

EXECUTIVE DEPARTMENT

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED JULY 26, 2021

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

LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA

Executive Department



July 2021

Audit Control # 80200073

Introduction

As a part of our audit of the State of Louisiana’s Comprehensive Annual Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2020, we performed procedures at the Executive Department to provide assurances on financial information that was significant to the state’s Comprehensive Annual Financial Report; evaluate the effectiveness of the Executive Department’s internal controls over financial reporting and compliance; and determine whether the Executive Department complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the Executive Department management letter dated January 29, 2020. The prior-year findings related to Inadequate Grant Recovery of Homeowner Assistance Program Awards and Inadequate Recovery of Small Rental Property Program Loans have not been resolved and are addressed again in this letter.

Current-year Findings

Inaccurate Annual Fiscal Reports

The Office of Finance and Support Services (OFSS) submitted inaccurate Annual Fiscal Reports (AFR) for the Division of Administration (DOA) and the Office of Technology Services (OTS) for the fiscal year ending June 30, 2020. The following errors were noted:

- The DOA note disclosure for operating leases erroneously included payments totaling \$1.03 billion to be received from a lease in which the DOA is the lessor. After inquiry by the auditors, the DOA AFR was revised to move these lease payments to the appropriate lessor lease note disclosure. Subsequently, OFSS revised the DOA AFR again to correct the payment amounts reported in the disclosure, which were overstated by approximately \$80.4 million.

- The OTS operating expenses were overstated by approximately \$20.3 million, resulting from an erroneous adjustment made during the year-end close process.

Good internal control for financial reporting includes adequate supervisory review of the AFRs to identify and correct preparation errors before submitting the reports to the Office of Statewide Reporting and Accounting Policy (OSRAP). Failure to properly compile and review the AFR before submitting it to OSRAP for inclusion in the state's Comprehensive Annual Financial Report increases the likelihood that errors and omissions, either intentional or unintentional, may occur and remain undetected.

Management should perform a thorough review of the AFR to identify and correct preparation errors before submitting the reports to OSRAP. Management's response indicated concurrence with the noted errors in the AFRs and provided a corrective action plan to prevent these types of errors from occurring in future years (see Appendix A, pages 1-2).

Inadequate Recovery of Small Rental Property Program Loans

For the fiscal year ended June 30, 2020, the DOA, Office of Community Development (OCD), Disaster Recovery Unit (DRU) identified \$34,233,732 in Small Rental Property Program (SRPP) loans for 321 property owners under the Community Development Block Grant/State's Program (CDBG) who failed to comply with one or more of their loan agreement requirements and were assigned to loan recovery status. Since OCD has not recovered these loans, we consider these amounts totaling \$34,233,732 to be questioned costs. In addition, 916 noncompliant loans identified in previous years totaling \$80.2 million remain outstanding.

As of June 30, 2020, of the 4,486 outstanding SRPP loans totaling \$436.6 million, 1,078 noncompliant loans totaling \$100.2 million are in active recovery status, and OCD represented that current recovery efforts are to either recoup the loan funds or work with the applicants to bring them into compliance with the state's continuing requirements of the program. The remaining 159 noncompliant loans totaling \$14.3 million have been determined by OCD to be uncollectable for various reasons such as foreclosure, property seizure, or legal dispute.

Ultimately, OCD's failure to recover loans from noncompliant property owners could result in disallowed costs. The state could be liable for noncompliant awards if disallowed by the federal grantor; however, it is unknown whether the federal government would demand repayment of the awards.

In response to hurricanes Katrina and Rita, the state was awarded and has allocated approximately \$653 million to the SRPP, as part of the Road Home program. In accordance with the state's U.S. Department of Housing and Urban Development (HUD)-approved Action Plan Amendment 24, the SRPP offers forgivable loans to qualified property owners who agree to offer rental properties at affordable rents to be occupied by lower-income households. In exchange for accepting loans ranging between \$10,000 and \$100,000 per rental unit, property owners are required to accept limitations on rents and incomes of renters during an "affordability period," a specified period of time based on the amount of funding received and the type of work being done (renovation or full construction) ranging between three and 20 years. The loan amounts are determined based on

location of property, number of bedrooms, and the poverty level of the renter. In addition to accepting limitations on rents and income of renters, property owners also agree to maintain property insurance and maintain flood insurance, if necessary. These requirements become effective one year after the closing date and remain until the expiration of the “affordability period.” According to the loan agreements, failure to comply with any of the loan requirements shall constitute default and mandatory repayment. Good internal controls would ensure that policies and procedures are in place with an established timeline to monitor compliance with the loan agreements and provide for specific actions (i.e., loan modification, foreclosure, or repayment) if a property owner fails to comply with the loan agreement or does not provide evidence of compliance as required by the loan agreement.

