

GOVERNOR'S OFFICE OF HOMELAND SECURITY
AND EMERGENCY PREPAREDNESS
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MAY 9, 2012

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES**
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

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 Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.55. 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. When contacting the office, you may refer to Agency ID No. 7430 or Report ID No. 80110022 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 Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.

EXECUTIVE SUMMARY

Our procedures at the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for the period July 1, 2010, through June 30, 2011, disclosed the following:

- GOHSEP did not resolve monthly variances between federal Public Assistance (PA) payments in the state's project management database (LAPA) and the state's accounting system (ISIS) in a timely manner, which resulted in \$240,028 in questioned costs.
- GOHSEP made a duplicate payment in the PA program totaling \$82,000 for expenses that had already been paid in the prior fiscal year, which resulted in \$53,000 of federal questioned costs.
- GOHSEP temporarily altered its Hazard Mitigation (HM) payment processing procedures to review documentation after payments were made to the Office of Community Development (OCD) instead of before disbursement, resulting in \$50,000 of federal questioned costs. In addition, GOHSEP did not implement procedures to ensure that homeowner projects were completed within required time frames and did not ensure that required final documentation from homeowners was submitted to OCD within 45 days of the final payment.
- GOHSEP did not adequately monitor subrecipients of the PA, HM, and Homeland Security Cluster federal programs. The risk-based process for determining which subrecipients receive site visits was flawed, and those subrecipients that were chosen for site visits were not evaluated for all applicable federal compliance requirements.
- GOHSEP did not ensure that applications submitted by subrecipients for funding from the PA and the HM programs contained a valid Dun and Bradstreet Universal Numbering System (DUNS) number, as required by federal regulations.
- Other than the findings previously noted, no significant control deficiencies, errors or noncompliance were identified in our procedures on non-payroll expenditures, federal revenue, federal receivables, payables, deferred revenue, prepayments, cooperative endeavors, the Schedule of Expenditures of Federal Awards and critical information systems that would require reporting under *Government Auditing Standards*.
- Other than the findings previously noted, no significant control deficiencies or noncompliance that would require reporting under *Government Auditing Standards* and Office of Management and Budget Circular A-133 were identified for the following federal programs for the fiscal year ended June 30, 2011:

- Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)
- Hazard Mitigation Grant (CFDA 97.039)

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



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 25, 2012

**GOVERNOR'S OFFICE OF HOMELAND SECURITY
AND EMERGENCY PREPAREDNESS
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 and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2011, we conducted certain procedures at the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) for the period from July 1, 2010, through June 30, 2011.

- Our auditors obtained and documented an understanding of GOHSEP's operations and system of internal controls, including internal controls over major federal award programs administered by GOHSEP, through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to GOHSEP.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using GOHSEP's annual fiscal reports and/or system-generated reports and obtained explanations from GOHSEP management for any significant variances.
- Our auditors reviewed the status of the findings identified in the prior management letter, issued April 27, 2011. The prior year findings relating to inadequate preparation of the annual fiscal report, inaccurate federal financial reports, and untimely draws and inaccurate reporting to Office of Statewide Reporting and Accounting Policy have been resolved by management.
- Our auditors considered internal control over financial reporting and examined evidence supporting GOHSEP's non-payroll expenditures, federal revenue, federal receivables, payables, deferred revenue, prepayments, cooperative endeavors, and the Schedule of Expenditures of Federal Awards, including critical information systems and related user access controls. We also tested GOHSEP'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 for the fiscal year ended June 30, 2011, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget Circular A-133 on the following federal programs for the fiscal year ended June 30, 2011, as part of the Single Audit of the State of Louisiana:
 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)
 - Hazard Mitigation Grant (CFDA 97.039)

The Annual Fiscal Reports of GOHSEP were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. GOHSEP'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, we have included all significant findings that are required to be reported by *Government Auditing Standards*. All of the findings were included in the State of Louisiana's Single Audit Report for the year ended June 30, 2011. Other than the findings noted below, we found no significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other audit procedures, including our procedures on federal programs, which should be communicated to management.

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

Inadequate Reconciliation Between ISIS and LAPA

GOHSEP did not resolve monthly variances between federal Public Assistance (PA) payments in the state's project management database (LAPA) and the state's accounting system (ISIS) in a timely manner. Good business practice generally requires that a reconciliation be performed, including the resolution of variances, within a month after the applicable financial period ends to provide reasonable assurance of data integrity.

During fiscal year 2011, GOHSEP performed monthly reconciliations to identify variances; however, variances totaling \$13.9 million relating to subrecipient payments were not resolved until two to nine months after the related financial periods ended. As a result, GOHSEP identified duplicate payments totaling \$240,028 within these variances that were not resolved at June 30, 2011, and represent federal questioned costs. An additional \$2.2 million in subrecipient payment variances were still not resolved five months after the fiscal year-end. Finally, payments totaling \$3.9 million made directly to GOHSEP's vendors and/or contractors were not included in the reconciliation process.

