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MEMORANDUM NO.
2009-AO-1801

June 12, 2009

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

Tracey Carney

FROM: Tracey Carney, Acting Regional Inspector General for Audit, GAH

SUBJECT: A Few Possible Duplicate Payments May Have Occurred under Phase II of the State of Mississippi's Homeowner Assistance Program

INTRODUCTION

We audited the State of Mississippi's (State) administration of the \$5.058 billion in Community Development Block Grant (CDBG) disaster recovery funds provided to the State in the aftermath of Hurricane Katrina. The State allocated \$2.2 billion to help homeowners in Southern Mississippi recover from Hurricane Katrina.

We initiated the audit as part of our examination of relief efforts provided by the federal government in the aftermath of Hurricane Katrina. During our audit on grant eligibility, we identified a few possible duplicate payments using computer-assisted audit tools and techniques when reviewing the State's disbursement database. Therefore, we expanded our review to address these potential duplicates.

METHODOLOGY AND SCOPE

We performed our audit work between December 17, 2008, and April 21, 2009. We conducted our audit at the local U.S. Department of Housing and Urban Development (HUD) Office of Inspector General field office (100 West Capitol Street, Jackson, Mississippi), the State's Disaster Recovery Division (Robert E. Lee Building, 239 North Lamar Street, Jackson, Mississippi), Reznick Mississippi LLC's former office (500 Clinton Center Drive, Clinton, Mississippi), and other necessary sites as deemed appropriate. Our review covered the period December 2006 through December 2008. We adjusted the scope as necessary.

Through data analysis, we identified 34 possible issues related to duplicate addresses, duplicate Social Security numbers, and applicants in both the Mississippi and Louisiana databases for the homeowner assistance program. There were a total of 63 grants associated with possible issues. We performed limited testing to determine whether an issue existed regarding duplicate payments.

We also reviewed the HUD-approved action plans, grant agreements between HUD and the State, homeowner assistance program written policies and procedures, the contract executed between the State and Reznick Mississippi LLC and its amendments, the *Code of Federal Regulations*, and other applicable legal authorities relevant to the CDBG disaster recovery grants. We reviewed reports issued by the Mississippi Office of State Auditor, HUD, and Mississippi Development Authority. We also interviewed State officials, staff, and key personnel involved in the administration of the homeowner assistance program.

BACKGROUND

One of the State’s recovery efforts is the implementation of the homeowner assistance program. Phase II of the program provides compensation, up to a maximum of \$100,000, to homeowners who had suffered damage to their primary residence as of August 29, 2005, from Hurricane Katrina. After certain deductions, homeowners have complete discretion in the use of the compensation grant, as allowable by state and federal law, as they work through their personal disaster recovery situations.

To be eligible for phase II of the homeowner assistance program, applicants must have

- Owned and occupied a home as a primary residence on August 29, 2005;
- Owned a home located in Hancock, Harrison, Jackson, or Pearl River Counties in Mississippi;
- Owned a home that received flood surge damage as a result of Hurricane Katrina; and
- A 2006 household income at or below 120 percent of area median income.

Only one application per home is allowed. If an applicant does not meet all requirements listed above, he or she does not qualify for the program. Between May 31, 2007, and December 24, 2008, the State disbursed funds for 5,928 grants, totaling more than \$400 million.

RESULTS OF REVIEW

Of 5,928 grants disbursed, the State may have funded 34 (less than 1 percent) duplicate grants. As shown in the table, we identified the following issues:

Issue	Number of instances	Total number of grants
Duplicate Social Security number	15	30
Duplicate address with different applicants	14	28
Applicant in both Mississippi and Louisiana	5	5
Totals	34	63

Testing on 3 of the 34 issues, for a total of six grants reviewed, showed that

- Three grants, totaling \$174,770, were eligible;
- Two grants, totaling \$128,267, were ineligible; and
- One grant, totaling \$53,604, was unsupported.

Based on the three grants identified as ineligible and unsupported, it is possible that the State may have funded duplicate grants. However, we believe that only half of the grants for the 28 duplicate addresses and remaining 24 duplicate Social Security numbers were possible duplicates, since one may have been eligible. Therefore, we are only questioning the lower amount of the grants associated with those issues.

The State will need to coordinate with HUD to recover the ineligible payments totaling \$128,267 and support or recover the unsupported payment totaling \$53,604. Further, the State will need to review the remaining 57 grants associated with the remaining 31 issues, totaling nearly \$1.7 million,¹ as those grants appear to have been duplicate payments. The State must coordinate with HUD to recover any of the funds associated with these grants that are deemed ineligible.

We also coordinated with the Mississippi Office of State Auditor, which informed us that 3² of the 63 total grants were being reviewed. Therefore, we believe that the State's controls were generally functioning properly. However, if these three grants were ineligible, the State will need to coordinate with HUD to recover the funds.

