

EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA



MANAGEMENT LETTER  
ISSUED APRIL 13, 2011

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$18.95. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at [www.la.la.gov](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 3533 or Report ID No. 80100047 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Administration Manager, at 225-339-3800.

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Our procedures at the Executive Department for the period July 1, 2009, through June 30, 2010, disclosed the following:

- The Division of Administration (DOA) did not comply with the level of effort requirements for the State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act. The state has applied for a waiver. Questioned costs total \$289 million.
- The DOA, Office of Community Development (OCD) failed to comply with the federal performance reporting requirements for four disaster recovery grants received through the Community Development Block Grants/State's Program (CDBG). Of 16 required quarterly reports, OCD had not submitted six (38%), and three (19%) were submitted between 83 and 175 days late.
- OCD did not obtain any of the required single audits from its subrecipients of the Long Term Community Recovery Infrastructure Program (LTCRIP). In addition, OCD did not adequately manage consultants contracted by OCD to perform monitoring reviews during the fiscal year for its 13 subrecipients who received \$40.8 million of LTCRIP funds.
- OCD failed to fully implement procedures to recover Homeowner Assistance Program (HAP) awards. A review of 30 homeowners with HAP awards disclosed that 23 (77%) homeowners with awards totaling \$2,145,547 had not provided adequate evidence of compliance with one or more award covenants. OCD has not taken action to recover benefits paid to the noncompliant homeowners. Questioned costs total \$2,145,547.
- OCD disbursed multiple awards totaling \$755,587 for the same damaged property from the HAP and Small Rental Property Program (SRPP). A comparison of property addresses for which HAP and SRPP awards were disbursed identified five individuals that received duplicate benefits. For these five properties, applicants were paid \$376,211 and \$379,376 under HAP and SRPP, respectively, which represent duplicate payments and results in questioned costs totaling \$755,587.
- OCD did not comply with Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, relating to contractor payments totaling \$1,840,977 charged to the Road Home program. These payments were either not supported by adequate documentation before payment, not in accordance with rates specified in the contract, or not reasonable considering program requirements, and are therefore considered questioned costs.
- The DOA, Office of State Purchasing and Travel did not have controls in place to comply with federal requirements prohibiting the state from contracting with debarred or suspended vendors and did not consistently ensure that individuals contracting with the state on behalf of an agency, corporation, or partnership had the proper authority to do so.

- OCD did not maintain documentation evidencing a review of contractors for the CDBG Program to ensure the contractors were not suspended, debarred, or otherwise excluded from doing business with the federal government, as required by the OMB Circular A-133 *Compliance Supplement*.
- The Louisiana Patient's Compensation Fund (PCF) did not submit an accurate Annual Fiscal Report to the DOA, Office of Statewide Reporting and Accounting Policy. PCF did not defer unexpired surcharges related to provider enrollments for the fiscal years ended June 30, 2009 and 2010. As a result, beginning net assets were overstated by \$82 million; deferred revenues were understated by \$88 million; and surcharge revenues were overstated by \$6 million.
- No significant control deficiencies or noncompliance were identified that would require reporting under *Government Auditing Standards* in our procedures on the following:
  - DOA's general fund revenues, accounts receivable, expenditures, accounts payable, and deferred revenues relating to the CDBG disaster funds and SFSF Cluster
  - DOA, Office of Facility Planning and Control's capital outlay escrow fund nonpayroll expenditures, intergovernmental revenues, bond proceeds, contract and retainage payables, and deferred revenues
  - PCF's claim expenses and liabilities
  - Louisiana Land Trust land value
  - DOA's cooperative endeavors
- Other than the findings noted previously, no significant control deficiencies or noncompliance that would require reporting under OMB Circular A-133 were identified for the following federal programs for fiscal year ended June 30, 2010:
  - CDBG (CFDA 14.228)
  - SFSF Cluster (CFDA 84.394, 84.397)
  - Temporary Assistance for Needy Families (CFDA 93.558)
  - Disaster Grants Public Assistance - (Presidentially Declared Disasters) (CFDA 97.036)
  - Hazard Mitigation Grant Program (CFDA 97.039)
  - Alternative Housing Pilot Program (CFDA 97.087)

The Performance Audit and Actuarial Services (PAAS) and Recovery Assistance (RAS) sections of the Louisiana Legislative Auditor performed procedures evaluating the effectiveness of various aspects of the HMGP, which encompassed our fiscal year 2010 engagement. The results of that work were considered during our financial audit of the HMGP and are not included in this management letter on the Executive Department. The related PAAS/RAS report, including any recommendations for improvement and management's responses, will be available on the Louisiana Legislative Auditor's Web site at [www.la.la.gov](http://www.la.la.gov) upon issuance.

This report is a public report and has been distributed to state officials. We appreciate the Executive Department's assistance in the successful completion of our work.

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

March 4, 2011

**EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA**  
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements for the fiscal year ended June 30, 2010, we conducted certain procedures at the Executive Department for the period from July 1, 2009, through June 30, 2010.

- Our auditors obtained and documented an understanding of the department's operations and system of internal controls, including internal controls over major federal award programs administered by the department through inquiry, observation, and review of its policies and procedures documentation, including a review of the related laws and regulations applicable to the department.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using the department's annual fiscal reports and/or system-generated reports and obtained explanations from management of any significant variances.
- Our auditors reviewed the status of the findings identified in the prior engagement. In our audit report on the Executive Department, dated May 21, 2010, we reported findings relating to inadequate controls over the Road Home Homeowner Assistance Program, inadequate controls over the Hazard Mitigation Grant Program, inadequate subrecipient monitoring of the CDBG Disaster Recovery Program, and noncompliance with A-87 allowable cost principles, which have been resolved by management.
- Our auditors considered internal control over financial reporting and examined evidence supporting the following:
  - Division of Administration's (DOA) general fund revenues, accounts receivable, expenditures, accounts payable, and deferred revenue relating to the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDBG, CFDA 14.228) disaster funds and the State Fiscal Stabilization Fund (SFSF) Cluster (CFDA 84.394, 84.397)

- DOA, Office of Facility Planning and Control's capital outlay escrow fund nonpayroll expenditures, intergovernmental revenues, bond proceeds, contract and retainage payables, and deferred revenues
- Patient Compensation Fund's (PCF) surcharge revenues, claim expenses, claim liabilities, and deferred revenues
- Louisiana Land Trust land value
- DOA's cooperative endeavors

We also tested the Executive Department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2010, as part of the Single Audit for the State of Louisiana:
  - CDBG (CFDA 14.228)
  - SFSF Cluster (CFDA 84.394, 84.397)
  - Temporary Assistance for Needy Families (CFDA 93.558)
  - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)
  - Hazard Mitigation Grant Program (CFDA 97.039)
  - Alternative Housing Pilot Program (CFDA 97.087)

The Annual Fiscal Reports of the Executive Department were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. The findings included in this management letter that are required to be reported by *Government Auditing Standards* are also included in the State of Louisiana's Single Audit Report for the year ended June 30, 2010.

The following significant findings are included in this report for management's consideration.

**Noncompliance With Level of Effort Requirements**

DOA did not comply with the level of effort requirements for the SFSF - Education State Grants, Recovery Act (CFDA 84.394). Section 14005(d)(1)(B) of the American Recovery and Reinvestment Act of 2009 (ARRA) stipulates that states are required to maintain a level of support for public institutions of higher education (IHEs) at least at the level of such support in fiscal year 2006. Section 14012(a) of ARRA gives the Secretary of the U.S. Department of Education (USDOE) the authority to waive or modify these requirements in efforts to relieve fiscal burdens on states. Section 14012(c) provides that to be eligible for a waiver of these requirements, the state must provide a larger percentage of total revenues available to the state than the amount provided in the preceding fiscal year.

