

Louisiana Office of Community Development/Disaster Recovery Unit CDBG-DR Certification of Proficient Controls, Processes and Procedures

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



July 7, 2016

Mr. Stanley Gimont
Director, Office of Block Grant Assistance
Department of Housing and Urban Development
451 7th Street SW., Room 7286
Washington, DC 20410

Dear Mr. Gimont:

As directed by the June 7, 2016, Federal Register Notice regarding Notice of National Disaster Resilience Competition Grant Requirements the State of Louisiana, Division of Administration is certifying that the Office of Community Development/Disaster Recovery Unit (OCD-DRU) has in place the following:

- Proficient financial controls and procurement processes;
- Adequate procedures to prevent duplication of benefits;
- Processes to ensure timely expenditure of funds;
- Ability to maintain comprehensive website(s) regarding all disaster recovery activities assisted with Community Development Block Grant disaster recovery (CDBG-DR) funds; and
- Adequate measures to detect and prevent fraud, waste and abuse of funds.

To validate this certification and to pave the way for the State of Louisiana's forthcoming Grant Agreement related to National Disaster Resiliency, the state submits the enclosed "Certification of Proficient Controls, Processes and Procedures" to the U.S. Department of Housing and Urban Development (HUD).

Should you require any additional information in order to render your approval, please feel free to contact Pat Forbes, Executive Director of OCD-DRU. On behalf of the Division of Administration, I look forward to our continued working relationship with HUD and its staff, as we recover from the impacts of Hurricane Isaac.

Sincerely,


Jay Dardenne
Commissioner
Louisiana Division of Administration

Proficient Financial Controls

A-133 Audit and Annual Financial Statement

The State of Louisiana Single Audit Report (A-133) for the Year Ended June 30, 2015, is available electronically at:

[http://app.la.state.la.us/PublicReports.nsf/B25F369296E9A2D786257F77006435BE/\\$FILE/0000D6B2.pdf](http://app.la.state.la.us/PublicReports.nsf/B25F369296E9A2D786257F77006435BE/$FILE/0000D6B2.pdf) .

The State of Louisiana Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, is available electronically at: <http://www.doa.la.gov/osrap/library/Publications/FINAL%20CAFR%20-%2012-22-15%20with%20covers.pdf> .

1. Findings

The Louisiana Single Audit Report (A-133) for the Year Ended June 30, 2015, contained two reportable findings for the Louisiana Office of Community Development, Disaster Recovery Unit (OCD-DRU) relating to Catalogue of Federal Domestic Assistance (CFDA) 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii. Both were considered material weaknesses in internal control.

The findings are as follows:

- 2015-010 - Inadequate Grant Recovery of Homeowner Assistance Program Awards (Schedule C, page 46)
- 2015-011- Inadequate Recovery of Small Rental Property Program Loans (Schedule C, page 48)

2. State Responses

OCD-DRU prepared a Management Corrective Action Plan for each of the findings presented in the Single Audit, describing how these issues are being addressed. A Corrective Action Plan for each of the findings can be found within the Single Audit:

- 2015-010 - Inadequate Grant Recovery of Homeowner Assistance Program Awards (Appendix B-11)
- 2015-010 - Inadequate Recovery of Small Rental Property Program Loans (Appendix B-13)

Financial Management

The completed HUD Monitoring Checklist Exhibit 3-18 of the Community Planning and Development Monitoring Handbook, Modified for Community Development Block Grant (CDBG) Disaster Recovery Grantees under Public Law 113-2 is included as **Appendix A**.

HUD Monitoring Checklist Exhibit 3-18 references the Financial and Administrative Policies and Procedures Manual (**Appendix B**), the Fidelity Insurance Certification (**Appendix C**), and the Disaster Recovery A-133 Audit Procedures (**Appendix D**).

Required financial controls and accounting system requirements for our grantees are contained in Chapter 5 of the State of Louisiana OCD-DRU Disaster Recovery CDBG Grant Administrative Manual, and the OCD-DRU Financial and Administrative Policies and Procedures Manual (**See Appendix B**). The entire Grant Administrative Manual can be viewed at <http://www.doa.la.gov/Pages/ocd-dru/DRAdminManual.aspx>.