During the audit, we provided the results of our review to the State and HUD. We conducted an exit conference on May 13, 2009. At the exit conference, the State provided additional information concerning the ineligible and unsupported grants. We asked the State to provide comments on our draft memorandum by May 19, 2009, and it provided written comments on May 18, 2009. We reviewed the information at the State's request, along with its written comments.

The State concurred that its controls were generally functioning properly but did not concur with the conclusions and recommendations. The State's complete response can be found in appendix A. The State claimed that it had thoroughly reviewed each of the 63 grant files and with the exception of five grants that were possible duplications between the Mississippi and Louisiana databases, all of the other grants were eligible and properly awarded. We acknowledge that the State took action on the potentially duplicate grants. However, we disagree that all of the other grants were eligible and properly awarded, since three of the grants were under review by the Mississippi Office of State Auditor, indicating eligibility issues. Thus, we stand by our original conclusion and did not change our recommendation.

Further, for one ineligible and one unsupported grant, documentation did not support that the grants were disbursed to the property owners. Based upon the disbursement data provided by the State, these two grants were disbursed in the names of the property owners' power of attorney.

¹ The total includes the lower amount of the grants associated with the duplicate addresses and Social Security numbers plus the grants associated with the applicants in both states.

² We did not determine the eligibility of these grants.

For the remaining ineligible grant, the documents did not support the sale of the property. We question whether there was an agreement in place for the sale of the property, since the sale was claimed to have been completed in January 2005, seven months before Hurricane Katrina, and the property was not transferred until October 3, 2008. In addition, the grant file included a general power of attorney, executed on July 25, 2006, indicating that the applicant may have initially applied³ for grant assistance on behalf of the property owner, who had received grant assistance for another property. Further, the property was transferred for \$10, which was \$20,978 less than the claimed sale price. Thus, we stand by our original conclusions and did not change our recommendations.

RECOMMENDATIONS

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

- 1A. Coordinate with HUD to recover payments totaling \$128,267 for two ineligible grants.
- 1B. Support or coordinate with HUD to recover payments totaling \$53,604.
- 1C. Review the remaining 57 grants, of which 31, totaling \$1,695,935, were unsupported, and appear to have been duplicate payments to an applicant. The State must also coordinate with HUD to recover any funds associated with the grants that are 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.

³ The applicant initially applied on or about April 13, 2007.

AUDITEE COMMENTS



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

May 18, 2009

Ms. Rose Capalungan
Regional Inspector General for Audit
Gulf Coast Region
Office of Inspector General for Audit
Hale Boggs Federal Building
500 Poydras Street, 11th Floor
New Orleans, LA 70130

Sent via FedEx

Re: MDA's Response to HUD OIG Draft Audit Report
Possible Duplicate Payments under HAP Phase II

Dear Ms. Capalungan:

Please find enclosed the Mississippi Development Authority's ("MDA") response to the Office of Inspector General's ("OIG") Draft Audit Report 2009-AO-1801, which we received on or about April 29, 2009. The objective of this audit – a part of a larger audit of Mississippi's Phase II Homeowner Assistance Program – was to determine whether the State made duplicate payments under the program.

As you will see from our response, MDA concurs in the finding that our controls are functioning properly. Furthermore, MDA has thoroughly reviewed the identified files and has concluded that none of the grants awarded represent duplicate payments within the Mississippi program. As proposed in this draft audit, MDA will review these with HUD Community Planning and Development to clear any questions concerning them. Finally, MDA has determined that the two grants deemed "ineligible" and the one grant deemed "unsupported" by OIG are in fact eligible and supported. At the May 13, 2009 exit conference for this audit, MDA gave OIG copies of these three files which completely buttress its evaluations. As agreed at that time, MDA will not be required to resubmit that material with this response.

If you have any questions regarding this response, please feel free to contact me at (601) 359-9345 or Jon Mabry, Director of MDA's Disaster Recovery Division, at (601) 359-2379.

Sincerely yours,

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

Charles L. Bearman
Chief Compliance Officer

CLB:by
Enclosure

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

**Community Development Block Grant
State of Mississippi
2009-AO-1801**

The Mississippi Development Authority (hereafter “MDA”) offers the following responses to the findings and recommendations of the draft audit report which was received by MDA on or about April 29, 2009.

Results of the Review: As part of its audit of the Homeowners Assistance Program Phase II, the Office of Inspector General (hereafter “OIG”) identified 34 possible instances of duplication by using a computer-assisted audit system. These consisted of allegedly duplicate addresses, duplicate Social Security numbers, and applicants in both Mississippi and Louisiana disaster recovery databases. OIG found that out of 5,928 grants disbursed, Mississippi may have funded 34 duplicate grants – less than 1%. Based on this, OIG performed a limited test of six grants, with a result that two of these were deemed “ineligible” and one was deemed “unsupported.” OIG concluded its review by finding that “the State’s controls are generally functioning properly.”