In fiscal year 2010, state funding for the IHEs was approximately \$62 million less than the level provided in fiscal year 2006. Management monitored state support for IHEs, but the necessary funding needed to comply with the level of effort requirement was not available because of decreases in state revenues. On September 8, 2010, the state applied for a waiver of these requirements indicating that the level of support provided for elementary, secondary, and public higher education increased from 48% of total revenues available in fiscal year 2009 to 53% of available revenues in fiscal year 2010. The USDOE is currently considering the waiver.

Noncompliance with the level of effort requirement and failure to obtain approval of the requested waiver from the USDOE could result in an obligation of the state to repay all or a portion of funds received under the program. The state received \$289 million from the Education Stabilization Fund program during the fiscal year ending June 30, 2010, and these funds are considered questioned costs pending waiver approval by the USDOE.

Management should continue to work with the USDOE to obtain a waiver of the level of effort requirement for fiscal year 2010 and communicate the maintenance of effort requirements to the Louisiana Legislature for future funding consideration. Management concurred with the finding and recommendations and provided a corrective action plan (see Appendix A, pages 1-2).

### **Noncompliance With Federal Reporting Requirements**

The DOA, Office of Community Development (OCD) failed to comply with the federal performance reporting requirements for four disaster recovery grants received through the CDBG (CFDA 14.228). The U.S. Department of Housing and Urban Development (HUD) awarded the State of Louisiana three appropriations for hurricanes Katrina and Rita, and one appropriation for hurricanes Gustav and Ike. All four of these awards, as specified in the related Action Plans approved by HUD, require quarterly performance reports no later than 30 days following each calendar quarter.

OCD was required to submit quarterly reports for each of the four federal disaster appropriations during fiscal year 2010 resulting in 16 required quarterly reports. As of November 29, 2010, OCD has not submitted six (38%) of those reports and three (19%) were submitted between 83 and 175 days late.

OCD personnel did not follow policies and procedures relating to the preparation and submission of quarterly performance reports to HUD. Noncompliance with federal reporting requirements could result in the suspension or loss of federal funding. Management should place additional emphasis on its policies and procedures and ensure the required quarterly performance reports are prepared and submitted timely. Management concurred with the finding and recommendations and provided a corrective action plan (see Appendix A, pages 3-5).

### **Noncompliance With Subrecipient Monitoring Compliance Requirements**

OCD did not obtain any of the required single audits from its subrecipients of the Long Term Community Recovery Infrastructure Program (LTCRIP) under the CDBG (CFDA 14.228) during the fiscal year ended June 30, 2010. In addition, OCD did not adequately manage consultants contracted by OCD to perform monitoring reviews during the fiscal year for OCD's 13 subrecipients who received \$40.8 million of LTCRIP funds.

OMB Circular A-133 *Compliance Supplement* requires pass-through entities to (1) ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have a single audit and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensure the subrecipient takes timely and appropriate corrective action on all audit findings. Furthermore, the *Federal Register*, Volume 74, Number 29 stipulates that states shall make reviews and audits, including on-site reviews of any subrecipients, designated public agencies, and units of general local governments, as may be necessary or appropriate to meet the requirements of the program.

Management has not dedicated adequate resources to ensure that the subrecipient monitoring requirements of the program are met. Failure to adequately monitor its subrecipients impairs OCD's ability to evaluate the impact of its subrecipients' activities on overall compliance with program requirements and could result in disallowed costs.

Management should implement procedures to ensure that subrecipients obtain the required single audits, implement procedures to review these single audits, issue a management decision on any relevant findings, and ensure appropriate corrective action is taken. In addition, management should implement procedures to ensure consultants contracted by OCD are adequately monitoring the subrecipient's compliance with the program requirements. Management concurred in part with the finding and outlined a corrective action plan to ensure that it obtains required single audits from its subrecipients. OCD management does not concur with the portion of the finding regarding inadequate managing of consultants contracted with to perform monitoring reviews (see Appendix A, pages 6-9).

**Additional Comments:** Management states in its response that an audit tracking system was implemented in December 2009 and information on subrecipients and the audit tracking process was provided to the auditors on September 22, 2010. We agree that information on the audit tracking process was provided on this date; however, no single audits had been obtained and reviewed before this date. The calendar year 2009 subrecipient single audits provided to us on January 13, 2011, that were obtained and reviewed by management were issued between October 2010 and December 2010, which does not support an adequate monitoring function during the fiscal year ended June 30, 2010.

Management states in its response that the consultants were hired as an extension of the OCD infrastructure staff and are able to provide more effective ongoing monitoring; however, we maintain that OCD is responsible for ensuring that program funds are used in accordance with program regulations and cannot shift all of its monitoring responsibilities to a contractor. The Code of Federal Regulations (24 CFR 570.501) provides that "The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility."

In addition, management states in its response that it implemented a monitoring Web site to remotely access compliance files and conduct ongoing desktop monitoring, that it manages its consultants through a task order system, and that it monitors completion of the consultants' work through reports that the consultants submit with each invoice. In July and again in November 2010, auditors were informed that OCD was implementing monitoring procedures in fiscal year 2011, but that no monitoring procedures had been performed before June 30, 2010. In December 2010, auditors viewed the monitoring Web site, but could not find sufficient evidence of monitoring by OCD that occurred during fiscal year 2010. Auditors were not informed of the task order system until receiving management's formal response; however, in viewing the task order system, it also does not evidence any monitoring to ensure compliance with program regulations.

Auditors made an open-ended request to OCD management to provide any documentation to evidence an adequate monitoring function; however, auditors were told OCD could not provide any written documentation.

**Inadequate Recovery of Homeowner Assistance  
Program Awards**

OCD failed to fully implement procedures to recover Homeowner Assistance Program (HAP) awards under the CDBG (CFDA 14.228) for the fiscal year ended June 30, 2010.

OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, stipulates that the state (OCD) assume responsibility for administering federal awards in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the federal award. In response to hurricanes Katrina and Rita, the state was awarded approximately \$9.5 billion to administer the HAP, as part of the Road Home program, in accordance with its Action Plan approved by HUD. The state's Action Plan stipulates that eligible homeowners must agree in legally binding documents, referred to as covenants, to follow through on certain future actions in exchange for up to \$150,000 in compensation for their damaged property. Funds are disbursed to the homeowner upon the effective date of signing the covenant which is referred to as the closing date. Occupancy and insurance covenants relating to the damaged property or replacement property expire three years after the closing date. Homeowners are required to occupy their damaged property or replacement property within three years of the closing date, maintain homeowners insurance on their property, and maintain flood insurance, if necessary. The homeowners must continue to occupy the damaged or replacement property until the covenant expires. For those homeowners choosing to reoccupy their damaged property, all repairs must comply with local building codes and, if applicable, any required elevation must conform to the advisory base flood elevation regulation for the parish their home is located in. In addition, the homeowners agree in the covenant to provide OCD with evidence of their compliance with covenant and grant agreement within three years of the closing date. The state's Action Plan states that homeowners that fail to meet all of the program's requirements may not receive benefits or may be required to repay all or some of the compensation received back to the program. Good internal controls would ensure that policies and procedures are in place with an established timeline to monitor compliance with the covenants, give grant recipients a timeframe for submitting evidence of compliance, and provide for specific actions (i.e., recoupment) if a homeowner does not provide evidence of compliance with the covenants within the three-year period after receiving grant funds.

OCD contracted with HGI Catastrophe Services, LLC (HGI) to monitor homeowners' compliance with covenants. OCD approved HGI's Covenant Compliance Monitoring Plan on August 10, 2009, which requires HGI to select a sample of homeowners to monitor. Homeowners that are determined to be noncompliant or failed to respond to HGI's requests are reported to OCD for further action. OCD's State Grant Review and Recovery Procedures were developed to address grant recovery as a result of final file reviews, audits, appeals, suspected frauds, and HGI's covenant compliance monitoring.