In June 2016, HUD issued a monitoring review report that included a finding that states the SRPP design lacked sufficient fiscal accounting controls and procedures to ensure that CDBG funds identified as ineligible expenses are able to be recaptured and repurposed for eligible uses. In HUD’s May 2017 monitoring report, HUD noted that Louisiana has made significant progress on reviewing the SRPP documentation and implementing the corrective actions described in the June 2016 monitoring report. In HUD’s February 2020 monitoring report, HUD reported that OCD is exploring all options to assist as many applicants in reaching compliance as possible. Nonetheless, OCD is prepared to employ the judicial foreclosure process as a potential option where no other remedy is available. HUD will continue to work with OCD to determine final enforcement procedures and potential recapture amounts. HUD stated that OCD must complete its selection of the properties going to public auction before the end of 2020.

OCD should continue its monitoring to identify awards to be placed in recovery and continue the corrective actions as recommended by HUD to recover funds from noncompliant property owners. OCD stated in its response that it will continue the efforts to recover ineligible awards and will continue to work with rental property owners to become compliant and resolve loan compliance issues to reduce or eliminate the need to recapture funds from rental property owners (see Appendix A, pages 3-4).

Additional comments: OCD’s response notes that those files determined to have satisfied a HUD National Objective, but not the state’s continuing program requirements, are not subject to repayment to HUD. However, OCD could not provide communications from HUD supporting this statement. Therefore, we continue to identify these files as questioned costs.

Inadequate Controls over Certain Coronavirus Relief Fund Transactions

For the fiscal year ended June 30, 2020, DOA did not thoroughly review certain state agency expenditures prior to approving reimbursement using Coronavirus Relief Fund (CRF) monies. The Louisiana Legislature appropriated a portion of the CRF monies received by the state of Louisiana to be used for the expenditures of state agencies resulting from the public health emergency with respect to Coronavirus Disease 2019 (COVID-19). DOA then established a process for state agencies to submit requests for reimbursement of allowable expenditures already incurred to be covered using CRF dollars. DOA was responsible for reviewing and approving these expenditures for CRF funding to ensure they were for COVID-19-related expenditures. In addition, DOA was responsible for maintaining the support reviewed in approving the expenditures.

Louisiana reported CRF expenditures totaling \$217,118,448 on its fiscal year 2020 Schedule of Expenditures of Federal Awards. Included in the \$217.1 million were CRF reimbursements of certain non-payroll expenditures for the Department of Public Safety and Corrections - Corrections Services (DOC) totaling \$7,761,339, or 3.6% of the total. DOA decided that 100% of the non-payroll expenditures DOC submitted would be considered allowable for CRF funding as long as the costs were incurred during the allowed period and, therefore, did not require DOC to submit support that each expenditure incurred was a COVID-19-related expenditure.

As a result, DOA approved the expenditures for CRF funding based on its review of system reports and other documentation evidencing payment; but the documentation reviewed did not identify the purpose of each expenditure to support the determination that it was incurred due to COVID-19. DOA represented this decision was made based on U.S. Department of the Treasury (Treasury) guidance dated April 22, 2020; the Treasury Frequently Asked Questions (FAQ) document dated May 4, 2020; and other information obtained verbally from DOC management. Not reviewing and maintaining sufficient detail to support that each expenditure reimbursed with CRF funds was incurred due to COVID-19 increases the risk that CRF monies were used for unallowed purposes potentially leading to questioned and/or disallowed costs.

The CARES Act was enacted on March 27, 2020, and as amended requires that CRF shall be used for (1) necessary expenditures incurred due to the public health emergency with respect to COVID-19; (2) were not accounted for in the state budget most recently approved as of March 27, 2020; and (3) were incurred during the period that begins March 1, 2020, and ends on December 31, 2021. The Treasury issued additional guidance and FAQ documents to further clarify how the CRF monies can be used. Treasury guidance dated April 22, 2020, included the following as an example of an allowable use of CRF: “COVID-19 related expenses of maintaining state prisons and county jails, including as it relates to sanitation and improvement of social distancing measures, to enable compliance with COVID-19 public health precautions.”

