



Issue Date May 5, 2009

Audit Report Number 2009-AO- 1002

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 Multiple Disbursements to a Single Damaged Residence Address
Were Eligible

HIGHLIGHTS

What We Audited and Why

Due to a citizen's complaint, we audited the State of Louisiana's (State) 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. During our audit on employee eligibility for additional compensation grants, we identified possible program eligibility issues through a review of the electronic disbursement data. To address the extent of the issues, we developed an additional audit objective to determine eligibility for multiple disbursements made to a single damaged residence address.

What We Found

We identified 69 property addresses that had two or more Road Home grants for a total of 139 grants. Of the 69 property addresses, 11 received total disbursements

that exceeded the overall grant limit of \$150,000. The 11 addresses received a total of 22 grants. Of the 22 grants, the State funded eight (36 percent) grants, totaling \$735,087 that were either ineligible or unsupported. This condition occurred because the State did not ensure that its contractor had system controls to identify multiple disbursements to a single property address and that its policies and procedures were followed when processing grants and determining eligibility for multiple disbursements. As a result, the State must repay funds disbursed for ineligible grants and support or repay funds disbursed for unsupported grants. Further, although disbursements did not exceed the overall grant limit of \$150,000 for the other 58 property addresses, the State must review those 117 grants since a portion of the disbursements may be questionable.

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, support or repay amounts disbursed for unsupported grants, and review all of the 117 grants related to multiple disbursements for 58 property addresses to determine eligibility.

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 State's 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, the State's contractor, manages the Road Home program. The State required its contractor to verify applicants' eligibility and develop a management information system² meeting State specifications and internal control requirements. The contractor'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 option⁴ selected. The four forms of available funding assistance include the (1) compensation grant, (2) elevation grant, (3) additional compensation grant, and (4) additional mitigation grant. The overall grant amount cannot exceed \$150,000. To be eligible for grant assistance under the Road Home program, the State required applicants to own and occupy a damaged property as their primary residence as of and prior to Hurricanes Katrina or Rita. The State also required that the damaged property be

- Located in one of 37 parishes⁵;
- A single-unit structure, double-unit structure, town home, mobile home, or condominium;
- Registered with FEMA⁶ individual assistance and categorized by FEMA as having major or severe damage⁷

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 for applicants eligible for assistance totaled 152,060. Of that amount, 144,187 applicants had chosen an option, and 140,083 applications had been completed, with 4,104 remaining.

⁴ The options available were Option 1 – Applicant retained their home; Option 2 – Applicant sold their home, occupied as of the date of the storms, but remained a homeowner in Louisiana; and Option 3 – Applicant sold their home, occupied as of the date of the storms, and either moved from Louisiana or remained in Louisiana as a renter.

⁵ Those parishes included Acadia, Allen, Ascension, Assumption, Calcasieu, Cameron, Beauregard, East Baton Rouge, East Feliciana, Evangeline, Iberia, Iberville, Jefferson, Jefferson Davis, Lafayette, Lafourche, Livingston, Orleans, Pointe Coupee, Plaquemines, Sabine, St. Bernard, St. Charles, St. Helena, St. John, St. Landry, St. Mary, St. Martin, St. Tammany, Tangipahoa, Terrebonne, Vermilion, Vernon, Washington, West Baton Rouge, and West Feliciana.

During our audit on employee eligibility for additional compensation grants, we identified possible program eligibility issues through a review of the electronic disbursement data. To address the extent of the issues, we developed an additional audit objective to determine eligibility for multiple disbursements made to a single damaged residence address.

We identified 11 of 69 property addresses that had two or more Road Home grants, for which total disbursements exceeded the overall grant limit of \$150,000. Because it related to overall eligibility for the Road Home program, we issued this report to address the issue. We plan to issue the results of our audit regarding employee eligibility for additional compensation grant in a separate report.

⁶ Federal Emergency Management Agency

⁷ If the property was not registered with FEMA and the Road Home evaluation determined that the home received at least \$5,200 worth of damage, which was caused by the one or both Hurricanes, the property met the FEMA standard.