However, OCD has not fully implemented these procedures and has not taken any action on noncompliant homeowners identified by HGI.

There were 24,823 homeowner awards totaling \$2,102,516,775 with three-year compliance expiration dates on or before June 30, 2010. As of June 30, 2010, HGI monitored 5,210 of these homeowner awards totaling \$454,418,622 for covenant compliance.

Our review of 30 homeowners who HGI monitored disclosed that 23 (77%) homeowners with awards totaling \$2,145,547 failed to provide adequate evidence of compliance with one or more covenant requirements. Fourteen (47%) of those homeowners were completely unresponsive to any of HGI's requests. Although HGI timely reported all 23 noncompliant homeowners to OCD, no further action has been taken to recover benefits paid to the noncompliant homeowners. Therefore, questioned costs are \$2,145,547.

OCD's failure to take appropriate action to recover benefits paid to noncompliant homeowners could result in disallowed costs. OCD management should allocate additional resources to fully implement its procedures and take appropriate action to recover benefits paid to homeowners that failed to comply with program requirements. Management did not concur with the finding and contends that additional strategies were implemented to assist homeowners in complying with covenant compliance obligations (see Appendix A, pages 10-12).

**Additional Comments:** OCD states it has recognized the need to provide counseling services to homeowners who may be unaware of their covenant compliance responsibilities and has executed a contract with Beacon of Hope to assist OCD in its attempt to locate nonresponsive homeowners; however, the contract with Beacon of Hope was not executed until February 16, 2011.

OCD developed a software application that allows for more efficient and effective tracking and reporting of homeowner covenant compliance and participation in other programs, and these 23 noncompliant homeowners were appropriately tracked in the system. However, no further action was taken by OCD to recover benefits after HGI reported the noncompliant homeowners to OCD.

Management states that OCD has initiated grant recovery efforts with the Attorney General's Office attorneys, who are actively working with homeowners to recover or develop repayment plans for homeowners not in compliance with their grant agreement or covenant obligations. However, as of January 27, 2011, these 23 noncompliant homeowners had not been processed through the grant recovery phases as stated in OCD's State Grant Review and Recovery Procedures, which precedes referral to the attorney general.

Management states that OCD has also made available several options whereby homeowners can become compliant by providing homeowners with covenant extensions,

option changes, and construction advisory services; however, as of January 27, 2011, none of the 23 noncompliant homeowners were granted any of these options.

Management states that OCD has assisted homeowners in complying with covenants by implementing and administering additional programs, including the Non-Profit Pilot Rebuilding Program, Hazard Mitigation Grant Program, the Additional - Additional Compensation Grant, and the Individual Mitigation Measures Grant that will provide homeowners with additional funds in rebuilding their homes. However, as January 27, 2011, these 23 noncompliant homeowners were not recipients of these programs.

These corrective actions described by OCD in its response will be evaluated in the fiscal year 2011 OCD audit.

### **Duplication of Benefits Under the Homeowner Assistance Program and the Small Rental Property Program**

OCD disbursed multiple awards totaling \$755,587 for the same damaged property from the HAP and Small Rental Property Program (SRPP), which are both under the CDBG (CFDA 14.228). Title 42 Section 5155 of the United States Code, *Duplication of Benefits*, provides that no individual shall receive assistance with respect to disaster losses for which the individual has already received financial assistance for such losses from any other source.

A comparison of property addresses for which HAP and SRPP awards were disbursed identified five individuals that received duplicate benefits. For these five properties, applicants were paid \$376,211 and \$379,376 under HAP and SRPP, respectively, which represent duplicate payments and results in questioned costs totaling \$755,587.

OCD failed to follow its established procedures, which require verification of HAP awards received by an applicant prior to determining eligibility and awarding funds under SRPP. OCD management should follow its established procedures and should strengthen its controls to ensure that no duplicate benefits are disbursed. In addition, management should reevaluate the eligibility determinations, recalculate award amounts, and recoup any amounts relating to the five awards that resulted in duplication of benefits. Management concurred with the finding and recommendations and outlined a corrective action plan (see Appendix A, pages 13-15).

### **Noncompliance With A-87 Allowable Cost Principles for the Road Home Program**

OCD did not comply with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, relating to contractor payments totaling \$1,840,977 charged to the Road Home program under the CDBG (CFDA 14.228). To be allowable for reimbursement, OMB Circular A-87 requires that costs charged to federal programs must be adequately documented, necessary, and reasonable. Because these contractor

payments did not meet those requirements, they are not allowable under OMB Circular A-87 and are considered questioned costs.

At the request of OCD, Louisiana Legislative Auditor Recovery Assistance Services (RAS) performed agreed-upon procedures to evaluate the completeness and accuracy of documentation submitted by OCD contractors for payment under the Road Home program. The RAS report dated January 12, 2011, cited unresolved exceptions for payments totaling \$1,840,977 for the period September 1, 2008, through June 30, 2010. These payments were either not supported by adequate documentation before payment, not in accordance with rates specified in the contract, or not reasonable considering program requirements. These costs, which were subsequently reimbursed by the federal government, are not allowable costs according to the guidelines established in OMB Circular A-87 and, therefore, we question those costs.

OCD failed to follow its established procedures to ensure all payments complied with federal cost principles. OCD management should follow its established procedures and should strengthen its controls to ensure that all payments charged to the Road Home program are supported by adequate documentation before payment, are made in accordance with rates established in the vendor's contract, and are reasonable considering program requirements. Management concurred with the finding and recommendations and provided a corrective action plan (see Appendix A, pages 16-17).

**Noncompliance With Procurement, Suspension,  
and Debarment Compliance Requirement and  
State Purchasing Regulations**

The DOA, Office of State Purchasing and Travel (OSP) did not have controls in place to comply with federal requirements prohibiting the state from contracting with debarred or suspended vendors and did not consistently ensure that individuals contracting with the state on behalf of an agency, corporation, or partnership had the proper authority to do so.

OMB Circular A-133 *Compliance Supplement*, Part 3, Section I stipulates that when a non-federal entity enters into a covered transaction that is expected to equal or exceed \$25,000 with an entity at a lower tier, the non-federal entity must verify that the other entity is not suspended, debarred, or otherwise excluded from doing business with the federal government. To evidence compliance with this requirement, OSP Policy Memorandum PP-44 requires a vendor certification clause to be included in all contract solicitations for \$25,000 or more. In addition, Louisiana Revised Statute (R.S.) 39:1594(C)(4) requires evidence that the person submitting a bid has the authority to submit that bid on behalf of the named agency, corporation, or partnership.

Our test of 36 contracts awarded from July 1, 2009, to March 9, 2010, disclosed the following:

- Of the 36 contracts tested, OSP did not maintain documentation to ensure that 17 (47%) of these contracts were signed by an individual with

appropriate authority to act on behalf of the agency, corporation, or partnership.

- Six (25%) of the 24 contracts that exceeded \$25,000 did not include the required vendor certification clause. Though the remaining 18 contracts included the certification clause, they were not updated to reflect a previous change in regulations from \$100,000 to \$25,000. In addition, no alternate procedures were performed on any of the 24 contracts to ensure the vendor was not suspended or debarred.

OSP's written procurement policies were not updated timely to reflect a change made in November 2003 that decreased the contract amount requiring vendor certification from \$100,000 to \$25,000. Responsible personnel also failed to follow procedures to ensure the vendor certification clause was properly included in contracts. In addition, OSP does not have policies and procedures to ensure that the person submitting a bid has the authority to submit that bid on behalf of the named entity.

Failure to ensure compliance with the procurement, suspension, and debarment compliance requirement increases the risk that OSP could contract with entities that have been suspended or debarred by the federal government. Any federal funds paid to a suspended or debarred vendor could be disallowed by the federal government. In addition, failure to ensure a bid is submitted by an authorized person could invalidate the contract and subject the office to potential litigation.

