



Issue Date May 5, 2009
Audit Report Number: 2009-AO-1001

TO: Nelson Bregon, General Deputy Assistant Secretary, D

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

SUBJECT: State of Louisiana, Baton Rouge, Louisiana, Road Home Program, Did Not
Ensure That Road Home Employees Were Eligible to Receive Additional
Compensation Grants

HIGHLIGHTS

What We Audited and Why

Due to a citizen's complaint, 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. The complaint raised a potential issue with Road Home employees improperly obtaining grants. Our audit objective was to determine whether the State ensured that Road Home employees were eligible to receive the grant. This report is the third of three reports issued regarding the State's additional compensation grant component under the Road Home program.

What We Found

The State did not ensure that all Road Home employees were eligible to receive their additional compensation grant. Of 34 grants, the State funded five (15 percent) that were ineligible. This condition occurred because the State did not ensure that its contractor's controls were sufficient to identify errors and that its policies and procedures were followed when determining eligibility. As a result, the State misspent \$228,930 in federal funds for five ineligible grants.

What We Recommend

We recommend that The U.S. Department of Housing and Urban Development's (HUD) General Deputy Assistant Secretary for Community Planning and Development require the State to repay amounts disbursed for ineligible grants to its Road Home program, conduct monitoring to ensure that its contractor has implemented adequate controls, and report the recapture/recovery for all grants deemed ineligible.

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 April 3, 2009.

We asked the State to provide comments on our draft audit report by April 1, 2009. We gave the State an extension until April 16, 2009, to respond, and it provided written comments on that day. The State generally agreed with the report but disagreed with some of the conclusions and recommendations. The complete text of the written response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

Between December 2005 and December 2007, Congress approved a total of \$19.7 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 \$13.4 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 \$9.9 billion of the \$13.4 billion to the homeowner assistance program,¹ 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 system² meeting State specifications and internal control requirements. ICF's contract term ends on June 11, 2009, and the homeowner assistance program is in its final stages.³

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 objective was to determine whether the State ensured that Road Home employees were eligible to receive the grant.

¹ The homeowner assistance program is one of four Road Home programs.

² The management information system principally supports the Road Home program.

³ As of February 22, 2009, the State had determined that the final number of applicants eligible for assistance totaled 152,060. Of that number, 144,187 applicants had chosen an option, and 140,083 applications had been completed, with 4,104 remaining.

RESULTS OF AUDIT

Finding 1: The State Did Not Ensure That All Road Home Employees Were Eligible to Receive Additional Compensation Grants

The State did not ensure that all Road Home employees were eligible to receive additional compensation grants. Of 34 grants, the State funded five (15 percent) that were ineligible. This condition occurred because the State did not ensure that its contractor's controls were sufficient to identify errors and that its policies and procedures were followed when determining eligibility. As a result, the State misspent \$228,930 in federal funds for five ineligible grants.

State's Eligibility Requirements

To be eligible for the grant, which cannot exceed \$50,000, the State required lower income applicants,⁴ including Road Home employees, to

- Document their total current household income,⁵
- Choose options 1 or 2,⁶ and
- Have a gap between the estimated cost of damage and the calculated compensation amount.

\$228,930 Paid for Ineligible Grants

A review of 34 grants disbursed to Road Home employees determined that five (15 percent) were ineligible because household income exceeded HUD's income limits. As a result, between October 15, 2007, and September 18, 2008, the State misspent \$228,930 in federal funds for the five ineligible grants. The remaining 29 grants, totaling more than \$965,000, were eligible.

Employee Application Review Procedures Developed by State

The State developed a policy for reviewing Road Home employee applications and initiated reviews of both closed and pending employee applications. The documented review procedures identified the State's contractor's Audits and

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

⁵ Current income is defined as income from within the past six months.

⁶ The amount of the grant is based upon the option selected.

Monitoring Division as the responsible division for reviewing employee applications to ensure compliance with applicable program eligibility requirements, including requirements for the grant. However, according to the State's contractor, this additional review procedure was not used until around July 30, 2008, after all of the grants were disbursed. In addition, this policy was not documented until October 2008.

Further, the State's contractor performed postclosing reviews of all 34 grants. As related to the five grants determined ineligible, the contractor's grant review component of its postclosing review procedures agreed with our determinations in four of five instances. After receiving the results of our review, the State again reviewed the grants and agreed⁷ that all five grants were ineligible. The State must conduct monitoring to ensure that its contractor has implemented adequate controls.