RESULTS OF AUDIT

Finding 1: The State Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible

The State did not ensure that multiple disbursements to a single property address were eligible and/or supported. Testing disclosed 69 property addresses that had two or more⁸ Road Home grants for a total of 139 grants. Of the 69 property addresses, 11 received total disbursements that exceeded the overall grant limit of \$150,000. The 11 addresses received a total of 22 grants. Of the 22 grants, the State funded eight (36 percent) grants, totaling \$735,087, that were either ineligible or unsupported. This condition occurred because the State did not ensure that its policies and procedures were followed when processing grants and determining eligibility for multiple disbursements to a single property address and that its contractor had system controls to identify multiple disbursements. As a result, the State must repay funds disbursed for ineligible grants and support or repay funds disbursed for unsupported grants. Further, although disbursements did not exceed the overall grant limit of \$150,000 for the other 58 property addresses, the State must review those 117 grants since a portion of the disbursements may be questionable.

State's Eligibility Requirements

To be eligible for grant assistance under the Road Home program, the State required applicants to have owned and occupied a damaged property as their primary residence at the time of Hurricane Katrina or Rita.⁹ The State also required that the damaged property be a single-unit structure, double-unit structure, townhome, mobile home, or condominium. Further, total assistance per single damaged residence address could not exceed \$150,000, unless the address had

- Two different structures and two different owners who applied separately or
- A double-unit structure with two separate tax parcels. If the double-unit structure had one tax parcel, only one applicant could apply for and receive assistance for both units.

⁸ Of the 69 addresses, one address received three grants. The remaining 68 addresses each received two disbursements.

⁹ Hurricane Katrina was August 29, 2005, and Hurricane Rita was September 24, 2005.

\$735,087 Paid for Ineligible and Unsupported Grants

Testing disclosed 69 damaged residence addresses that had two or more Road Home grants for a total of 139 grants. Of the 69 damaged residence addresses, 11 received disbursements that exceeded the overall grant limit of \$150,000, for a total of 22 grants. File reviews of the 22 grants determined that eight (36 percent) grants were either ineligible or unsupported because

- Two applicants did not own or occupy the property at the time of Hurricane Katrina and were, therefore, ineligible;
- One disbursement was ineligible because funds were disbursed to two separate applicants for a double-unit structure with one tax parcel;
- Four were processed incorrectly and, therefore, unsupported; and
- One lacked sufficient ownership documentation, making the grant unsupported.

As a result, as of September 18, 2008, the State had misspent \$294,060 in federal funds for three ineligible grants and \$441,027 for five unsupported grants. The remaining 14 grants, totaling more than \$1.4 million, were eligible.

State's Policy Not Followed

The State's contractor did not follow the State's policy when determining eligibility for the Road Home program and processing grants for double-unit structures. The State's policy required applicants to have owned and occupied the property at the time of Hurricane Katrina or Rita. However, based upon the file reviews, two applicants received grant awards for properties that they did not own or occupy. Further, the State's policy allowed only one grant for double-unit structures with one tax parcel. In one instance, there were two owners for a double-unit structure with one tax parcel, who both separately applied for and received grants. Although both owners were eligible to receive a grant, only one grant should have been awarded, since the double-unit structure had one tax parcel.

The State's contractor also did not follow the State's policy when processing grants for two different structures located at a single property address. When a property address had a single-unit structure and a mobile home on the property, the State's policy required the single-unit structure to be processed as a structure with land and the mobile home as a structure on leased land. Three of the four grants that were processed incorrectly were each associated with a property

address that had a single-unit structure and a mobile home on the land and were processed as follows:

- Two of the grants were both processed as single-unit structures with land; however, the grants should have been processed as follows: one as a mobile home on leased land and the other as a single-unit structure with land; and
- One grant, which was associated with a property that had a single-unit structure and a mobile home, was processed as a single-unit structure with land and a mobile home with land. In this case, the land should not have been considered with the mobile home.

