



Issue Date October 28, 2010
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Audit Report Number 2011-AO-1001
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TO: Scott G. Davis, Director, Disaster Recovery and Special Issues Division, DGBD

FROM: Nikita N. Irons, Regional Inspector General for Audit, Gulf Coast Region,  
11AGA

SUBJECT: The State of Louisiana, Baton Rouge, LA, Generally Ensured That  
Disbursements to Small Rental Property Program Participants Were Eligible  
and Supported

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) Supplemental Disaster Recovery program funds, administered by the State of Louisiana, Office of Community Development (State). Our audit objective was to determine whether the State ensured that disbursements to participants were eligible and supported under its Small Rental Property Program (Program). We initiated the audit as part of the Office of Inspector General's (OIG) strategic plan to review activities related to Gulf Coast hurricane disaster relief efforts.

### **What We Found**

In general, the State ensured that disbursements to Program participants were eligible and supported by following the Program policies and procedures and adequately documenting the Program participants' eligibility.

### **What We Recommend**

Since the State generally ensured that disbursements to Program participants were eligible and supported, we did not recommend corrective action.

### **Auditee's Response**

We provided a draft report to the State on September 30, 2010. On October 5, 2010, the State requested not to hold an exit conference. We asked the State to provide a written response to the draft report by October 15, 2010. The State decided a written response was not necessary.

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## BACKGROUND AND OBJECTIVE

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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 Louisiana Recovery Authority (Authority), in conjunction with the State, developed action plans outlining the programs and methods used to administer the \$13.4 billion in supplemental CDBG funds. In Louisiana, the State is HUD's principal grantee and the entity primarily responsible for the \$13.4 billion in allocated disaster funds. Therefore, the State is responsible for administering and monitoring the CDBG disaster-related programs generated from the HUD allocations.

Of the \$13.4 billion in CDBG funds allocated to Louisiana, the State budgeted \$869 million for the Small Rental Property Program (Program). The State reallocated a portion of the \$869 million initially proposed, leaving more than \$722 million allocated for the Program. As one of three Road Home housing programs, the Program is designed to provide loans and incentive grants to property owners who operate affordable rental homes.

The objectives of the Program are to (1) provide affordable rents for working families and (2) encourage redevelopment in impacted communities. The Program supports redevelopment of affordable rental housing in the storm-impacted areas and is focused on rebuilding the stock of one- to four-unit rental properties to address the housing needs of low- to moderate-income people in the most heavily damaged areas, thereby speeding recovery of entire neighborhoods and communities. In exchange for accepting financial incentives, property owners will be required to accept limitations on the rents they may charge and restrictions on the incomes of the tenants they select. The amount of the incentive award is three tiered, based on the income level of the tenants to be served. The incentive is awarded once the property is ready to be occupied, has been inspected by the Road Home program, and is leased to an income-eligible tenant.

On June 12, 2006, the State contracted with ICF Emergency Management Services, LLC (ICF) to administer the Road Home Program. Under the contract, ICF served as the Louisiana Road Home program Housing Manager, acting as the State's agent. Since the State's contract with ICF was ending in June 2009, it contracted with ACS State and Local Solutions (ACS), on March 27, 2009 to administer the Program. Under the contract, ACS was responsible for transitioning to be the prime contractor responsible for disbursing awarded funds and closing out all applications and activities required to complete the Program.

As of June 2010, the State had allocated more than \$722 million to the Program. Of this amount, more than \$163 million had been disbursed to Program participants. Our audit objective was to determine whether disbursements to participants were eligible and supported under the Program.

## **RESULTS OF AUDIT**

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In general, the State ensured that disbursements to Program participants were eligible and supported by following the Program policies and procedures and adequately documenting the Program participants' eligibility. The report contains no findings, and no further action is necessary.

## SCOPE AND METHODOLOGY

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We conducted our audit at the State's office and its contractor's office in Baton Rouge, LA, and the HUD Office of Inspector General (OIG) office in New Orleans, LA. We performed our audit work between June and September 2010.

To accomplish our objective, we used the electronic data of closed grants disbursed to Program participants between February 1, 2007, and June 29, 2010. The universe contained 1,958 Program participants that received disbursements totaling more than \$163 million. We employed the systematic monetary unit sampling method due to the diversity of grant amounts in the universe population to select a sample of 68 from the universe. Of the 68, we reviewed 22 (32 percent) during the survey phase of our audit and did not identify any significant eligibility issues. Therefore, we did not review the remaining 46 files since the review of the 22 was sufficient to conclude with a 90 percent confidence level that the risk of eligibility errors associated with the Program dollars was less than 10 percent. We conducted file reviews of the 22 files to evaluate whether the disbursements were eligible and supported. Through our file review, we determined that the electronic disbursements data were generally reliable.

In addition to file reviews, we

- Interviewed pertinent staff of the State and its contractors,
- Reviewed the grant agreements executed between HUD and the State,
- Reviewed written policies and procedures of the Program,
- Reviewed contracts and amendments between the State and its contractors,
- Reviewed the Code of Federal Regulations, public laws, and other applicable legal authorities relevant to the CDBG Disaster Recovery grants, and
- Reviewed reports issued by HUD and the Louisiana legislative auditor's office.

Our audit period covered February 1, 2007, through June 29, 2010. 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

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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.

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## Relevant Internal Controls

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

- Policies and procedures to ensure that participants were eligible to participate in the Program and disbursements to Program participants were eligible and supported.

We assessed the relevant controls identified above. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## No Significant Deficiencies

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance on the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the State's internal controls.

**Separate Communication of  
Minor Deficiencies**

Minor internal control and compliance issues were reported to the auditee in a separate memorandum, dated October 12, 2010.