Management should ensure that policies are updated timely for changes in regulations and contracts include appropriate vendor certification clauses. Management should also ensure that responsible personnel verify the authority of the individual submitting a bid on behalf of an agency, corporation, or partnership before awarding a contract. Management concurred in part with the finding and recommendations, stating it is not in complete agreement with the portion of the finding related to R.S. 39:1594(C)(4) (see Appendix A, pages 18-19).

**Additional Comments:** Management contends in its response that its practice is to rely on various types of records to verify proper signature authority. However, management could not provide evidence to support the authority of the signer for any of the 17 exceptions noted in our test. In addition, management's response references a change in the process for verifying signature authority that will occur with the implementation of the statewide Enterprise Resource Planning (ERP) system. The statewide implementation of the ERP has been put on hold with no set date of implementation. Management should ensure that the authority of individuals submitting bids is verified and that supporting documentation for that verification is maintained.

### **Noncompliance With Procurement, Suspension, and Debarment Compliance Requirement**

OCD did not maintain documentation evidencing a review of contractors for the CDBG Program (CFDA 14.228) to ensure the contractors were not suspended, debarred, or otherwise excluded from doing business with the federal government, as required by the OMB Circular A-133 *Compliance Supplement*. OMB Circular A-133 *Compliance Supplement*, Part 3, Section I stipulates that when a non-federal entity enters into a covered transaction that is expected to equal or exceed \$25,000 with an entity at a lower tier, the non-federal entity must verify that the other entity is not suspended, debarred, or otherwise excluded from doing business with the federal government.

Our review of 17 active contracts exceeding \$25,000 disclosed that OCD did not maintain documentation for 14 (82%) contracts to ensure that contracted entities were not suspended or debarred.

OCD personnel were not consistently reviewing for suspension and debarment and OCD has not implemented a formal policy to ensure this review is performed. Failure to ensure compliance with suspension and debarment requirements increases the risk that OCD could contract with entities that have been suspended or debarred by the federal government. Any federal funds paid to a suspended or debarred entity could be disallowed by the federal government.

Management should implement a formal policy to require verification procedures for suspension and debarment. This verification may be accomplished by checking the *Excluded Parties List System* (EPLS) maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity to ensure that contracting entities paid with federal funds are not suspended or debarred. The electronic version of the EPLS can be accessed on the Internet (<http://epls.arnet.gov>). Management concurred with the finding and recommendation and provided a corrective action plan (see Appendix A, pages 20-21).

### **Inaccurate Annual Fiscal Report**

PCF did not submit an accurate Annual Fiscal Report (AFR) to the DOA, Office of Statewide Reporting and Accounting Policy (OSRAP). R.S. 39:79 authorizes the commissioner of administration to establish the content and format of each state entity's AFR and requires a signed affidavit that the AFR presents fairly the financial position of the entity. Good internal control over financial reporting should include adequate procedures to record, process, and transmit financial data needed to prepare an accurate and complete AFR and a review process that will identify preparation errors and correct those errors before submitting the AFR to OSRAP for inclusion in the state's CAFR.

PCF submitted an initial AFR packet to OSRAP by the due date of August 31, 2010. Subsequently, OSRAP requested PCF revise its AFR packet to include the requirements of an enterprise fund type. The revised AFR submitted to OSRAP on October 15, 2010,

included material errors, which necessitated correction by audit adjustment. PCF did not defer unexpired surcharges related to provider enrollments for the fiscal years ending June 30, 2009 and 2010. Governmental Accounting Standard's Board (GASB) Statement 10 requires premium contributions to be earned in proportion to the risk coverage provided. Since PCF insures participating providers on an annual basis, surcharges should be earned evenly over the provider's enrollment year and any unexpired portion relating to these enrollments at the end of the fiscal year should be deferred. As a result, beginning net assets were overstated by \$82 million, deferred revenues were understated by \$88 million, and surcharge revenues were overstated by \$6 million.

This error occurred because management did not have a complete understanding of applicable GASB pronouncements and OSRAP reporting requirements to perform an adequate review of the AFR. Lack of adequate review may allow misstatements from errors or fraud to occur and remain undetected. In addition, failure to submit an accurate AFR could delay the compilation and issuance of the state's CAFR.

Management should enhance its written compilation procedures to ensure that its AFR is properly prepared and reviewed to identify and correct errors before submitting to OSRAP and ensure that personnel responsible for preparing the AFR are adequately trained in GASB and OSRAP reporting requirements. Management concurred with the finding and recommendations and provided a corrective action plan (see Appendix A, pages 22-23).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the Executive Department. The nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. The findings relating to the Executive Department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the Executive Department and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

BF:ETM:BQD:THC:kg

Management's Corrective Action  
Plans and Responses to the  
Findings and Recommendations





**State of Louisiana**  
Division of Administration  
Office of the Commissioner

December 22, 2010

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

**RE: Noncompliance with Level of Effort Requirements**

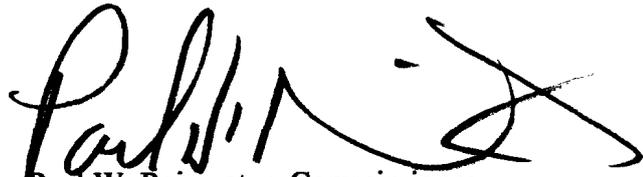
Dear Mr. Purpera,

This letter is in response to a letter dated December 10, 2010 regarding a reportable audit finding of noncompliance with the level of effort requirements of the ARRA - State Fiscal Stabilization Fund (SFSF) Program for Fiscal Year 2009-2010.

I concur with your finding that Louisiana did not meet the maintenance of effort (MOE) requirements of the SFSF Program for fiscal year 2009-2010. Louisiana has requested a waiver as allowed by the SFSF regulations issued by the U.S. Department of Education (USDOE), and is currently waiting on official approval from the USDOE. The USDOE will act upon our waiver request according to their time schedule, but the state has requested the waiver as required.

I concur with your recommendation that management continue to work with the USDOE to obtain an official approval for the waiver from the MOE requirements and to communicate the MOE requirements to the legislature for Fiscal Year 2010-2011. All required documents for the waiver request have been submitted timely. Mr. Barry Dussé, State Budget Director, has been and will continue to be in communication with USDOE until such time as the USDOE makes a determination on the waiver request. Mr. Dussé has appeared in front of various legislative committees to update the legislature on the status of the MOE and the waiver, and he will continue to do so in the future. We will continue to work with the legislature to obtain the funding needed to meet the MOE for the current fiscal year.

Sincerely,

A handwritten signature in black ink, appearing to read 'Paul W. Rainwater', with a large, stylized flourish at the end.

Paul W. Rainwater, Commissioner  
Division of Administration

CC: Barry Dussé  
Ray Stockstill  
Mark Brady  
Steven Procopio  
Afranie Adomako  
Marsha Guedry

**BOBBY JINDAL**  
GOVERNOR



**PAUL W. RAINWATER**  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of Community Development**  
**Disaster Recovery Unit**

December 28, 2010

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
Louisiana Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

RE: Noncompliance with Federal Reporting Requirements

Dear Mr. Purpera:

As per the Louisiana Legislative Auditor's letter dated December 10, 2010, the Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD/DRU) is providing its response to the Office of Management and Budget (OMB) Circular A-133 audit finding titled, "Noncompliance with Federal Reporting Requirements."