The untimely resolution of monthly variances and the omission of direct payments from the monthly reconciliation increase the risk of inaccurate financial and federal reporting and duplicate payments. There is also an increased risk that PA projects will not be closed for the correct amounts, potentially resulting in disallowed costs or an unnecessary reduction of funding available for the applicant. Accordingly, management should modify its existing procedures to require timely resolution of monthly reconciliation

variances between LAPA and ISIS and should include all payments within those reconciliations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Duplicate Payment in the Public Assistance Program

GOHSEP made a duplicate payment totaling \$82,000 to Vermilion Parish for expenses that had already been paid in the prior fiscal year. The payment, relating to a closed Hurricane Lili project, included \$53,000 in federal PA funds and \$29,000 in state funds. As a result, the \$53,000 represents federal questioned costs as of June 30, 2011.

GOHSEP should recover the duplicate payment, return the federal funds to the PA program, and return the state funds to the General Fund. Management should research the status of a project before issuing future payments related to disasters that occurred before 2005 to ensure that duplicate payments are not made and to ensure that payments are not made on closed projects. Management concurred in part with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 2).

Inadequate Monitoring of Hazard Mitigation Payments

GOHSEP temporarily altered its Hazard Mitigation payment processing procedures for approximately four weeks to review documentation after payments were made to the Office of Community Development (OCD) instead of before disbursement. As a result, a \$50,000 payment was made for unreasonable costs which we question and, if ultimately disallowed, may need to be returned to the federal grantor. GOHSEP also did not implement procedures to ensure homeowner projects were completed within the required time frames and did not ensure that the required final documentation (i.e., cancelled checks) from homeowners was submitted to OCD within 45 days after the Completed Work Payment was made.

Inadequate monitoring not only places GOHSEP in noncompliance with federal regulations but also increases both the risk that program objectives will not be met and the risk of disallowed costs, which will need to be returned to the federal grantor.

During our audit of fiscal year 2011 payments made by GOHSEP to OCD, we noted the following:

- In a test of 46 payments, three (7%) payments were made without adequate documentation because GOHSEP reviews were not performed before making these payments. We noted that one of these payments for \$50,000 was made for expenses that were determined unreasonable during GOHSEP's post-payment review process, and insufficient action was taken by GOHSEP to address the issue or recover the funds. We consider the \$50,000 to be questioned costs.

- In a test of 28 projects with advance payments made to homeowners, six (21%) projects were not completed within the time frames specifically outlined by OCD to the homeowner as a condition of the advance. There was no action taken by GOHSEP to follow up on these projects.
- In a test of eight final payments, two (25%) final payments did not have cancelled checks to support the payments, and no action was taken by GOHSEP to follow up on the missing documentation.

Management should strengthen current monitoring procedures over OCD to ensure that (1) all payments are properly reviewed before disbursement; (2) projects are completed within the required time frames; and (3) adequate supporting documentation is received from homeowners in a timely manner. Management should also resolve the \$50,000 in questioned costs with the federal grantor. Management did not concur with the finding. Management indicates in its response that current policy is to review all documentation submitted by OCD before issuing OCD a final payment on the program and that current monitoring procedures are adequate to address federal requirements (see Appendix A, pages 3-4).

Additional Comments: GOHSEP's decision to suspend documentation review before making final payments, sometimes years after the initial disbursement is made, decreases the likelihood that the state will be able to recoup any disallowed costs from homeowners, which may require repayment to the federal grantor using state funds. We agree that OCD's policies regarding time frames for project completion and retaining cancelled checks are not specifically required by federal regulations; however, OCD and GOHSEP developed these policies to mitigate the risk of questioned costs during project close-out. GOHSEP's role is to monitor OCD's compliance with these policies.

Deficiencies in Site Visit Monitoring

GOHSEP did not adequately monitor subrecipients of the Public Assistance, Hazard Mitigation, and Homeland Security Cluster federal programs. The risk-based process for determining which subrecipients receive site visits was flawed, and those subrecipients that were chosen for site visits were not evaluated for all applicable federal compliance requirements. These deficiencies increase the risk that federal funds expended by GOHSEP may be disallowed and have to be returned to the federal granting agency.

The risk-based process for determining high risk subrecipients included a spreadsheet that (1) contained formula errors, (2) was not reconciled to source data for completeness or accuracy, and (3) did not consider qualitative risk factors such as evidence of fraud or adverse audit opinion. As a result, 57 subrecipients were not properly classified as high risk under GOHSEP's criteria and did not receive an annual site visit. For the remaining 37 high risk subrecipients that did receive site visits, GOHSEP's checklists did not include steps to verify all applicable matching and procurement, suspension, and debarment requirements.