DOA management should ensure that DOC review previously approved reimbursements to ensure sufficient support is available to indicate that each approved expenditure was COVID-19 related, and should ensure that sufficient supporting documentation is submitted and maintained for any future requests for reimbursement of expenditures using CRF funds as evidence of compliance with Treasury guidance and FAQs. DOA management did not concur with the finding and noted that the finding incorrectly states “100 percent of non-payroll expenditures DOC submitted would be allowable.” Management contended that there was a complete review of documentation submitted and “the reports submitted by DOC provided enough evidence to prove the expenditures were operating costs which were pre-determined to be eligible.” Management also contended that it was reasonable, given the administrative accommodation provided by the Treasury allowing all payroll costs for public safety employees, to consider the costs of maintaining and operating prisons as eligible CRF expenditures. DOA management further stated that “the eligibility of the expenditures questioned by LLA is now irrelevant” since DOA is supplementing the initial state entity allocations with additional eligible expenditures by “replacing reimbursed operating costs with eligible payroll expenditures.” (see Appendix A, pages 5-10)

Additional Comments: We would like to clarify that the finding accurately states, “DOA decided that 100% of the non-payroll expenditures DOC submitted would be considered allowable for CRF

funding as long as the costs were incurred during the allowed period, and therefore, did not require DOC to submit support that each expenditure incurred was a COVID-19 related expenditure.” In our judgement, it was not reasonable to pre-determine that all DOC operating expenditures incurred during the allowed period would be allowable, and therefore consider this to be a flaw in the design of the established controls.

DOA’s response refers to the Treasury guidance that provided an administrative allowance for states to presume that public health and public safety employees were substantially dedicated to mitigating or responding to the COVID-19 public health emergency, and, therefore, the payroll costs for those employees would be eligible uses of CRF funds. This administrative allowance effectively reduced the documentation burden for those payroll costs in not requiring the states to track and document time spent by those employees related to COVID-19. The Treasury guidance, however, does not afford that same administrative allowance to other types of expenditures. Therefore, we disagree with DOA’s rationale that “given the presumption that public safety and public health employees’ daily work activities are substantially dedicated to mitigating and responding to COVID-19, it was reasonable... to conclude that the costs of maintaining and operating prisons and youth facilities are eligible for CRF reimbursement.”

In addition, DOA’s response states that “the eligibility of the expenditures questioned by LLA is now irrelevant” since DOA is supplementing the initial state entity allocations with additional eligible expenditures by “replacing reimbursed operating costs with eligible payroll expenditures.” We would like to clarify that this finding only addresses the identified control deficiency and does not report questioned costs. Also, any additional expenditures that DOA may have identified as allowable to replace the previously approved operating costs are not relevant to the scope of our audit work and should instead be presented to the federal oversight agency during audit resolution.

Inadequate Grant Recovery of Homeowner Assistance Program Awards

For the fiscal year ended June 30, 2020, the DOA, Office of Community Development (OCD), Disaster Recovery Unit (DRU) identified \$38,359 in noncompliant Homeowner Assistance Program (HAP) awards for two homeowners through post-award monitoring for the Community Development Block Grant/State’s Program (CDBG). Because these noncompliant awards have not been recovered as of June 30, 2020, we consider the amounts as questioned costs. In addition, 27,932 noncompliant files totaling \$930.6 million identified in previous years are still outstanding. Of this total, OCD is actively pursuing collections on 15,721 files totaling \$555.9 million, and the remaining 12,211 files totaling \$374.7 million have been determined uncollectable for various reasons such as death or bankruptcy.

As of June 30, 2020, \$8.9 billion in total HAP awards have been disbursed to 130,053 homeowners. At year-end, OCD was actively reviewing files for 383 applicants totaling \$12.4 million to make final determinations of the homeowner’s noncompliant status or final assessment of the collectability of accounts determined to be noncompliant. In addition, OCD reported that the following progress was made during fiscal year 2020: 43 files were submitted to a law firm to pursue collection efforts; 150 applicants requested a plan for payment; and 256 files with obligations were paid off or were cleared.

OCD's failure to recover benefits from noncompliant homeowners could result in disallowed costs. The state could be liable for noncompliant awards if disallowed by the federal grantor; however, it is unknown whether the federal government would demand repayment of these awards.

In response to hurricanes Katrina and Rita, the state was awarded approximately \$9.5 billion to administer HAP as part of the Road Home Program in accordance with its Action Plan approved by the U.S. Department of Housing and Urban Development (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. Homeowners agree in the covenant to provide OCD with evidence that they will occupy their damaged property or replacement property within three years of the closing date, maintain homeowner's insurance on their property, maintain flood insurance if necessary, and ensure that any required elevation conforms to the advisory base flood elevation regulation for the parish in which their home is located. The state's Action Plan states that homeowners who 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.