OCD concurs that it did not submit its Quarterly Performance Reports (QPR) to the U.S. Department of Housing and Urban Development's (HUD) online Disaster Recovery Grant Reporting (DRGR) System within 30 days following each calendar quarter as required. However, while OCD/DRU concurs with this finding, there are multiple explainable reasons which were beyond OCD/DRU's control, such as, transitioning from one HUD financial reporting system (eLOCCS) to another (DRGR), system design as well as frequent system error issues, and HUD changing its reporting requirements which required retroactive adjustments to previously submitted QPR's. These issues as well as others attributed to delays in the submission of the QPRs for Katrina/Rita recovery grants B-06-DG-22-0001, B-06-DG-22-0002, and B-08-DG-22-0003. HUD is very aware of these issues and has allowed for leniency in the State's QPR reporting process. Presented below, for explanatory purposes, are some of the reasons OCD/DRU has not been able to complete the QPRs, as required, specific to Disaster Recovery Grant B-06-DG-22-0001 (Katrina/Rita First Appropriation).

HUD transitioned from one reporting system to another. Prior to January of 2009, the System HUD required OCD/DRU to use to draw funds, eLOCCS, was no longer available to the State for CDBG disaster recovery payments. Instead the DRGR System was modified to be used for this purpose. During this transition, users of the DRGR System experienced frequently occurring system errors, in fact, these system errors were the cause of OCD/DRU's late submission of its QPR for the 3<sup>rd</sup> quarter of 2009.

In November 2009, during an onsite visit, HUD's DRGR System expert noticed that the infrastructure activities in the System were only grouped at the state level and asked that DRGR records be changed to reflect which units of local government were receiving different funds for their infrastructure, even though HUD had been approving the QPRs on this Grant with the current four activities since 2006. This required that the State breakout the four activities into fifty-seven. This also resulted in the Office of Financial Support Services (OFSS) having to revise all requests for payment made in the System up to that point. It took several months to break out these activities by eligible activity type, national objective, and responsible organization. By the time it was complete and the requests for payment had been edited by OFSS, there were seventy-eight activities.

Then in early 2010, HUD upgraded the DRGR System again by adding the ability to assign a geographic area to each activity. At this time, HUD determined that the current breakout of seventy-eight infrastructure long term community recovery activities would not suffice as some of the activities contained multiple projects residing in different census block groups. HUD then required the State to breakout the seventy-eight long term community recovery activities into two hundred and fifty, the two infrastructure education activities into one hundred, the two fisheries activities into twenty-five, and the three local government activities into twenty-two. These were only the Infrastructure Program breakouts. Further delineation was required on the Economic Development and the Housing Programs.

To date, all of the Infrastructure Program breakouts have been completed. OCD/DRU is now in the process of reassigning the hundreds of requests for payment which have already been processed. OCD/DRU expects that OFSS will complete their part in this process sometime in 2011. The OCD/DRU will then edit all QPRs and resubmit to HUD.

OCD/DRU would like it noted that all four QPRs for Hurricanes Gustav and Ike were submitted within 30 days following each calendar quarter as required.

Ms. Laurie Brown, Disaster Recovery Data Manager, is the contact person responsible for corrective action. OCD/DRU has assigned an additional full time staff person to assist with the DRGR System reporting requirements. Provided there are no additional changes in the HUD reporting requirements, system issues or any unforeseen obstacles OCD/DRU should be able to provide the required QPRs timely by the end of calendar year 2011.

Mr. Daryl Purpera, CPA

December 28, 2010

Page 3

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

Sincerely,



Thomas Brennan

Deputy Executive Director, Chief of Operations  
Office of Community Development/DRU

C: Mr. Paul Rainwater  
Mr. Mark Brady  
Mr. Steven Procopio  
Ms. Marsha Guedry  
Ms. Lara Robertson  
Mr. Richard Gray  
Ms. Bonita Brown  
Mr. Robbie Viator



**BOBBY JINDAL**  
GOVERNOR

**PAUL W. RAINWATER**  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of Community Development**  
**Disaster Recovery Unit**

February 11, 2011

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
Louisiana Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

**RE: Noncompliance with Subrecipient Monitoring Compliance Requirements**

Dear Mr. Purpera:

As per your letter dated January 12, 2011, the Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD/DRU) is providing the Louisiana Legislative Auditor (LLA) with a response to the audit finding titled, "Noncompliance with Subrecipient Monitoring Compliance Requirements." OCD/DRU concurs in part with this finding.

**Required Single Audits from Subrecipients**

The audit finding states that OCD/DRU did not obtain any of the required single audits from its subrecipients of the Long Term Community Recovery Infrastructure Program (LTCRIP) under the Community Development Block Grants Program/State's Program and Non-Entitlement Grants in Hawaii (CDBG, CFDA 14.228) during fiscal year ended June 30, 2010.

OCD/DRU implemented a grantee/subrecipient audit tracking system during December 2009. OCD/DRU determined that the most effective and efficient way to monitor the audits of subrecipients was to obtain audit reports on the subrecipients' most recently completed fiscal year. At the time the audit tracking system was implemented, the most recently completed fiscal year for most subrecipients was fiscal year 2009; thus, OCD/DRU began obtaining and reviewing single audit reports of its subrecipients for fiscal year 2009. Because single audit reports also include the status of unresolved prior audit findings, repeat findings reported in single audits of subrecipients from prior fiscal years are also reviewed as part of OCD/DRU's monitoring procedures. By reviewing the most recent years audit for all subrecipients, OCD/DRU's goal was to capture both current year findings as well as any repeat findings from

prior years. This provides OCD/DRU reasonable assurance that any unresolved findings from prior years would be identified.

Single audit reports that are obtained from subrecipients are maintained within OCD/DRU's tracking system beginning with fiscal year 2009 to the present. Information related to each report maintained within the tracking system includes the receipt of the audit report, the review and disposition of audit findings, as well as any corrective action plans for any findings reported on the LTCRIP funds. A sample of audits included in the tracking system was requested by and provided to representatives of the Legislative Auditor on January 13, 2011. OCD/DRU agrees that audits prior to fiscal year 2009 were not initially reviewed and not available when requested by the Legislative Auditor staff.

OCD/DRU's audit staff has since gone back and performed a monitoring review of the single audit reports of all thirteen subrecipients for the LTCRIP for fiscal years prior to 2009. The review of these reports indicated that no federal findings or questioned costs associated with CDBG Program had been reported on the subrecipients. These results lend credence to the design methodology of reviewing the most recent year's audit. Without the presence of findings, OCD/DRU was not required to issue a management decision; nor was OCD/DRU required to ensure the subrecipients take timely and appropriate corrective action of audit findings.

OCD/DRU maintains a list of all subrecipients receiving CDBG funds for each individual program, and has documented the subrecipient single audit monitoring process that has been implemented. OCD/DRU's monitoring process captures subrecipient information by fiscal year, disaster, and program area. Information on subrecipients and the audit tracking process was provided to representatives of Legislative Auditor on September 22, 2010.

Stephen Upton, Audit Manager, and Stephen Nance, CDBG Compliance Specialist, are responsible for corrective action. The subrecipient audit report tracking and reporting system implemented by OCD/DRU is adequate to correct this finding.

#### Management of Monitoring Consultants

The audit finding states that OCD/DRU did not adequately manage consultants contracted to perform monitoring reviews of the thirteen subrecipients of the LTCRIP during fiscal year 2010 and recommends that procedures be implemented to ensure consultants contracted are adequately monitoring subrecipient compliance with the program requirements.

OCD/DRU management does not concur with this part of the finding. The consultants are responsible for assisting with the implementation of the LTCRIP by working with subrecipients to ensure that subrecipients are in compliance with program requirements through ongoing technical assistance and guidance that the consultants and OCD/DRU staff provide to the subrecipients on a regular basis.

The consultants for the LTCRIP program were hired as an extension of the OCD/DRU infrastructure staff. They provide technical assistance to local governments that receive LTCRIP

funding and provide assistance in project application development, grant management, local grant administration, compliance, and the close-out process. Technical assistance provided by the consultants includes assisting with the establishment of a record-keeping system that requires all program documentation to be maintained to ensure that all of the work and expenditures of the funds comply with all required CDBG rules and regulations. The documentation maintained by the subrecipients is uploaded to a monitoring website enabling OCD/DRU staff to remotely access compliance files and conduct ongoing desktop monitoring. This type of monitoring process was implemented so that OCD/DRU would have more assurance of compliance by the grantees.