The remaining grant that was processed incorrectly was associated with a property address that had two single-unit structures. When the contractor processed the grants, it processed them as single-unit structures with land, instead of processing one as a single-unit structure on leased land and the other as a single-unit structure with land.

As a result, new prestorm values and estimated costs of damage, reflecting the correct structure type and land status, are required for all four grants. Based upon the change in prestorm values and estimated costs of damage, the grants may have been partially or wholly ineligible.

Complete ownership documentation was also required. However, for one grant, the legal document used to support the applicant's ownership was not signed and recorded as a valid legal document. The State must ensure that its contractor follows the established policies and procedures when processing multiple grants to a single damaged residence address to avoid funding additional ineligible and/or unsupported grants.

System Controls Not in Place

The State's contractor did not have system controls in place to identify multiple disbursements for a single damaged residence address. The State's contractor stated that due to the complex process of identifying addresses with multiple grant disbursements, its management information system did not have a control to identify duplicate addresses. Those system controls might have prevented the ineligible and/or unsupported disbursements by allowing the contractor to compare applications for the same property address and, thereby, ensuring proper processing of the grants.

Additional Duplicate Disbursements

Although our review focused on multiple grants to single damaged residence addresses for which the total amount disbursed was more than \$150,000, we identified another 58 addresses that had multiple grants, for which the total grant amount disbursed was less than \$150,000, for a total of 117 grants. Because the State's contractor did not have system controls in place to identify multiple disbursements to a single damaged residence address and did not follow the State's policy when processing multiple disbursements for single damaged residence addresses, there are potential issues associated with those 117 grants, which total more than \$3.9 million. All or a portion of those disbursements may be questionable. Therefore, the State must review those grants to determine eligibility.

State is Taking Action

The State agreed¹⁰ with our results for the eight grants determined ineligible and/or unsupported and had initiated a review of the additional 117 questioned grants to determine eligibility. In addition, the State planned to pursue recovery of grant funds for all grants determined ineligible, including the grants discussed above. Further, the State had developed a recapture policy and was working in conjunction with the Louisiana Attorney General's Office to develop recapture procedures and processes. The State stated its intent to turn over those grants that are determined ineligible and for which the recapture of funds is warranted to the Louisiana Attorney General's Office for recapture. We acknowledge the State's actions toward reviewing the grants and grant recovery.

Conclusion

Of 22 grants, the State funded three ineligible (14 percent) and five unsupported (22 percent) grants. Two of the disbursements were ineligible because the applicants did not own or occupy the property at the time of Hurricane Katrina. Another disbursement was ineligible because there were two applicants who both received disbursements for a double-unit structure that was a single tax parcel. For four of the five unsupported disbursements, the applicants were not processed correctly, and the remaining disbursement was unsupported because the applicant did not have sufficient ownership documentation.

Since the State's contractor did not implement system controls to identify multiple disbursements to a single damaged residence address and follow the

¹⁰ The State agreed with our results during the February 12, 2009, update meeting.

State's policy when processing multiple disbursements for single damaged residence addresses, there are potential issues related to another 117 grants. Therefore, the State must review the 117 grants, which total more than \$3.9 million, to determine eligibility, as those disbursements are questionable. Further, the State must repay funds disbursed for ineligible grants and support or repay funds disbursed for unsupported grants.

Recommendations

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

- 1A. Repay \$294,060 disbursed for three ineligible grants to its Road Home program.
- 1B. Either support or repay \$441,027 disbursed for five unsupported grants.
- 1C. Review all of the 117 grants related to multiple disbursements for 58 damaged residence addresses to determine eligibility.