In the initial stages of the program, OCD focused on making payments to disaster victims as quickly as possible, because the state had made a decision to accept additional risks associated with expedited payments with the understanding that any ineligible or unallowable payments would be detected and corrected in post-award monitoring. Awards are included in grant recovery because of duplication of benefits (homeowner's insurance proceeds or other federal assistance), lack of documentation evidencing owner-occupancy of the property, and noncompliance with one or more award covenants. In addition, individual homeowner awards have been identified for grant recovery because of errors made by the program's former contractor, ICF International Inc., in determining the grant calculation or obtaining the required documentation.

In August 2015, HUD amended the grant terms and conditions to formalize a partnership between the state and HUD and created the Road Home closeout plan, which continues to address noncompliance. Additional opportunities allow for the review of awards to determine if any unmet needs or additional assistance is necessary for participants to return home, including reclassification of the Road Home Elevation Incentive award and allowing interim housing as an unmet need. OCD has forwarded noncompliant awards to a law firm for collection in accordance with the Road Home closeout plan.

OCD should continue its recovery efforts to collect those awards determined to be noncompliant. OCD's response indicates concurrence with the finding, stating that OCD will continue its efforts to recover those awards determined to be ineligible in accordance with policies and procedures that are acceptable to HUD. OCD's response also indicates that OCD will continue to work with homeowners to become compliant and resolve grant compliance issues in order to reduce or eliminate the need to recapture funds from homeowners where appropriate (see Appendix A, pages 11-12).

Inadequate Controls over Vendor Record Changes

DOA, OSRAP did not have adequate controls over vendor record changes, which increases the risk of inappropriate vendor payments resulting from error or fraud.

OSRAP did not have adequate controls in place to validate vendor requests for changes to vendor information, which resulted in inappropriate changes to five vendor records. As a result, inappropriate payments totaling \$5,213,363 were sent to the bank for payment. Of the \$5.2 million inappropriate transactions, OSRAP represented that payments totaling \$4,812,269 were detected by the bank as potentially improper and were stopped before the payments cleared the bank. As of July 27, 2020, of the remaining \$401,094, OSRAP stated that \$110,728 had not been recovered.

Vendors wanting to conduct business with or receive payment from the state of Louisiana are required to self-register through the Division of Administration, Office of State Procurement's LaGov Online Vendor Self-Service Portal. Once a vendor has registered, it is the responsibility of OSRAP to maintain the vendor record information. Vendors are responsible for notifying OSRAP of any changes needed to their vendor information, which may include updates to physical, mailing, and remittance addresses; vendor names; and banking information.

Additional information relating to the specific vendor record changes associated with this finding was not included in this report due to the sensitive nature of the issues. This information has been separately communicated to OSRAP.

OSRAP should implement adequate controls over vendor changes to ensure that changes are appropriate and properly approved. Management concurred with the finding (see Appendix A, page 13). Because of the sensitive nature of the information, the detailed corrective actions were communicated separately to auditors and are not included in this report.

Weaknesses in Controls over Information Technology Security and Data Recovery

The DOA, Office of Technology Services (OTS), did not have adequate controls over information technology security and lacked agency-supported data recovery functions. OTS is responsible for establishing and coordinating all information technology systems affecting the management and operations of the state agencies it serves.

The following issues were identified:

- On November 15, 2019, OTS was subject to a ransomware incident whereby attackers exploited an exposed server at a third-party data center and used valid administrative access to other servers to install ransomware on devices throughout the OTS network. The attack occurred due to a misconfiguration of two firewall devices on the network. In addition, the affected server lacked intrusion protection software, patch maintenance, and virus scanning. Of the state's approximately 35,000 workstations and 5,000 servers, OTS was able to limit the attack to 3,764 workstations (10.8%) and 372 servers (7.4%) affecting seven agencies. Following

OTS's incident response plan, OTS was able to recover most critical data, and major financial applications were not impacted. Full data recovery did not occur until February 2020.