OCD/DRU manages its consultants through a task order system. OCD/DRU issues task orders for specific work to the consultants, and pays them according to completion of those tasks. OCD/DRU management monitors completion of the consultants' work through reports that the consultants submit with each invoice, as well as monitoring the completion status of the tasks that are maintained on the monitoring website that was discussed in the previous paragraph.

OCD/DRU management has determined that the monitoring approach described in the preceding paragraphs is most effective on the L-CDBG disaster programs. The L-CDBG disaster programs should be monitored differently from the regular L-CDBG program because disaster programs differ from the regular L-CDBG program. Some of the differences include:

- The amount of disaster L-CDBG funds distributed to subrecipients that must be monitored is roughly ten times the amount distributed from the regular L-CDBG program;
- There are many more grantees of the disaster L-CDBG funds, and many of them have very little familiarity with handling CDBG funds, especially on this scale;
- Each grantee may have numerous projects to manage;
- Because the project types allowed by the disaster program are very different in nature from those used in the regular L-CDBG program and numerous waivers exist associated with the disaster funds, specialized knowledge is required to administer and monitor the disaster programs.

OCD/DRU determined that state-hired consultants would provide more effective ongoing subrecipient monitoring through technical assistance and project oversight. In addition, the development of the on-line documentation system allows monitoring staff to monitor compliance from their desktops, reducing travel time. The system allows for broader monitoring efforts in the same amount of time. The monitoring procedures in place within OCD/DRU do not require monitoring staff to complete checklists or reports or to go onsite to monitor project files maintained by the subrecipients. The procedures in place allow for continual dialogue with the subrecipients, the consultants, and OCD/DRU monitoring staff to ensure that projects are being implemented and that compliance with program requirements is properly documented by subrecipients.

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Mr. Daryl Purpera, CPA

February 11, 2011

Page 4

For the reasons, discussed in the previous paragraphs, OCD/DRU does not agree that it did not adequately manage consultants contracted by OCD/DRU to perform monitoring reviews; therefore, no corrective action is required.

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

Sincerely,



Thomas Brennan, Deputy Executive Director  
Office of Community Development/DRU

C: Mr. Paul Rainwater  
Mr. Mark Brady  
Mr. Steven Procopio  
Ms. Marsha Guedry  
Mr. Pat Forbes  
Mr. Rowdy Gaudet  
Ms. Lara Robertson  
Mr. Richard Gray  
Mr. Jeff Haley  
Mr. Robbie Viator

**BOBBY JINDAL**  
GOVERNOR



**PAUL W. RAINWATER**  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of Community Development**  
**Disaster Recovery Unit**

February 22, 2011

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
Louisiana Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

RE: Inadequate Recovery of Homeowner Assistance Program Awards

Dear Mr. Purpera:

As per the Louisiana Legislative Auditor's letter dated February 11, 2011, the Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD-DRU) is submitting its response to the audit finding titled "Inadequate Recovery of Homeowner Assistance Program Awards". OCD/DRU does not concur with the finding that it did not fully implement procedures to recover Homeowner Assistance Program (HAP) awards for the fiscal year ended June 30, 2010.

OCD/DRU is very aware of its responsibility to identify homeowners who have not met their grant agreement or covenant requirements. OCD/DRU began compliance and monitoring efforts in March 2008, prior to the expiration of homeowner covenants beginning in September 2009. To date, letters have been sent to 100 percent of all homeowners who have reached their compliance period. Of the 87,722 letters that have been sent, OCD/DRU has received 44,172 responses. Prior to implementation of initial compliance and monitoring efforts, the State developed and followed a monitoring plan that involved a sample population of homeowners who were nearing or had reached their covenant compliance date. The results of initial monitoring efforts confirmed the need for OCD/DRU to reevaluate its monitoring plan. In addition, HUD issued guidance related to unmet needs and ability to provide additional assistance to homeowners who continue to lack sufficient resources to complete their recovery. Thus, in the later part of 2010 OCD/DRU focused on a monitoring strategy that included 100 percent review of applicant files in order to better determine a homeowner's compliance progress and type of resources that would be necessary to address an applicant's unmet recovery needs.

In concert with these changes to the overall monitoring plan, OCD DRU developed additional strategies to assist homeowners with their recovery efforts. These supplemental efforts are described below.

- As unmet needs are identified as a result of monitoring efforts, OCD/DRU continues to develop policies and methods of assistance that provide homeowners with additional resources for their recovery in accordance with guidance from the Department of Housing and Development (HUD).
- Supplemental to current monitoring efforts, OCD/DRU has recognized the need to provide counseling services to homeowners who may be unaware of their covenant compliance responsibilities and other options or resources available to them. For this reason, OCD/DRU has executed a contract with Beacon of Hope to initiate a pilot program to provide counseling services to homeowners through neighborhood organizations. Beacon of Hope will assist OCD/DRU in attempting to locate nonresponsive homeowners that may have additional recovery needs. They will offer options provided by OCD/DRU, such as, covenant extensions, option changes, as well provide homeowners a list of other available recovery resources.
- As a result of modifying the monitoring plan, OCD/DRU developed a new IT solution. This software application allows for more efficient and effective tracking and reporting of homeowner covenant compliance and participation in other programs. In addition, this solution ensures that grant repayments are reconciled within the current system and makes available repayment options to homeowners who may not have the ability to return the full amount of grant funds to the program at one time.
- OCD/DRU has initiated grant recovery efforts with Attorney General's Office attorneys. For the last several years, the AG's attorneys have worked with grant recovery staff and panel attorneys to develop policies and procedures for the repayment of grant funds. The attorneys are actively working with homeowners to recover or develop repayment plans for homeowners not in compliance with their grant agreement or covenant obligations.
- OCD/DRU has also made available several options whereby homeowners can become compliant by providing homeowners with: covenant extensions, option changes and construction advisory services.
- In addition, OCD/DRU launched a web based service to provide applicants a venue to report covenant compliance.

OCD/DRU has assisted homeowners in complying with covenants throughout the program by:

- Developing the Non-profit Pilot Rebuilding Program which offers additional funding for homeowners who don't have adequate resources.
- Applying for and administering a Hazard Mitigation Grant Program (HMPG) which provides up to \$100,000 additional funding to Option 1 homeowners for additional

Mr. Daryl Purpera, CPA

February 22, 2011

Page 3

assistance in rebuilding their homes. It is estimated that 10,000 to 15,000 homeowners will receive an additional \$650 million in recovery assistance through this program.

- Implementing the Additional – Additional Compensation Grant (A-ACG). The provision of this grant has provided over \$460 million to over 13,000 low to moderate income homeowners to reduce the gap between the assistance they have already received and their estimated cost of damage. This grant is also tied to covenant compliance and involves outreach to homeowners to determine their recovery progress.
- Implementing the Individual Mitigation Measures (IMM) Grant. This grant provides mitigation funds to homeowners that have demonstrated compliance with their covenants. As a result of this effort more homeowners are returning their compliance documentation. To date, OCD/DRU has reached out to over 28,000 homeowners to collect compliance documentation and distribute an additional \$195 million in funds for these mitigation activities.

In conclusion, OCR/DRU will continue to follow current policies and procedures to determine homeowner compliancy with the Road Home covenants and grant recovery for homeowners where necessary.