SCOPE AND METHODOLOGY

We conducted our audit at the State's Office of Community Development, Disaster Recovery Unit; the State's contractor'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 objectives, we used the electronic data received from the State's contractor's management information system to identify potentially ineligible grants. Comprised of different databases combined into a central data warehouse, the management information system, developed and maintained by the State's contractor, principally supports the Road Home homeowner assistance program. Based on the data, a total of 117,613 Road Home grants were funded between June 12, 2006, and September 18, 2008. We sorted the data for the 117,613 grants to identify addresses that received two or more grants. Of the 117,613 grants, we identified 401 records that indicated addresses with two or more grants. Of the 401 records, we determined that only 139 records had grants amounts greater than zero. Through analysis, we determined that the 139 grants were related to 69 addresses that received two or more grants. We totaled the grant amounts disbursed to each of the 69 addresses to identify our universe of 11 addresses that received grants in excess of the \$150,000 grant limit, for a total of 22 grants.

We selected all 22 grants for file review. We reviewed the documentation for each file to determine whether the grant applicant met the State's eligibility requirements as established in prevailing policies and whether grant and funding information was accurate. Through our file reviews, we determined that the grant data were generally reliable.

In addition to data analyses and file reviews, we

- Interviewed State officials as well as key personnel of the State's contractor;
- Reviewed the grant agreements between HUD and the State, the Road Home written policies and procedures, the contract executed between the State and its contractor 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 generally covered October 15, 2007, through September 18, 2008. However, we expanded this period to address the issues related to multiple disbursements to single property addresses. 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 controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and 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 Road Home 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.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$294,060	
1B		\$441,027

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


2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

		
BOBBY JINDAL GOVERNOR	State of Louisiana Division of Administration Office of Community Development Disaster Recovery Unit	ANGELE DAVIS COMMISSIONER OF ADMINISTRATION
April 16, 2009		
Ms. Rose Capalungan Regional Inspector General for Audit, Gulf Coast Region Hale Boggs Federal Building 500 Poydras Street, 11 th Floor New Orleans, Louisiana 70130		
RE: Audit Control Number 2009-AO-1002, Multiple Disbursements to a Single Address		
Dear Ms. Capalungan:		
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-1002, concerning multiple disbursements of CDBG disaster recovery funds made to a single damaged residence address between June 12, 2006, and September 18, 2008. We appreciate the work the HUD-OIG performed and have taken under consideration the recommendations contained in this report.		
The HUD-OIG's audit objective was to determine eligibility for multiple disbursements made to a single damaged residence address. 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> .		
The following section of our response addresses the HUD-OIG's finding that,		
"The State did not ensure that multiple disbursements to a single property address were eligible and/or supported. Testing disclosed 69 property addresses that had two or more Road Home grants for a total of 139 grants. Of the 69 property addresses, 11 received total disbursements that exceeded the overall grant limit of \$150,000. The 11 addresses received a total of 22 grants. Of the 22 grants, the State funded eight (36 percent) grants, totaling \$735,087, that were either ineligible or unsupported. This condition occurred because the State did not ensure that its policies and procedures were followed when processing grants and determining eligibility for multiple disbursements to a single property address and that its contractor had system controls to identify multiple disbursements."		
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Comment 1

The HUD-OIG identified eight grants as either ineligible (three grants) or not supported (five grants), out of 22 grants that were disbursed to 11 addresses. OCD concurs with the HUD-OIG that three grants are ineligible and five are not sufficiently supported. For the three ineligible grants the HUD-OIG is correct in that two applicants did not own or occupy the property at the time of Hurricane Katrina and were, therefore, ineligible and for the third ineligible grant the funds were disbursed to two separate applicants for a double-unit (duplex) structure with one tax parcel. It should be noted that for the two applicants who did not own or occupy the property at the time of the storm, the contractor, in March 2008, identified these two grants for special review and grant recovery as evidenced in JIRA, an issue tracking system. Grants where applicants are suspected of a wrongdoing, such as providing false information to the Program are identified as special review files and are further investigated by the contractor's Compliance and Anti-Fraud, Waste and Abuse Unit. In fact, as the result of the special review, both of these grants were referred to HUD-OIG Investigations.