Proficient Procurement Processes

In 2006, the State of Louisiana, in accordance with the provision of 24 CFR 85.36, elected to use the state's Procurement Code for all procurement activities related to the state's administration of Disaster Recovery CDBG (CDBG-DR) funds awarded for hurricanes Katrina and Rita. The state also elected to use these same procedures for all procurement activities related to the state's administration of the CDBG-DR funds awarded for recovery from hurricanes Gustav and Ike.

In September 2006 and again in January 2007, HUD CPD conducted management reviews of OCD-DRU's \$6.2 billion and \$4.2 billion disaster supplemental appropriations under the CDBG program (see **Appendix E** for the HUD CPD report on those reviews). Under the section entitled, "Procurement Requirements" (September 2006), HUD CPD noted that, "the state is still subject to the requirements at 24 CFR 570.489 (q) to follow stated procurement policies and procedures (and does not require that a state's procurement policies and procedures conform to the procurement standards in 24 CFR 85.36)". Additionally, HUD CPD noted "the state's procedures include, but are not limited to:

- "A contract administration system that ensures contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase order;
- "A written code of standards and conduct governing employees engaged in the award and administration of contracts;
- "Awards are to be made to responsible contractors possessing the ability to perform successfully under the terms and conditions of the proposed procurement;
- "Protest Procedures are in place; and
- "Inclusion of a clear and accurate description of the technical requirement for material, product or service to be procured, but excluding features that unduly restricts competition."

Finally, HUD CPD stated that "the state's procurement methods are consistent with the methods of procurement identified at 24 CFR 85.26 (d), although the state's threshold for small purchases is \$25,000, well under the \$100,000 threshold currently allowed under Federal Regulations." These same state

procurement policies and procedures are being used in the state's administration of CDBG-DR appropriation for hurricanes Gustav, Ike and Isaac, and will be used for the administration of appropriated funds for the National Disaster Resiliency.

Appendix F, Louisiana Office of State Purchasing's Purchasing Rules and Regulations, contains the Chapter 17 of the Louisiana Procurement Code. The code was reviewed by HUD CPD during the 2006 and 2007 on-site monitoring visits. Since then, the code was recently revised in November 2015, so we are including The Louisiana Legislative Auditor's Summary of the Louisiana Procurement Code as part of the attachment. Electronic links for these documents can be found at <http://www.legis.la.gov/legis/lawsearch.aspx> and [https://app.la.state.la.us/llala.nsf/27670DBD4E563BE986257AC2004F9253/\\$FILE/Louisiana%20Procurement%20Code.pdf](https://app.la.state.la.us/llala.nsf/27670DBD4E563BE986257AC2004F9253/$FILE/Louisiana%20Procurement%20Code.pdf) respectively.

The state follows the State Procurement Code, and all other subrecipients are now required to follow 2 CFR Part 200.317 through Part 200.326.

Procedures to Prevent Duplication of Benefits

In accordance with the Stafford Act, OCD-DRU, has established a Duplication of Benefits (DOB) Policy which can be found in the Grant Administrative Manual or electronically at http://www.doa.la.gov/OCDDRU%20AdminManual/Section_02/Exhibit%202-5%20-%20DOB%20Policy.pdf

In May 2015, OCD-DRU sent notification to all subrecipients requesting an electronic copy of their DOB Policy and a reminder of the DOB Policy requirements. As of Jan 28, 2016, OCD-DRU has received, reviewed, and approved all DOB policies.

Procedures to Determine Timely Expenditures

OCD-DRU is committed to ensuring that CDBG-DR funds are spent in a timely manner and within the statutory two-year period after funds are obligated. To ensure this commitment, OCD-DRU will establish timelines within each of its agreements entered into with fund recipients. Each of the administrators of CDBG-DR funds will be required to meet specific milestones throughout the terms of the agreement. Per grant requirements, penalties for failure to meet milestones will be included in agreements, which may result in a full or partial recapture of funds or a reduction in award amounts.

Furthermore, OCD-DRU has a proven strategy of employing outreach representatives to focus specifically on assisting grantees with complying with CDBG regulations, determining and managing activity

milestones, providing other technical assistance as needed and serving as a direct and constant communication avenue between OCD-DRU and the grantee. This strategy will be employed with the current allocation.

