As stated in the body of this response, this program has been reviewed several times by HUD and this is the first mention that OCD's policies and procedures of self certification of household members over the age of 18 is inadequate. In addition, there is no specific requirement by CDBG regulations or recommended in CDBG guidance requiring third-party income verification. There are now less than 5,000 files to be processed and far fewer, approximately 2,500, that would be ACG eligible and of that 2,500 even a smaller number would have household members over the age of 18. OCD currently does not have access to the State's wage database. Assuming OCD can obtain access to the wage database; by the time the federal information sharing requirements are satisfied the program will have processed nearly all of the remaining applicant files. In our opinion, it is too late to implement a policy or procedure change requiring third-party verification of household members over the age of 18. However, if required to

Ms. Rose Capalungan  
June 20, 2008  
Page 2

verify income for applicants who reported zero income for household members over the age of 18, OCD will examine the feasibility of performing this task on a random statistical basis.

Comment 7

- 1E. Ensure ICF implements adequate controls to ensure that it follows the established policies and procedures when determining eligibility. ICF implemented additional controls in September 2007 to further ensure eligibility is correctly determined prior to initial closing. These controls consisted of additional ACG training for Housing Advisors and an additional Tier 2 team to review and correct any ACG issues prior to submitting the files to OCD for Eligibility Compliance Review. In addition, OCD reviews ACG documents in its Sampling Batching Process. If issues are identified in pre-closing, the documents requiring applicant signature are uploaded in the system, flagging them as documents to be signed at closing. If for some reason a document is not signed at closing, each ACG award is reviewed in post closing to ensure that all documents are signed. Any document needing signature is sent to the applicant. In the unlikely event the applicant refuses to sign, the file is sent to Grant Recovery for repayment of funds.
- 1F. Ensure that ICF implements adequate controls in its post closing reviews that will allow the detection and correction of errors. The Grant Review process is being developed using a comprehensive, 33-page checklist to verify that a file is complete, accurate, and ready for archiving. Documentation issues discovered during the Grant Review process will be addressed before the file is turned over to the State, as planned. In addition, OCD monitored the ACG employee training conducted by ICF on March 26, 2008, and also monitored the Grant Review training in May 2008, and both were determined to be adequate.

Comment 7

We appreciate the cooperation and diligence of your staff in conducting this audit. If you have questions or require additional information, please let me know.

Sincerely,



Paul Ramwater  
Senior Executive Director  
Office of Community Development, DRU

PR/SU

c: Ms. Angele Davis  
Ms. Sharon Robinson  
Mr. Thomas Brennan  
Mr. Mike Spletto  
Mr. Richard Gray  
Mr. Steven Green  
Mr. Stephen Upton

## **OIG Evaluation of Auditee Comments**

- Comment 1** The State indicated that three of five grants determined ineligible were eligible since the use of the State’s wage database for verification purposes is not required by its program policy. Although the State followed its policies, the policies were inadequate. Thus, we disagree with the State’s assertions and stand by original conclusions and recommendations. To be eligible for additional compensation grants, applicants were required to meet income limits. However, the State allowed self-certifications of income and did not have policies or procedures to ensure that it determined whether household members over the age of 18 reported all of their income, which resulted in an unacceptably high number of applicants in that category receiving assistance when they were not income eligible.
- Comment 2** The State indicated that one of the remaining two grants determined ineligible was eligible, based upon updated information. However, we stand by our original conclusions and recommendations as the applicant was ineligible at the time of our review.
- Comment 3** The State agreed that the one remaining grant was ineligible, and repayment from the applicant will be sought as appropriate in the grant recovery process. We acknowledge the State’s action on this grant.
- Comment 4** The State indicated that all four grants determined unsupported were supported, as updated income documentation was obtained. Since the State took action on these grants to obtain the needed information, we will close this recommendation concerning these four grants upon report issuance. However, we are concerned that additional grants exist that lack supporting documentation. Therefore, our recommendation that all remaining grants be reviewed will remain open.
- Comment 5** The State indicated that its current income verification policy is consistent with applicable CDBG regulations, which allow the State flexibility in how income is defined, documented, and verified, so long as applicants are treated consistently and the policies are reasonable. We disagree. Since 43 percent (three out of seven) of the applicants’ files for households with additional family members over the age of 18 indicated unreported income, the State’s current policy is inadequate to ensure that all income is reported for this category of applicant. Thus, we stand by our original conclusions and recommendations.
- Comment 6** The State agreed that the required forms were not yet correctly completed for 24 of 45 files, and ICF has obtained updated documents for all 24 files. The State further indicated that it is better for homeowners to receive their Road Home funds, including additional compensation grants, much faster than originally planned by completing certain documentation and compliance and review



activities, as needed, postclosing, not preclosing. We question whether this is a prudent practice.

**Comment 7** The State indicated that ICF's review team has corrected all OIG-cited deficiencies in accordance with current program policy and that other issues not concerning additional compensation grants will be detected and corrected in the final grant review. We acknowledge that the State has taken action on the grants we brought to their attention.