State's Policy Not Followed

The State's contractor did not follow the State's policy for grants when determining eligibility. The State's policy outlined specific income criteria for determining grant eligibility. However, for the five files determined ineligible, household income exceeded HUD's income limits, ranging between \$60 and \$16,050 over the income limits. Although the remaining 29 grants were determined eligible, the State must ensure that its contractor follows the established policies and procedures to avoid funding additional ineligible grants.

State Taking Action

The State stated that it planned to pursue recovery of grant funds for all grants determined ineligible. In addition, the State had developed a recapture policy and was working in conjunction with the Louisiana Attorney General's Office to develop the recapture procedures and processes. The State further stated that grants determined ineligible, for which the recapture of funds was warranted, would be turned over to the Louisiana Attorney General's Office for recapture. We acknowledge the State's actions toward grant recovery.

Conclusion

Of 34 grants, the State made disbursements totaling more than \$228,000 for five (15 percent) ineligible disbursements between October 15, 2007, and September

⁷ The State agreed with our results during the February 12, 2009, update meeting.

18, 2008. The ineligible disbursements occurred because the State did not ensure that its contractor's controls were sufficient to identify errors and that its policies and procedures were followed when determining eligibility. Specifically, the five grants were determined to be ineligible due to the applicant's income having exceeded HUD's established income limits.

The State must repay funds disbursed for ineligible grant amounts. In our previous audit report,⁸ we recommended that the State ensure that its contractor implements adequate controls to ensure that it follows the established policies and procedures when determining eligibility and ensure that postclosing reviews detect and correct errors. However, we determined that the contractor's grant review component of its postclosing review procedures did not always detect errors; therefore, we recommend that the State conduct monitoring to ensure that its contractor has implemented adequate controls and report the recapture/recovery of funds for all grants deemed ineligible.

Recommendations

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

- 1A. Repay \$228,930 disbursed for five ineligible grants to its Road Home program.
- 1B. Conduct monitoring to ensure that its contractor has implemented adequate controls.
- 1C. Report the recapture and/or recovery of funds for all grants deemed ineligible.

⁸ HUD OIG (Office of Inspector General) Audit Report 2008-AO-1005.

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 July 2008 and February 2009.

To accomplish our objective, we used the electronic data received from the State's contractor's management information system. 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 36 additional compensation grants, totaling more than \$ 1.2 million, were funded between October 15, 2007, and September 18, 2008, for Road Home employees. Considering the relatively small number of grants in the universe, we chose the 100 percent selection method for detailed testing. However, 2 of the 36 grants were removed from our review because one applicant was under examination and review of the other applicant's file determined that a grant had not been disbursed for the Road Home employee. Therefore, our review was comprised of the remaining 34 grants. We reviewed the scanned documentation, via the management information system, for each of the 34 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.

In addition to data analyses and file reviews, we

- Interviewed State officials as well as key personnel of ICF;
- Reviewed the grant agreements between HUD and the State, 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 October 15, 2007, through September 18, 2008. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are 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. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- 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 did not identify any significant weaknesses.

FOLLOW-UP ON PRIOR AUDITS

This audit report is the third 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. Our second audit, issued August 7, 2008, is also 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 to support or repay unsupported grants and to implement system controls are closed, and the other recommendations are still open.

Report Number: 2008-AO-1005

Our audit report (2008-AO-1005) disclosed that 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.

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, 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 the grants, we estimated that the value of questioned costs would 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 recommendation to support or repay unsupported grants is closed, and the other recommendations are still open.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1A	<u>\$228,930</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.