Response: MDA is extremely pleased that OIG’s review determined that so few possible duplication issues exist – less than 1%. This confirms MDA’s prior internal reviews which demonstrated no issues of concern in this area. Furthermore, MDA is pleased that OIG has determined that its controls are functioning properly.

Since receiving the list of 63 grants identified by OIG with possible duplication issues, MDA has thoroughly reviewed each and every file. With the exception of 5 grants identified as a possible duplication between the Mississippi and Louisiana databases, all of these applicants have been determined to be eligible, and every grant has been verified as having been properly awarded. In this regard, MDA would specifically respond to the two awards deemed “ineligible” by OIG and the one award deemed “unsupported” as follows:

- Application #06HB028980 – Deemed ineligible by OIG because the “[a]pplicant did not meet power of attorney (POA) requirements” and the “POA was revoked prior to grant disbursement.” It is correct that a power of attorney was presented by ALR¹, the daughter of the joint applicants MD and DC. In such cases, MDA would enter the name of the person with the power of attorney along with that person’s Social Security Number. In this specific case, ALR’s power of attorney was rejected by MDA, and applicants MD and DC were required to sign all grant documents and closing documents. The disbursement was made solely in the names of the applicants MD and DC. Therefore, the grant is adequately

¹ For purposes of this response and to preserve the confidentiality of the parties, initials will be used as a substitute for the names of the individuals involved in these matters.

supported by the documentation in the file and is completely eligible under program policies. The power of attorney played no factor in the issuance of the grant.

- Application #6HB025678 – Deemed ineligible by OIG because the “[a]pplicant did not own property,” that the owner “appointed applicant as POA for this property and the owner applied under #06HB026441.” In this case, while title to the property was in the name of JJJ, RJW had a contract for deed for the property as of October 1996. An affidavit to this effect was issued by JJJ and RJW on September 26, 2008. As such, RJW’s application fell squarely within the provisions of Contract for Deed Policies Nos. 010 and 037. Because RJW was the applicant, the power of attorney issued by JJJ is not a factor whatsoever in this grant. This grant is adequately supported by the documentation in the file and is completely eligible under program policies. Furthermore, contrary to the note made by OIG, JJJ never attempted to appoint the applicant, RJW, his agent under a power of attorney. Finally, the two grants referenced by OIG in its note are for two separate pieces of property, contrary to the assertion by OIG.
- Application #06HB031044 – Deemed unsupported by OIG because it could not “locate evidence to support applicant met the POA requirements” and the “POA probably should not have been accepted” because, in part, the “POA did not have two witnesses.” It is correct that a power of attorney was presented by ALR for the joint applicants JEC and LAC. As in the earlier case involving ALR, the power of attorney was rejected by MDA, and applicants JEC and LAC were required to sign all grant documents and closing documents. The disbursement was made solely in the names of the applicants JEC and LAC. Therefore, the grant is adequately supported by the documentation in the file and is completely eligible under program policies. The power of attorney played no factor in the issuance of the grant.

As for the five identified possible duplications between the Mississippi and Louisiana programs, these have been referred to the Mississippi State Auditor’s Katrina Fraud Unit for review and investigation. MDA must note, though, that there is no requirement placed upon it to check for such duplication on an interstate basis. Indeed, such a requirement would be virtually impossible for a local state jurisdiction to comply with given the level of confidentiality placed upon an individual applicant’s file, not to mention issues over file sharing between separate states. MDA would assert that the role of such interstate database checking is one properly resting upon a federal authority such as the OIG.

Recommendations: OIG is recommending that MDA be required to

- 1A. Coordinate with HUD to recover payments totaling \$128,267 for two ineligible grants.
- 1B. Support or coordinate with HUD to recover payments totaling \$53,604.

- 1C. Review the remaining 57 grants, of which 31, totaling \$1,695,935, are unsupported, as they appear to be duplicate payments to an applicant. The State must also coordinate with HUD to recover any funds associated with the grants that are deemed ineligible.

Response:

- 1A. As outlined previously, MDA has determined that the two referenced grants are, in fact, eligible and properly paid. Therefore, there are no payments to recover.
- 1B. As outlined previously, MDA has determined that there is adequate documentation in the file to support the referenced grant. Therefore, there is no payment to recover.
- 1C. MDA has completed a thorough review of the remaining 57 grants and has determined that all of these, with the possible exception of the five referred to the Mississippi State Auditor's office, are adequately supported and fall squarely within existing policies for grant awards. Therefore, there are no duplicate payments as to these grants. MDA will review these matters with HUD Community Planning and Development.