- As of October 5, 2020, six agencies that OTS serves are missing a completed business impact analysis (BIA). As a result, OTS may lack appropriately defined recovery point objectives (RPOs) and recovery time objectives (RTOs) for these six agencies, which are critical in defining data backup requirements and timely restoring applications and data following an incident, such as the ransomware attack. An incomplete listing of agency RPOs and RTOs increases the risk that OTS will not be able to completely and timely recover all agency data without costly impacts to agency operations.
- Although OTS has made progress in designing, testing, implementing, and supporting enterprise-wide technology platforms and standards, it still lacks fully documented standards and procedures for certain security areas. Due to their sensitivity, we have communicated these areas confidentially to management. A lack of formal, established standards and procedures in these areas increases risk of inconsistent application of existing practices and may lead to inadequately secured applications and devices.

We evaluated OTS controls based on best practices, as defined by *Control Objectives for Information and Related Technology*, a framework by the Information Systems Audit and Control Association.

OTS should identify and appropriately secure all devices on its network. Additionally, OTS should obtain BIAs for the remaining agencies it serves and ensure a complete listing of agency RPOs and RTOs is compiled and maintained. Lastly, OTS should fully document enterprise-wide standards and procedures for all security areas. Management's response indicated concurrence or partial concurrence with the issues outlined in the finding and provided a corrective action plan (see Appendix A, pages 14-15).

Lack of Written Policies and Procedures

The DOA, Louisiana Federal Property Assistance Agency (LFPAA) did not have written policies and procedures governing the administration of the Fixed Price Vehicle program, in which LFPAA acquires vehicles and property from the U.S. General Services Administration (GSA) for resale to state and local governments, or other tax supported agencies.

LFPAA charges a service charge on the resale of property through this program; however, there are no written policies outlining the service charges to be applied to the sale price. The lack of written policies and procedures increases the risk of errors and/or fraud in charging for the property acquired from GSA through the program. In addition, although LFPAA has written policies and procedures for the collection of delinquent debt, those policies and procedures are dated January 2013 and do not include referring delinquent debt to the Office of Debt Recovery (ODR) to ensure compliance with Louisiana Revised Statute (R.S.) 47:1676.

Good internal controls require written policies and procedures to be in place and communicated to all employees to guide them in their functions. Also, LFPAA does not have an agreement in place with ODR to pursue collection of past due accounts, as required by R.S. 47:1676.

LFPAA should develop written policies and procedures governing the administration of the Fixed Price Vehicle program, to include procedures for applying the service charges to property sold. In addition, LFPAA should enter into an agreement with ODR for the collection of outstanding accounts in accordance with R.S. 47:1676. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 16-17).

Comprehensive Annual Financial Report – State of Louisiana

As a part of our audit of the Comprehensive Annual Financial Report for the year ended June 30, 2020, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

Division of Administration (Agency 107):

- Liabilities resulting from claims and litigation

Division of Administration, Office of Facility Planning and Control (Agency 115):

- Non-payroll expenditures
- Accrued payables
- Amounts held on deposit for others

Division of Administration, Office of Technology Services (Agency 815):

- Operating expenses

We also evaluated certain controls and compliance relating to procurement at Division of Administration, Office of State Procurement.

Based on the results of these procedures, we reported findings related to Inaccurate Annual Fiscal Reports, Inadequate Controls over Vendor Record Changes, and Weaknesses in Controls over Information Technology Security and Data Recovery, as described previously. The finding related to Inaccurate Annual Fiscal Reports will also be included in the Single Audit of the State of Louisiana for the year ended June 30, 2020. In addition, the account balances and classes of transactions tested, as adjusted, were materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2020, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on the Executive Department's major federal program, the Coronavirus Relief Fund (CFDA 21.019)

Those tests included evaluating the effectiveness of Executive Department's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether the department complied with applicable program requirements. In addition, we performed procedures on information submitted by the department to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards (SEFA) and on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to Inadequate Grant Recovery of Homeowner Assistance Program Awards, Inadequate Recovery of Small Rental Property Program Loans, and Inadequate Controls over Certain Coronavirus Relief Fund Transactions. These findings will also be included in the Single Audit for the year ended June 30, 2020. In addition, the department's information submitted for the preparation of the state's SEFA and the state's Summary Schedule of Prior Audit Findings, as adjusted, is materially correct.

Other Procedures

In addition to the Comprehensive Annual Financial Report and Single Audit procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing the Louisiana Federal Property Assistance Agency's internal control and compliance with related laws and regulations over the Fixed Price Vehicle program.