Management should modify the existing risk assessment process to ensure (1) all data, including the list of subrecipients, along with obligated and payment amounts, is complete, accurate, and reconciles to source data; (2) all formulas in the spreadsheet are consistent and correct; and (3) qualitative risk factors are properly weighted and considered. Management should also add steps to the site visit program to verify compliance with all applicable matching and procurement, suspension, and debarment requirements. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 5).

**No Procedures for Ensuring Validity of DUNS
Number on Subrecipient Applications**

GOHSEP did not ensure that applications submitted by subrecipients for funding from the PA and the Hazard Mitigation Grant (HM) programs contained a valid Dun and Bradstreet Universal Numbering System (DUNS) number, as required by federal regulations. Using an invalid DUNS number increases the risk that applications will be denied or subsequently revoked by the federal grantor, resulting in potential delays in funding for subrecipients or potential disallowed costs.

The applications for both programs included a field for the DUNS number. This field was completed for 16 applications that we tested during fiscal year 2011; however, GOHSEP did not review the validity of the numbers submitted by the applicants. During our test work, we noted that one application for the PA program and two applications for the HM program contained invalid DUNS numbers.

Management should modify its existing application review procedures for the PA and HM programs to include a step to ensure the DUNS number provided by the subrecipient is valid. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 6).

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

This letter is intended for the information and use of GOHSEP 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,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large, stylized initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

LMN:BDC:THC:dl

GOHSEP 2011

Appendix A

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



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

KEVIN DAVIS
DIRECTOR

February 10, 2012

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

RE: Response to Audit Finding in the Management Letter for the audit of Fiscal Year Ended June 30, 2011: Inadequate Reconciliation between ISIS and LaPA

Dear Mr. Purpera:

I received your letter dated January 27, 2012 informing me of the finding for the audit of Fiscal Year Ended June 30, 2011: Inadequate Reconciliation between ISIS and LaPA.

I concur with the finding and recommendation. Reconciliations of payment information between the state's accounting system (ISIS) and the grant management database (LaPA) were performed. However, the process was time-intensive and the required corrective actions were not completed timely in all cases.

GOHSEP is updating the reconciliation process to provide for a more efficient reconciliation that allows for sufficient time to research and resolve variances. Additionally, a process for reconciling GOHSEP project financial activity will be developed and implemented. GOHSEP has recouped the duplicate payment that was discovered in the reconciliation process.

If you have any questions or need further assistance, please contact Casey Tingle, Director of Finance at (225) 925-1800 or our Internal Auditor, Donnie Ladatto at (225) 922-1479.

Sincerely

A handwritten signature in black ink, appearing to read "Kevin Davis".

Kevin Davis

KD:DL:wb

A.1



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

KEVIN DAVIS
DIRECTOR

February 17, 2012

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

RE: Response to Audit Finding in the Management Letter for the audit of Fiscal Year Ended June 30, 2011: Duplicate Payment in the Public Assistance Program

Dear Mr. Purpera:

I received your letter dated February 8, 2012 informing me of the finding for the audit of Fiscal Year Ended June 30, 2011: Duplicate Payment in the Public Assistance Program.

I concur in part with the finding and recommendation. GOHSEP utilizes payment information in the Statewide Accounting System (ISIS) to determine if (track) payments have been made to Public Assistance applicants for disasters that occurred prior to August 2005. Payments are traced from ISIS to information in the applicant's file to prevent duplication of payment for the same expenses. However, in this case, the procedure was not performed correctly and a duplicate payment was made.

Corrective Action:

- GOHSEP is working with the applicant to recover the funds.
- GOHSEP procedures for making payments to Public Assistance applicants have been amended to emphasize using ISIS to track payments for expenses on disasters that occurred prior to August 2005. The revised procedures have been distributed to the staff that processes payments.

If you have any questions or need further assistance, please contact our Internal Auditor, Donnie Ladatto at (225) 922-1479.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Davis".

Kevin Davis



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

KEVIN DAVIS
DIRECTOR

March 8, 2012

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

RE: Response to Audit Finding in the Management Letter for the audit of Fiscal Year Ended June 30, 2011: Inadequate Monitoring of Hazard Mitigation Payments

Dear Mr. Purpera:

I received your letter dated February 23, 2012 informing me of the finding for the audit of Fiscal Year Ended June 30, 2011: Inadequate Monitoring of Hazard Mitigation Payments.

GOHSEP does not concur with the finding that its monitoring of the hazard mitigation payments is inadequate. GOHSEP's policy is to review all documentation submitted by OCD to ensure that the federal award is documented and was used for authorized purposes prior to releasing the final payment to OCD.