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

Sincerely,



Thomas Brennan

Deputy Executive Director, Chief of Operations  
Office of Community Development/DRU

C: Mr. Paul Rainwater  
Mr. Mark Brady  
Mr. Steven Procopio  
Ms. Marsha Guedry  
Mr. Pat Forbes  
Ms. Lara Robertson  
Mr. Richard Gray  
Mr. Jeff Haley  
Mr. Robbie Viator

**BOBBY JINDAL**  
GOVERNOR



**PAUL W. RAINWATER**  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of Community Development**  
**Disaster Recovery Unit**

February 17, 2011

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
Louisiana Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

**RE: Duplication of Benefits under the Homeowner Assistance Program  
and Small Rental Property Program**

Dear Mr. Purpera:

As per the Louisiana Legislative Auditor's letter dated January 28, 2011, the Division of Administration, Office of Community Development, Disaster Recovery Unit (OCD-DRU) is submitting its response to the audit finding titled "Duplication of Benefits under the Homeowner Assistance Program and Small Rental Property Program". OCD-DRU concurs that a duplication of benefits occurred in the five properties resulting in overpayments totaling \$263,260.11.

OCD-DRU submits that internal controls relative to the identification and prevention of duplicative efforts between the Homeowner Assistance Program (HAP) and Small Rental Property Program (SRPP) have been in place since the implementation of both programs. OCD-DRU recognizes the possibility that some files may have been funded through both programs as a result of administrative processing errors along with the static timing of an analytic data run.

During the ICF administration of these programs, KPMG performed the HAP-SRPP match analytic bi-weekly to identify applications for the same property address in both programs until their departure in August 2008. From August 2008 through transition in April 2009, ICF ran the analytic. Post transition, the new homeowner program contractor, HGI, has run the analytic twice. Since the application process has been closed for both programs for a significant period of time and the Homeowner program has accomplished 98% of all initial closings the data analytic is run quarterly going forward. In addition, administrators of the SRPP brought in a new round of applicants with Round 2. These are applicants that had previously submitted

applications for the HAP and were denied. Prior to OCD-DRU accepting SRPP applications from this group, administrators of the SRPP ran analytics against its own system (HDS) to ensure there were no duplicates in properties, paid or active. CGI, an IT consultant, also ran analytics against the HAP system (eGrants) to ensure there were no paid or active statuses. Administrators of the HAP and SRPP have attempted to mitigate any true duplication of benefits between programs. There are multiple explanations as to why these particular duplicative efforts occurred, as described below, for the five properties.

Administrators of the SRPP relied heavily on title updates to verify ownership and to identify other mortgages/covenants/judgments/liens on subject property. In the case of Property #1 (Eagle Street), the HAP covenant was not recorded on the title pulled just prior to the SRPP closing. Therefore, the administrators of the SRPP were not aware that the property owner was funded for the same property under the HAP.

On Property #2 (Dorsett Drive), the property owner received elevation funds after the SRPP closing. Because the disbursement of elevation funds does not require any additional title work, administrators of the HAP were not aware of the SRPP closing.

For Property #3 (N. Villere), the HAP covenant was discovered just prior to the SRPP closing. In this case, the SRPP closing is a direct result of an administrative error.

In the case of Property #4 (Frenchmen Street), the administrators of the SRPP reduced the property owner's HAP award from the SRPP closing. A minor administrative miscalculation, however, resulted in \$338.78 of unrecovered funding.

In regards to Property #5 (Royal Street), administrators of the SRPP never closed or disbursed on the owner occupied unit, and the rental units remain in process. Prior to any closing and disbursement of SRPP funds, OCD-DRU was aware that administrators of the HAP had already closed and disbursed on this property. OCD-DRU opted not to seek reimbursement for the HAP award, allowing the property owner to keep the HAP award in lieu of receiving the eligible SRPP Owner Occupant award. OCD-DRU has directed the SRPP contractor how to proceed with disbursing program funds. This directive should prevent any duplication of benefits from occurring on the owner occupied unit.

Property #'s 1-3 as described above have been flagged for recapture of the entire HAP award in the amount of \$218,024.36 [ $\$150,000 + \$30,000 + \$38,024.36$ ]. Property #4 will be flagged for recovery in the amount of \$338.78. Property #5 is also flagged for recapture under HAP in the amount of \$44,896.97. This amount represents the difference between the HAP award and the Owner Occupant Award [ $\$150,000 - \$105,103.03$ ]. The total recapture amount for the 5 properties is \$263,260.11. The identified cases represent .09% (.0009) of all SRPP funds disbursed to date. Out of the total Current SRPP Obligations, this combined error equates to .04%, or 4/100ths of 1%.

Administrators of both programs will implement the following corrective measures to improve internal controls relative to duplicative efforts between the HAP and SRPP:

Mr. Daryl Purpera, CPA

February 17, 2011

Page 3

OCD's IT contractor will continue to perform data analytics on all active properties participating in the HAP and SRPP in an effort to identify any other duplicate benefits paid from both programs. In addition, administrators of both the HAP and SRPP will coordinate their efforts to improve communication so that the potential for human error and timing differences between data analytic runs might be reduced. The administrators of each program will review their procedures for identifying duplicate benefits paid on properties and make any necessary procedural changes. The corrective action is estimated to be complete in 60 days.

The contact person responsible for the corrective actions is Bradley Sweazy, State Project Manager of the SRPP.

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

Sincerely,



Thomas Brennan

Deputy Executive Director, Chief of Operations

Office of Community Development/DRU

C: Mr. Paul Rainwater  
Mr. Mark Brady  
Mr. Steven Procopio  
Ms. Marsha Guedry  
Mr. Pat Forbes  
Ms. Lara Robertson  
Mr. Richard Gray  
Mr. Jeff Haley  
Mr. Bradley Sweazy  
Mr. Robbie Viator

**BOBBY JINDAL**  
GOVERNOR



**PAUL W. RAINWATER**  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of Community Development**  
**Disaster Recovery Unit**

February 11, 2011

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
Louisiana Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

RE: Noncompliance with A-87 Allowable Cost Principles

Dear Mr. Purpera:

As per the Louisiana Legislative Auditor's letter dated January 21, 2011, the Division of Administration, Office of Community Development (OCD) is providing its response to the audit finding titled, "Noncompliance with A-87 Allowable Cost Principles."

OCD concurs that it has paid its Road Home contractors amounts that were cited by the Louisiana Legislative Auditor Recovery Assistance Services (RAS) report as "unresolved exceptions for payment". For the period September 1, 2008 to June 30, 2010, contractors billed OCD \$85,439,623 of which RAS identified \$1,840,977 to be unresolved exceptions. These unresolved exceptions were reported following an agreed upon procedures engagement between OCD and RAS. In response to the RAS report, OCD requested additional documentation or justification from the contractors. OCD reviewed the additional documentation and justifications and determined \$1,540,492 has been adequately supported, is in accordance with the contract and is a reasonable program expense. The remaining \$300,485 was disallowed and credit memos have been issued or current invoices have been short paid.

Ms. Susan Pappan, OCD Financial Manager, is the contact person responsible for this corrective action. OCD will review all contractor invoices charged to the Road Home Program to ensure they are supported by adequate documentation, are made in accordance with rates established in the vendor's contract, and are reasonable considering program requirements. This corrective action has been implemented.

Mr. Daryl Purpera, CPA  
February 11, 2011  
Page 2

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

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas Brennan", with a long horizontal flourish extending to the right.

Thomas Brennan  
Deputy Executive Director, Chief of Operations  
Office of Community Development/DRU

C: Mr. Paul Rainwater  
Mr. Mark Brady  
Mr. Steven Procopio  
Ms. Marsha Guedry  
Ms. Lara Robertson  
Mr. Richard Gray  
Mr. Robbie Viator



**BOBBY JINDAL**  
GOVERNOR

**PAUL W. RAINWATER**  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of State Purchasing**

December 9, 2010

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Re: Finding: Noncompliance with Procurement, Suspension and Debarment Compliance Requirement and State Purchasing Regulations

Dear Mr. Purpera,

Thank you for this opportunity to respond to your draft audit finding regarding the Office of State Purchasing and Travel. I have reviewed your draft and the accompanying recommendations and find that I am in general, but not full, concurrence with your findings.