**Comment 8** The State's contractor indicated that the ranges associated with the projected overpayments are not clearly disclosed. Although our original projection was statistically valid, we made adjustments to our projection to be more conservative and address the issues raised by the State. Therefore, we validated the sampling projections using the difference estimation methodology. However, the point estimates for ineligible and unsupported grants remain at unacceptably high amounts of \$70 million and \$57.4 million, respectively.

**Comment 9** The State indicated that it did not concur with the recommendation to develop and implement a policy or procedure as part of its review process to ensure that it verifies that all household members over the age 18 have reported their income. Further, it indicated that the program has been reviewed several times by HUD and this is the first mention that its policies and procedures are inadequate. HUD's monitoring reviews are limited to ensuring the State followed its policies. The State followed its policies, but the policies were inadequate. Thus, we affirm our recommendation. Since we determined that 43 percent of the files with family members over the age of 18 had additional income, the State should review all files with persons over the age of 18 who did not report income to ensure that the families are low and moderate income in accordance with its program requirements. This review should be done as part of the final review process for all grants that have family members over the age of 18.

## Appendix C

### SAMPLING METHODOLOGY AND RESULTS

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#### Purpose of the Sampling

One of the objectives of the audit was to determine whether eligible applicants received additional compensation grants. In support of this objective, we developed and implemented an unrestricted variable sampling plan that allowed us to (1) make statistical projections of the dollar amount of additional compensation grants that were awarded to applicants who were not qualified to receive the grants and (2) estimate the value of grants that were awarded to participants whose eligibility was not adequately supported.

#### Definition of the Audit Population and Tests Performed

Using grant application and disbursement data provided by the ICF, we identified 21,717 additional compensation grants that had been awarded and disbursed as of October 13, 2007. These grant disbursements totaled \$842,911,327.

For each grant sampled, we performed a detailed review of the grant case file and supporting documentation and analyzed the grant's applicable income policies and procedures. Based on the review, we assessed whether the grant applicant met the eligibility requirements as established in prevailing policies. For those grants for which the case file showed that the applicant's household income exceeded established income limits or no shortfall existed between the estimated cost of damage and the calculated compensation amount, we considered the grant and its associated dollar amount to have failed our eligibility tests. In the same way, if supporting income documentation was not dated within six months of the eligibility determination date or was not available, we considered the grant amount and its associated dollar amount as unsupported.

#### Sample Design

Using unrestricted variable sampling methodology, we determined that a sample size of 45 additional compensation grants was sufficient using a 90 percent confidence level and a desired sampling precision of 10 percent. Accordingly, we randomly selected 45 grant case files for detailed review.

#### Statistical Projections of the Sampled Data

Based on the results of the file reviews, we identified five cases in which the grant should not have been awarded because the applicant did not meet eligibility requirements. Using difference estimation methods and the results of our statistical sample, we are 90 percent confident that the

amount of homeowner assistance grants paid to ineligible recipients was at least \$9,979,809. Statistical projection details were as follows:

| <b>Information on the universe and sample size</b>   |               |  |  |
|--|---------------|--|--|
| Total value of grant awards in the universe  | \$842,911,327 |  |  |
| Total grants in the universe   | 21,717        |  |  |
| Mean for grant awards in the universe  | \$38,813      |  |  |
| Standard deviation for grant awards in the universe  | \$15,877      |  |  |
| Total number of grants in the sample   | 45            |  |  |
| <b>Results for the sample evaluation of ineligible grants</b>                                  |               |  |  |
| Confidence level   | 90%           |  |  |
| Precision for the estimated difference value of grant disbursements to ineligible participants | \$60,033,102  |  |  |
| Estimated difference value of grant disbursements to ineligible participants (point estimate)  | \$70,012,910  |  |  |
| Estimated difference lower limit of grant disbursements to ineligible participants             | \$9,979,809   |  |  |
| Estimated difference upper limit of grant disbursements to ineligible participants             | \$130,046,012 |  |  |

Using the same sample, we also identified four cases in which the grant participant’s eligibility was questionable due to the lack of sufficient supporting documentation. Therefore, we are 90 percent confident that the value of the homeowner assistance grants made to recipients with insufficient documentation to properly support their eligibility was at least \$1,347,959. Statistical projection details were as follows:

| <b>Results for the sample evaluation of unsupported grants</b>   |               |  |  |
|--|---------------|--|--|
| Confidence Level   | 90%           |  |  |
| Precision for the estimated difference value of grant disbursements to participants whose eligibility was not adequately supported | \$56,026,174  |  |  |
| Estimated difference value of grant disbursements to participants whose eligibility was not adequately supported (point estimate)  | \$57,344,133  |  |  |
| Estimated difference lower limit of grant disbursements to participants whose eligibility was not adequately supported             | \$1,347,959   |  |  |
| Estimated upper limit of grant disbursements to participants whose eligibility was not adequately supported                        | \$113,400,307 |  |  |