The general process for payment approval is provided in the flow chart **Appendix G**. In order to manage and expedite this process, OCD-DRU has developed an Internet-based electronic submission program for grantees to provide activity applications and requests for payment for the 2008 Disaster allocation covering hurricanes Gustav and Ike. The Gustav/Ike Online System (GIOS) has been referenced several times in previous HUD CDBG-DR monitoring reports as a best practice in disaster recovery management, and it will be adapted to allow application and draw request intake for the Isaac appropriation.

Upon the submission of a request for payment by a grant recipient, the request is tracked through each stage so that OCD-DRU can monitor any potential process delays. This allows a basis for process improvement, as well as a mechanism to identify problem invoices earlier in the process. Analysis on payments processed in GIOS in the first five months of 2016 shows that it only takes an average of 10 calendar days from the time of initial submission for OCD-DRU to internally approve a request and submit to the state's Office of Finance and Support Services (OFSS) for payment. This includes the time taken on any invoices that need to be returned to the subrecipient for correction or further clarification; the actual review time by OCD-DRU staff is significantly less. From the time the request is sent to OFSS, the recipient is paid within an average of five calendar days.

In order to provide an appropriate level of management review, Reporting and Analysis staff produce a monthly budget report for both the Katrina/Rita funds (one report combining the three separate appropriations), the Gustav/Ike grants, and lastly the Isaac grant. These budget reports are distributed to the OCD-DRU leadership, to the State of Louisiana Joint Legislative Committee on the Budget and to the public via our website at <http://www.doa.la.gov/Pages/ocd-dru/Reports.aspx>. The budget reports track expenditures and provide visibility on unobligated and unexpended amounts on a monthly basis.

In addition, the management team reviews a quarterly report developed to facilitate OCD-DRU's Quarterly Managers' Review meetings. These reports detail progress on a program-by-program basis and include a comparison of actual spending to projected expenditures. Projections are developed based on a combination of current spend rates, projected start and end dates, and input from program managers on anticipated milestones.

Each program is assessed during these reviews to identify whether it is progressing on target or if some programmatic intervention is required. As part of this review, each program is assessed to identify dollars that will need to be reallocated and status updates on those programs ready to begin closeout procedures. At the direction of the executive director, the director of Strategic Initiatives and Performance

Management is responsible for ensuring that monthly budget reports are produced and that the Quarterly Management Reviews are conducted on a quarterly basis.

Procedures to Maintain a Comprehensive Website

The Office of Community Development Disaster Recovery Unit’s website, <http://www.doa.la.gov/Pages/ocd-dru/Index.aspx>, is maintained by the Louisiana Office of Technology Services. OCD-DRU manages changes and updates to the site, including adding Action Plan Amendments and performance reports to their respective pages:

http://www.doa.la.gov/Pages/ocd-dru/Action_Plans.aspx and <http://www.doa.la.gov/Pages/ocd-dru/Reports.aspx>

The site is updated as needed to provide new information available to the public. As Action Plans and Action Plan Amendments are published, they are displayed on the website along with versions translated into Spanish and Vietnamese. Citizens can comment on proposed Action Plans through the website or via email, facsimile or mail.

“National Disaster Resiliency” tab will be added to the left-hand navigation column for easy access to documents and information pertaining to the recovery from that particular disaster.

Procedures to Detect Fraud, Waste and Abuse of Funds

The process of detecting any fraud, waste and abuse of CDBG-DR funds involves not only OCD-DRU, but also the state Division of Administration’s Internal Auditor and the following state offices: the Office of Legislative Auditors (LLA), the Office of Inspector General and the Office of Finance and Support Services (OFSS).

Office of the Legislative Auditors (LLA)

The Legislative Auditor serves as the supervisory body of public spending, overseeing more than 3,500 audits of state and local governments and their related quasi-public enterprises. Conducting independent financial and performance audits of the state’s agencies, colleges, and universities, auditors identify issues in an effort to protect public resources and tighten government control systems. When necessary, they look into allegations of fraud, waste or abuse. The Legislative Auditor will perform an annual audit of the Division of Administration (DOA), which includes OCD-DRU, in accordance with 2 CFR 200 Part F.

Office of the Inspector General

In addition, the state has an established Office of Inspector General. The office's mission is to prevent and detect fraud, corruption, waste, inefficiencies, mismanagement, misconduct, and abuse within the executive branch of state government using a highly qualified, committed, and trained staff. The Inspector General answers to the governor.

