



U.S. Department of Housing and Urban Development
Office of Inspector General for Audit,
Hurricane Recovery Audit Oversight Division
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MEMORANDUM NO.
2008-AO-1801

March 6, 2008

MEMORANDUM FOR: Nelson R. Bregon, General Deputy Assistant Secretary, D

Rose Capalungan

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

SUBJECT: The State of Mississippi's and/or Its Contractor's Procedures for and Controls over the Homeowner's Assistance Grant Program Generally Ensured Eligibility and Prevented Duplication of Benefits

INTRODUCTION

We audited the Homeowner's Assistance Grant Program (Program), a component of the State of Mississippi's (State) administration of the \$5.058 billion in Community Development Block Grant disaster recovery funds provided to the State in the aftermath of Hurricane Katrina. The State allocated \$3 billion to help homeowners in Southern Mississippi recover from Hurricane Katrina. The Mississippi Development Authority's (Authority) future partial action plans will detail the projected expenditure of the remainder of funds that are available from the \$5.058 billion.

We initiated the audit as part of our examination of relief efforts provided by the federal government in the aftermath of Hurricane Katrina. Our audit objectives were to determine whether the State and/or its contractor (1) allowed only eligible homeowners to participate in the Program in accordance with the eligibility criteria established under the U.S. Department of Housing and Urban Development (HUD)-approved partial action plan for phase I of the Program and (2) implemented adequate controls to prevent the homeowners from receiving duplication of benefits.

An issue that needs further consideration was discovered during our review of program eligibility and duplication of benefits. The issue is related to inconsistencies in the percentage of damage awarded based on the level of floodwater. We will perform a separate review to determine whether the State and/or its contractor reasonably assessed the percentage of flood damage according to the level of floodwater that entered the homes.

BACKGROUND

One of the State's recovery efforts is the implementation of the Program. Phase I of the Program is designed to provide financial assistance up to \$150,000 to those homeowners outside the flood plain who had suffered damage to their primary residence as of August 29, 2005, and whose homeowner's insurance did not cover structural flood damage. The Authority administers the Program, while its contractor, Reznick Group, implements the Program.

The Program is designed for residents who owned homes outside the federally designated flood zone. The amount of each homeowner's grant is based on several factors, including but not limited to the insured value of the home, the amount of damage sustained, home insurance proceeds, any proceeds the homeowner received from the Federal Emergency Management Agency, and any loans from the Small Business Administration (SBA). To receive assistance under the Program, homeowners must meet certain criteria and agree to attach several covenants to their properties.

As of November 30, 2007, the State had disbursed grant assistance in excess of \$845 million to 14,610 applicants for phase I of the Program.

SCOPE AND METHODOLOGY

Our review focused on Phase I applicants awarded grant checks as of October 18, 2006. We reviewed the applicants' files to ensure that only eligible homeowners participated in the Program and no duplication of benefits existed.

We performed our audit work between March 16 and December 31, 2007. We conducted our audit at the Authority and Reznick Group offices in Jackson, Mississippi; Harrison, Hancock, and Jackson Counties in Mississippi; and HUD's New Orleans, Louisiana, and Jackson, Mississippi, field offices. To achieve our objectives, we performed the following:

- Selected a statistical sample of 103 applicants from the universe of 2,035 grant checks disbursed by the Authority as of October 18, 2006, and conducted eligibility and duplicate benefits testing.
- Reviewed and analyzed data provided by the Authority, SBA, insurance companies, Reznick Group, and Allied American Adjusting Company and Harrison, Hancock, and Jackson Counties' landroll records and tax offices.
- Interviewed officials at the Authority, Reznick Group, and Allied American Adjusting Company and employees of Harrison, Hancock, and Jackson Counties.

In addition, we interviewed homeowner grant recipients. We performed detailed eligibility and duplication of benefits testing of all homeowners selected for review.

RESULTS OF REVIEW

In most cases, the State and its contractor, Reznick Group, had controls to ensure that only eligible homeowners participated in the Program in accordance with the eligibility criteria. One of the 103 applicants reviewed was not eligible for the Program because the applicant did not

meet one or more of the five eligibility requirements. In this instance, the applicant owned but did not occupy the property. To determine eligibility, the State and Reznick Group relied on data provided by the applicants, the Mississippi State Tax Commission, insurance companies, Mississippi Title and Appraisal, and Allied American Adjusting Company. While the data on which Reznick relied were not the most current data available, it was the most efficient method of acquiring this information for the number of applicants. Thus, the State and Reznick Group could not have prevented these errors, and no recommendation would prevent the errors from recurring. However, HUD should require the State to refund the Program \$16,871 for the ineligible participants.

In addition, the State and Reznick Group had adequate controls to prevent homeowners from receiving duplicate benefits for the same damage. Out of the 103 applicants reviewed, only one received a duplication of benefits due to a timing error between when Reznick Group received the initial SBA loan approval amount and when the actual SBA loan amount was withdrawn. The State and Reznick Group established internal control procedures, which involved the use of an electronic auditing system, to ensure that applicants did not receive duplicate benefits. The State and Reznick Group could not have prevented the timing error and had controls including obtaining an SBA-prepared duplication of benefit analysis for those applicants who applied for an SBA loan. Thus, no recommendation is made to prevent this type of error from recurring. HUD should require the State to refund the Program \$3,700 for the duplicate assistance provided.