With regard to the five grants, OCD concurs that four were processed incorrectly and one lacked sufficient ownership documentation, making the grants unsupported. These five grants were all eligible but contained processing errors which resulted in the grants being unsupported. The errors that occurred in the processing of these grants was not the result of two applicants each receiving a grant on one structure located at the same address, as was the case in the three ineligible grants discussed above. Some of these processing errors are due simply to human error. Some of these errors can be attributed, in part, to the redesign of the Program which provided for grants to be processed much faster than originally planned. This faster payment process was achieved by reducing or relaxing the controls, such as requiring full title searches on properties prior to processing grants.

Comment 2

OCD does not concur with the HUD-OIG's conclusion that, "...the State did not ensure that the contractor had system controls to identify multiple disbursements to a single property address..." Controls and analytical procedures have been in place since the beginning of the Program to identify multiple grant applications submitted for the same property address. Specific analytics to prevent and detect applicant fraud were developed by an ICF subcontractor specializing in forensic accounting. A specific analytic referred to as Routine 1.1 was developed to identify multiple grant applications for the same address. The results of Routine 1.1 as well as the results of many other analytic tests were presented to OCD every two weeks. ICF coupled its in-house Compliance and Anti-Fraud, Waste and Abuse Unit with the forensic accounting subcontractor to analyze and perform follow-up research on those applications identified as potential duplicates. Routine 1.1 identified about 2,289 outlier applications for follow-up research and other due diligence. In fact, two of the three grants identified by HUD-OIG as ineligible in this audit report were detected through this process and presented to HUD-OIG Investigations for possible criminal prosecution.

Recommendations

- 1A. Repay \$294,060 disbursed for three ineligible grants to its Road Home program.

Comment 3

It is premature to require the State to repay the \$294,060 at this point in the Program. Two of the three ineligible grants have been referred to HUD-OIG Investigations for possible criminal prosecution and recovery of the funds disbursed for these two grants may result from those proceedings. In addition, the ineligible grants have not been through the State's recapture process, which is designed to recover overpayments to applicants. OCD calculates the amount disbursed for the three ineligible grants to be \$290,590 not the \$294,060 as stated in the audit report.

- 1B. Either support or repay \$441,027 disbursed for five unsupported grants.

Comment 4

As of the date of this response, two of the five unsupported grants have now been supported and determined to have closed for the correct amount so no grant recovery is needed. For the remaining three grants it has been determined that a recovery totaling \$149,751 is need for two of the grants and the amount of recovery, if any, for the third grant has not yet been determined. Recovery of grant overpayments will be sought through the recapture process.

- 1C. Review all of the 117 grants related to multiple disbursements for 58 damaged residence addresses to determine eligibility.

Comment 5

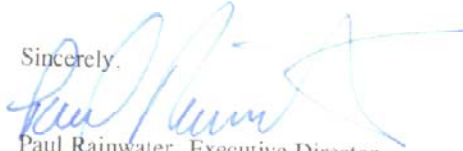
OCD and ICF have begun the process of reviewing all of the 117 grants. The preliminary review revealed that only six grants have been found to be ineligible, two are ineligible due to duplicate address issues and the remaining four for ownership issues. Further documentation is needed for 8 grants in order to determine program eligibility. The remaining 103 grants were determined to be Program eligible. This review will be finalized in the near future.

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.

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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 Evaluation of Auditee Comments

Comment 1 The State concurred that three grants are ineligible and five are not sufficiently supported. For the three ineligible grants, two applicants did not own or occupy the property at the time of Hurricane Katrina and were, therefore, ineligible, and for the third ineligible grant, the funds were disbursed to two separate applicants for a double-unit (duplex) structure with one tax parcel. The State noted that for the two applicants who did not own or occupy the property at the time of the storm, the contractor, in March 2008, identified these two grants for special review and grant recovery as evidenced in JIRA, an issue-tracking system. The State further noted that grants in which applicants are suspected of wrongdoing, such as providing false information to the program, are identified as special review files and are further investigated by the contractor's Compliance and Anti-Fraud, Waste, and Abuse Unit. As the result of the State's special review, both of these grants were referred to the HUD OIG Office of Investigation.