The alteration of procedures was made at the request of OCD in order to ensure payments to homeowners were not delayed while OCD transitioned their grants management system. The auditors were informed of the alternate procedures and the period of time they were in place. As planned, GOHSEP is currently working through all payments made during this time period with OCD to ensure that any deficiencies in documentation are addressed.

GOHSEP notified OCD of the questioned cost found in the post payment review process. If GOHSEP determines that OCD is unable to validate the questioned costs, GOHSEP will require that the funds be returned.

The OCD timelines related to homeowner submission of documentation and completion of projects serve as benchmarks to measure progress.

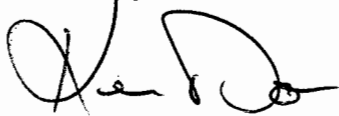
However, regardless of homeowner compliance with OCD timelines, if a completed project meets the HM Program eligibility, compliance, and supporting documentation requirements the homeowner is reimbursed to the extent allowable. GOHSEP's responsibility under the federal programmatic requirements is to monitor and ensure that all grant activities are complete and that the funds are expended within the Period of Performance as established by the federal regulations. GOHSEP will monitor completion of the Period of Performance established by the federal regulations.

Although GOHSEP acknowledges that it did not have cancelled checks for 2 of the payments within the time period established by OCD, the OCD time period is internal to the OCD program and not required by the federal programmatic requirements. GOHSEP's procedures do require complete documentation, to include cancelled checks, by the close of the project at the end of the Period of Performance. GOHSEP's current process is to identify missing documentation as soon as possible/practical in the process and to work with OCD to correct any deficiencies prior to close out of the project.

In conclusion, GOHSEP policies and procedures are designed to ensure only eligible homeowners are paid eligible, reasonable, and documented costs of hazard mitigation projects within the limits established in the program. Where we have become aware of errors either by our own Quality Assurance/Quality Control measures or by the Legislative Auditor, we have taken corrective action in the form of re-emphasizing these procedures to our staff and correcting the error. If correcting an error necessitates an action to recoup money from a homeowner GOHSEP will initiate recoupment.

If you have any questions or need further assistance, please contact our Internal Auditor, Donnie Ladatto at (225) 922-1479.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kevin Davis', written over a horizontal line.

Kevin Davis

KCD: DL: wb



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

KEVIN DAVIS
DIRECTOR

February 17, 2012

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

RE: Response to Audit Finding in the Management Letter for the audit of Fiscal Year Ended June 30, 2011: Deficiencies in Site Visit Monitoring

Dear Mr. Purpera:

I received your letter dated February 8, 2012 informing me of the finding for the audit of Fiscal Year Ended June 30, 2011: Deficiencies in Site Visit Monitoring.

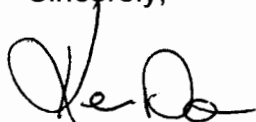
I concur with the finding and recommendation.

Corrective Action:

- GOHSEP is revising the spreadsheet and procedures used to determine which subrecipients need site visits. The new spreadsheet will be checked before and after the subrecipient data is entered to ensure there are no formula errors and the data is complete and accurate.
- GOHSEP has revised its site visit program to include verification of all applicable matching and procurement, suspension, and debarment requirements. The revised program is now being used.

If you have any questions or need further assistance, please contact our Internal Auditor, Donnie Ladatto at (225) 922-1479.

Sincerely,


Kevin Davis



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

KEVIN DAVIS
DIRECTOR

January 12, 2012

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

RE: Response to Audit Finding in the Management Letter for the Audit of Fiscal Year Ended June 30, 2011: No Procedures for Ensuring Validity of DUNS Number on Subrecipient Applications

Dear Mr. Purpera:

I received your letter dated December 21, 2011 informing me of the finding for the Audit of Fiscal Year Ended June 30, 2011: No Procedures for Ensuring Validity of DUNS Number on Subrecipient Applications.

I concur with the finding and recommendation. However, I do not think an award would be denied or subsequently revoked because of an error in the applicant's DUNS number. In the case of Stafford Act grants, the Federal Emergency Management Agency (FEMA) makes the determination of eligibility of a subrecipient or subgrantee. If a Request For Public Assistance requires updating to correct an error and/or update information, FEMA's procedure is to simply require an administrative correction to the grant application. In the case of Hazard Mitigation grants, GOHSEP determines eligibility and requires the application be updated when necessary.

Corrective Action to resolve the finding has been taken. The application review procedures for the Public Assistance and Hazard Mitigation Grant programs have been revised to include a step to confirm the DUNS number provided by the applicant. The revised procedures have been distributed to the staff that performs the application review.

If you have any questions or need further assistance, please contact me at (225) 925-7345 or our Internal Auditor, Donnie Ladatto at (225) 922-1479.

Sincerely,

Kevin Davis