The errors discovered during this review were not the result of faulty procedures and controls but were due to conditions beyond the State's and Reznick Group's authority. Therefore, we do not recommend that the State and Reznick Group implement new procedures and controls, nor do we recommend that they alter their current procedures and controls. We acknowledge the State and its contractor on implementing procedures for and controls over determining program eligibility and duplication of benefits.

The Authority generally concurred with the findings but requested additional information on one applicant. It agreed to research the applicants further and work with HUD and SBA until the issues are fully resolved. The Authority's complete response can be found in appendix A. We agree with the Authority's proposed actions and commend it for its positive response.

RECOMMENDATION

We recommend that the HUD's General Deputy Assistant Secretary for Community Planning and Development require the Authority to repay the Program \$20,571 for ineligible costs.

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 COMMENTS



STATE OF MISSISSIPPI
 HALEY BARBOUR, GOVERNOR
MISSISSIPPI DEVELOPMENT AUTHORITY
 GRAY SWOOPE
 EXECUTIVE DIRECTOR

February 25, 2008

Ms. Rose Capalungan
 Regional Inspector General for Audit,
 Gulf Coast Region
 Office of Inspector General for Audit
 Hurricane Recovery Audit Oversight Division
 U.S. Department of Housing and Urban Development
 500 Poydras Street, 11th Floor
 New Orleans, LA 70130

Re: MDA's Response to HUD OIG Report 2008-AO-1003

Dear Ms. Capalungan:

Enclosed is our response to the Office of Inspector General's ("HUD OIG") Draft Audit Memorandum No. 2008-AO-1003. The objective of this audit was to determine whether the State and/or its contractor (1) allowed only eligible homeowners to participate in the Homeowner's Assistance Grant Program in accordance with the eligibility criteria established under the HUD approved partial action plan for Phase I of the Program and (2) implemented adequate controls to prevent the homeowners from receiving duplication of benefits.

As you well know, the Mississippi Development Authority ("MDA") has persistently worked to provide relief to the residents of the Mississippi Gulf Coast who were devastated by Hurricane Katrina. MDA acknowledges its responsibilities in managing the more than \$5 billion in Community Development Block Grant funds provided by the federal government. In this regard, MDA is pleased that HUD OIG has commended the State and its contractor on implementing sufficient procedures for and controls over determining program eligibility and duplication of benefits.

MDA would like to thank HUD OIG staff for their valuable advice and assistance. If you have any questions regarding this response, please feel free to contact me at (601)359-9345 or Jon Mabry, Director of the Disaster Recovery Division, at (601)359-2379.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles L. Bearman".

Charles L. Bearman
 Compliance Officer

Enclosure

cc: Theresa A. Carroll, CPA
 Warren Lee Wood, MS Ace, MS CIS
 Kimberly Sandifer, MBA

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

**Community Development Block Grant
State of Mississippi
2008-AO-1003**

The Mississippi Development Authority (hereafter “MDA”) offers the following responses to the findings and recommendations as a result of the audit report dated February XX, 2008.

Results of the Review: Out of 103 applicants reviewed, one was found by HUD OIG to be ineligible because the applicants did not meet one or more of the five eligibility requirements. Specifically, the applicants “owned but did not occupy the property.” HAP #06HAO10386.

Response: According to the file on these applicants and the HUD OIG report, MDA followed all approved procedures to verify eligibility for both ownership and occupancy as of the date of Hurricane Katrina, and that both points were established by documentary proof. MDA requests that HUD OIG provide the methodology used in this finding and any supporting documentation it has on this matter. MDA pledges its full support and cooperation with HUD OIG to further evaluate and resolve this matter.

Out of those 103 applicants reviewed, “only one received a duplication of benefits due to a timing error between when Reznick Group [MDA’s contractor] received the initial SBA loan approval amount and when the actual SBA loan amount was withdrawn.” HAP #06HA008347.

Response: On or about August 10, 2006, the grant amount for the applicant was calculated at \$39,990.95. Once this was done – and following normal, approved procedure, MDA’s contractor contacted SBA to check on any loan amount to be off-set against the grant amount. SBA at that time responded that a total of \$39,990.95 was due. This calculation was meant only for award calculation and notification purposes. On or about March 23, 2007, a supplemental grant amount of \$23,553.30 was awarded to the applicants. At this time a third inquiry was made to SBA and the cumulative revised grant amount of \$65,876.46 was communicated. SBA requested no deduction from this supplemental disbursement, returning a requested amount of \$0.0. Accordingly, the applicant received the entire balance of \$23,553.30. SBA had the opportunity to have MDA withhold any amount of duplicate benefits up to the amount of \$23,553.30. MDA will work with SBA to determine if any duplication of benefits situation still exists for this applicant and, if so, will work with SBA to resolve this situation.