We acknowledge the action taken by the State on these grants. However, we disagree that two grants were referred to the HUD OIG Office of Investigation. Based upon documentation provided by the State's contractor, only one of three ineligible grants was referred to the Office of Investigation, as it was for one property. In our review, we identified three ineligible grants for three different properties.

Comment 2 The State did not concur that it did not ensure that the contractor had system controls to identify multiple disbursements to a single property address. The State claimed that controls and analytical procedures had been in place since the beginning of the program to identify multiple grant applications submitted for the same property address. Specific analytics to prevent and detect applicant fraud were developed by a subcontractor specializing in forensic accounting. A specific analytic referred to as Routine 1.1 was developed to identify multiple grant applications for the same address. The results of Routine 1.1, as well as the results of many other analytic tests, were presented to the State every two weeks. The State further claimed that its contractor coupled its in-house Compliance and Anti-Fraud, Waste, and Abuse Unit with the forensic accounting subcontractor to analyze and perform follow-up research on those applications identified as potential duplicates. Routine 1.1 identified about 2,289 outlier applications for follow-up research and other due diligence. Two of the three grants identified by OIG as ineligible in this audit report were detected through this process and presented to the OIG Office of Investigation for possible criminal prosecution.

Based on documentation provided by the State's contractor, we were unable to confirm that the subcontractor conducted analytics specifically to identify multiple grant applications for the same address. The task order provided by the State's contractor only included a general statement that antifraud procedures and controls would be monitored and tested. In addition, there was no reference in the provided documentation regarding testing for multiple grant applications to the

same address. We were also unable to confirm the results of the subcontractor's Routine 1.1. Additionally, based on documentation provided by the State's contractor, only one of three ineligible grants was identified and referred to the HUD OIG Office of Investigation. See comment 1 for more information. Thus, we stand by our original conclusion that the State did not ensure that the contractor had system controls to identify multiple disbursements to a single property address.

Comment 3 In response to recommendation 1A., the State claimed that it is premature to require the State to repay the \$294,060 at this point in the program. Two of the three ineligible grants have been referred to the HUD OIG Office of Investigation for possible criminal prosecution, and recovery of the funds disbursed for these two grants may result from those proceedings. The State further noted that the ineligible grants have not been through the State's recapture process, which is designed to recover overpayments to applicants. The State calculated the amount disbursed for the three ineligible grants to be \$290,590, not \$294,060 as stated in the audit report.

We were unable to confirm the State's calculation of \$290,590. Based on documentation located in the management information system at the time of our review, the amount disbursed for the three ineligible grants was \$294,060. Additionally, based on documentation provided by the State's contractor, only one of three ineligible grants was identified and referred to the HUD OIG Office of Investigation. See comments 1 and 2 for more information. Therefore, we did not change our recommendation that the State repay \$294,060 disbursed for three ineligible grants.

Comment 4 In response to recommendation 1B, the State contended that two of the five unsupported grants have now been supported and determined to have closed for the correct amount so no grant recovery is needed. For the remaining three grants, it has been determined that a recovery totaling \$149,751 is needed for two of the grants, and the amount of recovery, if any, for the third grant has not yet been determined. Recovery of the grant overpayments will be sought through the recapture process.

Because the State did not provide documentation for the two grants, we were unable to confirm the State's assertion. We were also unable to confirm the State's calculation of \$149,751 for three grants. Therefore, we did not change our recommendation that the State support or repay \$441,027 disbursed for five unsupported grants.

Comment 5 In response to recommendation 1C, the State noted that it and its contractor had begun the process of reviewing all of the 117 grants. The preliminary review revealed that only six grants have been found to be ineligible; two are ineligible due to duplicate address issues and the remaining four for ownership issues. Further, documentation is needed for eight grants to determine program

eligibility. The remaining 103 grants were determined to be program eligible. This review will be finalized in the near future.

We acknowledge the State's prompt preliminary review of the remaining 117 questionable grants. However, because the review of the 117 grants has not been finalized, we did not change our recommendation that the State review all of the 117 grants related to multiple disbursements for 58 damaged residence addresses to determine eligibility.