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	
April 16, 2009	
<p>Ms. Rose Capalungan Regional Inspector General for Audit, Gulf Coast Region Hale Boggs Federal Building 500 Poydras Street, 11th Floor New Orleans, Louisiana 70130</p>	
<p>RE: Audit Control Number 2009-AO-1001, Road Home Employees' Additional Compensation Grants</p>	
<p>Dear Ms. Capalungan:</p>	
<p>The Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD/DRU) is providing this letter in response to the HUD Office of Inspector General (OIG) Audit Report 2009-AO-1001, concerning Road Home employees that received an additional compensation grant (ACG) between October 15, 2007, and September 18, 2008. We appreciate the work the HUD-OIG performed and have taken under consideration the recommendations contained in this report.</p>	
<p>The HUD-OIG's audit objective was to determine whether the State ensured that Road Home employees were eligible to receive the ACG. We are pleased that the HUD-OIG in its assessment of internal controls relevant to the audit objective <u>did not identify any significant weaknesses</u>.</p>	
<p>The following section of our response addresses the HUD-OIG's finding that,</p>	
<p>"The State did not ensure that all Road Home employees were eligible to receive additional compensation grants. Of 34 grants, the State funded five (15 percent) that were ineligible. This condition occurred because the State did not insure that its contractor's controls were sufficient to identify errors and that its policies and procedures were followed when determining eligibility. As a result, the State misspent \$228,930 in federal funds for five ineligible grants."</p>	
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Comment 1

OCD concurs, that at the time of the HUD-OIG review, five of the 34 grants were ineligible. However; OCD does not concur with the OIG's statement that, "the State did not insure that its contractor's controls were sufficient to identify errors and that policies and procedures were followed when determining eligibility". In fact, all five of the ineligible grants were identified by the Program in the post-closing review process as ineligible.

The State, early on, recognized the need to redesign *The Road Home* program. The Program as initially designed, with its many time consuming pre-closing controls, was simply too slow in processing grant awards to homeowners who were trying to rebuild their homes, their communities and, more importantly, their lives in the aftermaths of Hurricanes Katrina and Rita. As a result, a change in the Program design was made, which made it possible for homeowners to receive grant awards more quickly than initially planned. Essentially, it was viewed by State and Federal officials that it is better in an unprecedented disaster recovery operation for all homeowners to receive their funds quickly, with the attendant risk of problems in some awards made, than to delay all homeowners their receipt of funds simply to avoid problems in some awards.

This redesign of the Program to accelerate awards was made possible largely by shifting "downstream," after closing (post-closing), many of the important but necessarily time-consuming activities/controls that had earlier been planned to be performed "upstream," or prior to closing (pre-closing). The Program's post-closing function was expanded beyond its original role of essentially archiving files to address the many situations where additional activities were required to complete files or reconcile applicant data, given awards were being made on an expedited basis. The State made a decision to accept additional risk associated with expedited payments with the understanding that any ineligible or unallowable payments would be detected and corrected in post-closing reviews. It has been OCD's intent to make final verifications of eligibility and award amounts post-closing, rather than pre-closing and to resolve all eligibility and award calculation issues through post-closing procedures.

Given the importance attributed to the Program's post-closing activities, OCD is pleased to point out that the post-closing review detected all 5 grants as ineligible and identified them for grant recovery. OCD does not agree with the HUD-OIG's assessment that the contractor's grant review component of its post-closing review procedures did not identify one of the five grants as ineligible. OCD reviewed this grant and found that the file was identified in the contractor's post-closing review as ineligible. HUD-OIG based its conclusion on a note in the system that could be interpreted as meaning the applicant was income eligible and therefore eligible for the ACG. However, the grant was identified in the contractor's post-closing review process as ineligible for the ACG and has remained in that status despite the note.

Based on the above discussion, OCD does not concur with the HUD-OIG's conclusion that the state did not ensure that its contractor's controls were sufficient to identify errors or that the contractor's grant review component of its post-closing review procedures did not always detect errors.

Recommendations

- 1A. Repay \$228,930 disbursed for five ineligible grants to its Road Home program.

It is premature to require the State to repay the \$228,930 at this point in the Program. Subsequent to the HUD-OIG's review the State implemented Change Control Board (CCB) Form No. 230, titled, Post Closing Income Verification Based on Louisiana Department of Labor (DOL) Quarterly Wage Data, dated February 10, 2009. CCB 230 provides for the Program to obtain wage data from DOL to determine the household income of certain applicants. Based on the income data provided by DOL, two of the five ACGs identified as ineligible by HUD-OIG are eligible. The amount disbursed for these two ACGs is \$78,930, reducing the \$228,930 amount determined ineligible by the HUD-OIG to \$150,000. Finally, the ineligible grants have not been through the State's recapture process. A process designed to recover overpayments from applicants.

- 1B. Conduct monitoring to ensure that its contractor has implemented adequate controls.