Your findings stated: "The Division of Administration, Office of State Purchasing and Travel (OSP) did not have controls in place to comply with federal requirements prohibiting the state from contracting with debarred or suspended vendors and did not consistently ensure that individuals contracting with the state on behalf of an agency, corporation, or partnership had the proper authority to do so."

I do concur with the first finding. Our office did not have the proper controls in place to insure that vendors were not debarred or suspended by the federal government. Our office did not timely recognize the change in federal regulations that lowered the debarment/suspension threshold from \$100,000 to \$25,000 until your office made us aware of the change.

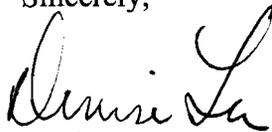
Your recommendation is that our policies be timely updated for changes in regulations and that contracts include appropriate vendor certification clauses. This recommendation has been implemented. Our office policy now requires the vendor certification to be included in all contracts having the potential to be above \$25,000. Additionally, our office will now perform a review of the annual update to the compliance requirements of the OMB Circular A-133 Compliance Supplement for any changes to the debarment/suspension threshold.

I am not, however, in complete agreement with your second finding. Louisiana Revised Statute 39:1594(C)(4)(b) allows a bid to be properly accepted if it is signed by an authorized representative of the bidding entity and the bid is accompanied by “other documents indicating authority which are acceptable to the public entity.” It is our practice to rely on different forms of records to verify proper signature authority. Examples of records we rely on are vendor enrollment records, prior bids successfully awarded and performed, written communications from vendors, and on the bid itself as self-certifying of signature authority. We consider our signature verification procedure to fully comply with the spirit as well as the meaning of the statute.

The process for verifying signature authority will change when the new electronic vendor enrollment process that is a part of the state’s Enterprise Resource Planning (ERP) system is implemented. A requirement of enrollment will be the designation of parties authorized to sign bids on behalf of the vendor. Office staff will confirm authority against the vendor database. No bidder will be allowed to receive a contract award without completing the enrollment process. A bid not signed by a listed person can still be awarded if the vendor submits documentation as specified in the statute.

I will be the contact person responsible for the corrective action and you can contact me at (225) 342-8062 or by email [denise.lea@la.gov](mailto:denise.lea@la.gov).

Sincerely,



Denise Lea  
Assistant Commissioner

c Paul Rainwater  
Marsha Guedry



**BOBBY JINDAL**  
GOVERNOR

**PAUL W. RAINWATER**  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of Community Development**  
**Disaster Recovery Unit**

December 22, 2010

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
Louisiana Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

RE: Noncompliance With Procurement, Suspension, and Debarment Compliance Requirement

Dear Mr. Purpera:

As per the Louisiana Legislative Auditor's letter dated December 10, 2010, the Division of Administration, Office of Community Development (OCD) is providing its response to the Office of Management and Budget (OMB) Circular A-133 audit finding titled, "Noncompliance With Procurement, Suspension, and Debarment Compliance Requirement."

OCD concurs that it did not consistently verify that all contractors were checked against the Excluded Parties List System (EPLS) to ensure that the contracted entity was not suspended or debarred. The auditor reviewed 17 active contracts exceeding \$25,000 which disclosed that OCD did not maintain documentation for 14 contracts to ensure that the contracted entities were not suspended or debarred. OCD has verified through the EPLS that none of the 14 contracted entities are suspended or debarred.

Ms. Bonita Brown, OCD Contracts Specialist, is the contact person responsible for corrective action, since all contracts must be processed through this one central position. The Contracts Specialist has updated the "contract checklist" to include the requirement that verification through the EPLS is obtained and maintained in the contract file to support that the contractor is not suspended, debarred, or otherwise excluded from doing business with the federal government. This verification will be performed prior to OCD sending the contract to the Division of Administration, Office of Contractual Review for approval. This corrective action has been implemented.

Mr. Daryl Purpera, CPA  
December 22, 2010  
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We appreciate the cooperation and diligence of your staff in conducting this audit. If you have questions or require additional information, please let me know.

Sincerely,



Thomas Brennan  
Deputy Executive Director, Chief of Operations  
Office of Community Development/DRU

C: Mr. Paul Rainwater  
Mr. Mark Brady  
Mr. Steven Procopio  
Ms. Marsha Guedry  
Ms. Lara Robertson  
Mr. Richard Gray  
Ms. Bonita Brown  
Mr. Robbie Viator



**State of Louisiana**  
**PATIENT'S COMPENSATION FUND**

December 14, 2010

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
P. O. Box 94397  
Baton Rouge, LA 70804

RE: Inaccurate Annual Fiscal Report

Dear Mr. Purpera:

The Patient's Compensation Fund (PCF) concurs with the findings concerning the annual fiscal report completed by the agency.

The PCF did in fact submit an AFR to OSRAP prior to their initial due date of August 31, 2010. It was the AFR format the PCF has submitted for the past 20 plus years as an ISIS agency. There has been no indication that report contained any material errors.

So that there is a better understanding of what took place concerning the PCF's AFR report, some timeline of what transpired prior to the report in questions is warranted. On September 15, 2010, the PCF was informed by OSRAP that it had been determined by the Legislative Auditor that the PCF's annual report should be done as an enterprise fund because of the agency's business-type activities. There had been discussions between the Legislative Auditor's office and OSRAP concerning the necessity of the PCF moving to this type of report as early as April of 2010. However, the PCF was not included in these discussions and had no knowledge of such until August 6, 2010 after a meeting with OSRAP on another matter. The PCF was informed that further discussions were taking place with the Legislative Auditor's office and no final decision had been made. The PCF was did not take part in those discussions. It was not until September 15, 2010 that the PCF was informed by OSRAP that the more extensive AFR report would be required.

There was a lengthy meeting between OSRAP and PCF in which the basics of the AFR report the agency was now required to compile were studied. Discussions included what information would be needed, where it could be obtained and how to complete the report. The agency was initially given two weeks to prepare the report, but once the extent of the information

was realized, such as the need for a beginning balance, OSRAP gave the agency three weeks to complete the report. Shortly after the meeting, it was determined the agency would require the services of a CPA. Several CPA firms approved by the Legislative Auditor were contacted, but declined to assist with the report due to the limited time allowed and the unfamiliarity with the agency. The agency was finally able to secure the services of a CPA willing to compile the information and prepare the report. The agency had to rely on other agencies for some of the information. This caused delays and OSRAP approved an extension of the due date by another week. The report was completed on October 15, 2010 and submitted to OSRAP and the Legislative Auditor. Due to time constraints, the report was not first shared with OSRAP for review prior to a copy being sent to the Legislative Auditor. Thus, it is true that OSRAP did not have an opportunity to adequately review the report with the PCF prior to the auditor's review. Ideally, it would have been better to have supplied a copy to the Legislative Auditor's office after OSRAP and the PCF had an opportunity to review the report together for completeness. Unfortunately, time did not really allow for this.

The finding involved material errors that necessitated a correction by audit adjustment to change deferred revenue from the current and prior fiscal years in the second report submitted by the PCF. The agency, the CPA retained by the agency and OSRAP worked very closely gathering information and preparing the report. Discussions included reporting of revenues. The agency and the CPA completed the report with guidance from OSRAP on this topic. The agency is now aware of the preferred method of reporting the revenues and deferred revenues and will ensure these are properly calculated and reported in future reports so that revenues are assigned to the appropriate fiscal year.

The agency now has an accounting program in place to ensure the correct information will be reported in future AFR reports. Also, the CPA will have adequate time and more knowledge of the agency's operations when compiling future reports. The agency also has more knowledge of the requirements for the reports. Therefore, corrective action has been taken and is considered complete.

Any questions regarding this response and the corrective action should be addressed to the undersigned.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lorraine LeBlanc".

Lorraine LeBlanc  
Executive Director