Office of Finance and Support Services (OFSS)

OFSS, a division within the Division of Administration, has established clear designation of responsibilities in order to ensure separation of duties. This separation of duties, along with other established operational policies and procedures, provides assurance that fraud cannot be accomplished without collusion among employees in separate areas. OFSS is responsible for payments, federal draw requests and state and federal financial reporting. One employee actually inputs the properly authorized payment request into the financial system, and the request must be approved by an OFSS Supervisor in the system before a payment request is approved.

OCD-DRU

OCD-DRU is responsible for the day-to-day administration of the CDBG-DR program. Appropriate personnel review all requests for payment and accompanying invoices to ensure costs are reasonable and within the scope of the activity funded. In addition to grantee certification of the accuracy of payment requests, two authorizations are required on a request for payment prior to sending the request to OFSS for payment. All payment requests are reviewed for proper authorized signatures, dates of service and supporting documentation prior to input into the financial system for payment.

Payment Management

The payment management unit of OFSS provides information to the appropriation accounting unit so that federal funds can be drawn. The federal draw down request is reviewed and approved by an OFSS supervisor prior to the draw down request being processed. All funds are electronically transferred to the State Treasurer's central depository account to be used to liquidate the payables. The financial reporting of the expenditure and revenue activities is prepared by the appropriate accounting unit. All reports are prepared by one employee and reviewed by the appropriate manager prior to release of the report/statement.

The process within OCD-DRU begins at the program level. Program and Project Managers have established application review processes that include confirming project information provided by grantees and subrecipients, with an emphasis on duplication of benefits, valid project descriptions, confirmed sources of funding, eligible activity and CDBG-DR National Objective.

Grantee Administration Manual

OCD-DRU has developed a Grantee Administrative Manual for the CDBG-DR funds, which is provided to all grantees and subrecipients. It can be found electronically at <http://www.doa.la.gov/Pages/ocd-dru/DRAdminManual.aspx>. The purpose of the manual is to assure that all CDBG-DR funds are properly managed and accounted for, and to assure that grantees and subrecipients administer their projects and programs in accordance with all CDBG-DR rules and regulations. Additionally, OCD-DRU provides training to grantees and subrecipients on how to use the Grantee Administrative Manual.

Finally, there is monitoring of all grantees and subrecipients. This involves both desktop and onsite monitoring. **Appendix H** contains OCD-DRU's Long-Term Compliance and Monitoring Plan, which includes how projects and programs are related for monitoring on a quarterly basis. Within the Grantee Administrative Manual, OCD-DRU has provided grantees with a methodology and checklist to monitor subrecipients and contractors. OCD-DRU reviews grantee monitoring during on-site monitoring reviews.

Internal Auditing

The grantee's internal auditor is independent: that function is provided by DOA's Internal Audit Section, which reports to the Commissioner of the Division of Administration.

The Division of Administration Internal Audit Section's Audit Charter (**Appendix I**) defines its scope of responsibilities as follows:

"The scope of the internal audit function is to determine whether the DOA's network of risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- "Risks are appropriately identified and managed;
- "Interaction with the various departments occurs as needed;
- "Significant financial, managerial, and operating information is accurate, reliable and timely;
- "Employee's actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- "Resources are acquired economically, used efficiently and adequately protected;
- "Programs, plans and objectives are achieved;
- "Quality and continuous improvement are fostered in the DOA's control process; and
- "Significant legislative or regulatory issues impacting DOA are recognized and addressed properly."

In the FY 2016 Internal Audit Plan (**Appendix J**), fraud is a risk factor that is considered each year as a component in the Internal Audit Section's overall Risk Assessment for DOA, of which OCD-DRU is included.

An excerpt from the audit plan is as follows:

"In an effort to evaluate risk and identify what sections within DOA would benefit from an audit by the Internal Audit Section, we asked each section or agency head to complete a risk assessment questionnaire. The results of the questionnaires were used to help determine where audit resources should be focused in Fiscal Year 2016. In addition, this risk assessment instrument will identify where internal controls need to be strengthened and where operations within the DOA may need to become more efficient."

The questionnaire was divided into nine areas and included several questions under each area. Each area was assigned a particular weight factor. The weight factors are reviewed each year and are based on auditor judgement and consideration of the importance of each area as it relates to risk. (See **Appendix K** for the Louisiana Division of Administration Internal Audit Risk Assessment Questionnaire).