We believe this HUD-OIG report confirms the adequacy of the post-closing review process, in that all five grants identified as ineligible by the HUD-OIG were also identified as ineligible and identified for grant recovery in the contractor's post-closing review. In addition, OCD has contracted with the Louisiana Legislative Auditor to statistically sample files that have been processed through the post-closing review to provide assurance on the effectiveness of the post-closing review process.

- 1C. Report the recapture and/or recovery of funds for all grants deemed ineligible.

The State's recapture program will report on grants deemed ineligible as well as amounts recovered from applicants.

Comment 2

Comment 3

Comment 4

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In addition to OCD's comments contained in this letter, OCD requested ICF International, the contractor, to provide written comments to the HUD-OIG audit finding. Enclosed is ICF's response, which provides additional information that may be useful to those reading the HUD-OIG report.

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

Sincerely,



Paul Rainwater, Executive Director
Office of Community Development

PR/SU

Enclosure

C: Ms. Angele Davis
Ms. Sharon Robinson
Mr. Thomas Brennan
Ms. Lara Robertson
Mr. Richard Gray
Mr. Stephen Upton

OIG's Evaluation of Auditee Comments

Comment 1 The State concurred that at the time of our review, 5 of 34 grants were ineligible. However, the State did not concur with the conclusion that it did not ensure that its contractor's controls were sufficient to identify errors and that policies and procedures were followed when determining eligibility. The State claimed that all five of the ineligible grants were identified by the program in the postclosing review process as ineligible and identified them for grant recovery. Further, the State did not agree with the conclusion that the contractor's grant review component of its postclosing review procedures did not identify one of the five grants as ineligible. The State claimed that it reviewed this grant and found that the file was identified in the contractor's postclosing review as ineligible. The State also noted that OIG based its conclusion on a note in the system that could be interpreted as meaning that the applicant was income eligible and, therefore, eligible for the additional compensation grant. However, the grant was identified in the contractor's postclosing review process as ineligible for the grant and has remained in that status despite the note.

We acknowledge the actions taken by the State on these grants. However, we did not base our conclusion on a note in the system for the one grant. At the time of our review, the State's additional compensation grant review report, documented in its management information system, identified the grant as eligible. Thus, we disagree with the State's assertion and stand by our original conclusion that the State did not ensure that its contractor's controls were sufficient to identify errors and that policies and procedures were followed when determining eligibility.

Comment 2 In response to recommendation 1A, the State claimed that it was premature to require the State to repay the \$228,930 at this point in the program. Further, the State noted that after OIG's review, the State implemented Change Control Board Form No. 230 (CCB 230), Post Closing Income Verification Based on Louisiana Department of Labor (DOL) Quarterly Wage Data, dated February 10, 2009. According to the State, CCB 230 provides for the program to obtain wage data from DOL to determine the household income of certain applicants.

Further, the State claimed that based on the income data provided by DOL, two of the five grants identified as ineligible by OIG were eligible, reducing the \$228,930 amount determined ineligible by OIG to \$150,000. Additionally, the State claimed that the ineligible grants had not been through the State's recapture process, a process designed to recover overpayments from applicants.

Since the policy was implemented and the documentation was obtained after our review, we were unable to confirm the State's assertion that based on income data provided by DOL, two of the five grants were eligible. Further, the State initially agreed that all five grants were ineligible, based upon the documentation in the

file. Therefore, we did not change our recommendation that the State repay \$228,930 for five ineligible grants.

Comment 3 In response to recommendation 1B, the State asserted that it believed that the report confirmed the adequacy of the postclosing review process, in that all five grants identified as ineligible by OIG were also identified as ineligible and identified for grant recovery in the contractor's postclosing review. In addition, the State noted that it contracted with the Louisiana legislative auditor to statistically sample files that had been processed through the postclosing review to provide assurance on the effectiveness of the postclosing review process.

We acknowledge the State's implementation of a postclosing process to resolve eligibility and award calculation issues. We further acknowledge that the State's postclosing process identified four of five grants, which we determined to be ineligible, as ineligible and recognized the need for grant recovery. In addition, we acknowledge the State's efforts to provide assurance on the effectiveness of its postclosing process by working in conjunction with the Louisiana legislative auditor.

Comment 4 In response to recommendation 1C, the State affirmed that its recapture program would report on grants deemed ineligible as well as amounts recovered from applicants.

We acknowledge the State's willingness to report on grants deemed ineligible as well as amounts recovered from applicants.