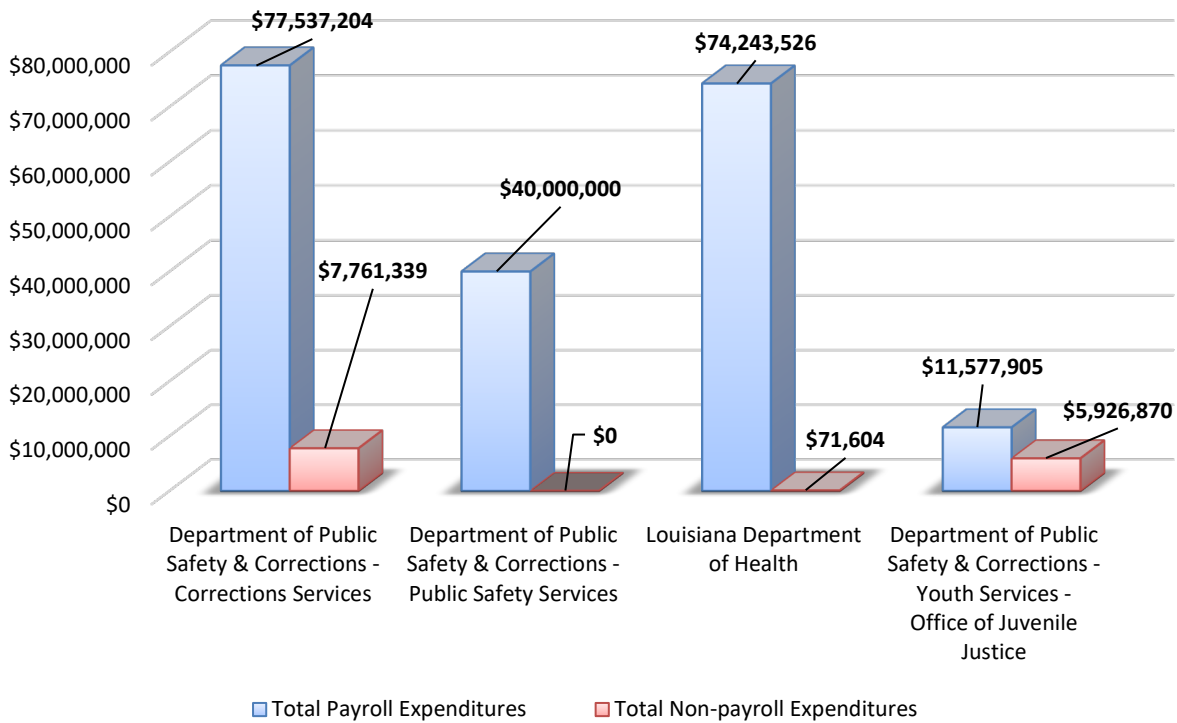
Based on the results of these procedures, we reported a finding related to Lack of Written Policies and Procedures, as described previously.

Trend Analysis

We compared the most current and prior-year financial activity using the Executive Department's Annual Fiscal Reports and/or system-generated reports and obtained explanations from management for any significant variances. We also prepared an analysis of Coronavirus Relief Fund (CRF) expenditures reported on the SEFA for fiscal year 2020.

Louisiana reported \$217.1 million in CRF expenditures on the SEFA for fiscal year 2020. These funds were appropriated by the Louisiana Legislature to be used for the expenditures of certain state agencies resulting from the public health emergency with respect to Coronavirus Disease 2019 (COVID-19). The exhibit below displays the state agency payroll and non-payroll expenditures that were covered using CRF funds. The majority of CRF expenditures, \$203.4 million or 93.7%, were used for payroll costs of public health and public safety entities. The remaining \$13.8 million, or 6.3%, of CRF expenditures were used for non-payroll costs of those same entities.

Exhibit 1
Fiscal Year 2020 Coronavirus Relief Fund Expenditures,
by State Agency



Source: 2020 SEFA expenditure detail

Other Reports

On September 16, 2020, a report was issued by the Louisiana Legislative Auditor's Financial Audit Services for the Department of Natural Resources. This report includes a finding titled *Weaknesses in Management of DNR System* that involves the Office of Technology Services, an office included within the Division of Administration within the Executive Department. This report is available on the Louisiana Legislative Auditor's website.

On December 28, 2020, a report was issued by the Louisiana Legislative Auditor's Financial Audit Services for the Office of Group Benefits. This report includes a repeat finding titled *Inaccurate Annual Fiscal Reports* that involves the Office of Finance and Support Services, an office within the Division of Administration within the Executive Department. This report is available on the Louisiana Legislative Auditor's website.

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 related to the department's compliance with applicable laws and regulations should be addressed immediately by management.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MK:CST:BQD:EFS:aa

EXECUTIVE2020

APPENDIX A: MANAGEMENT'S RESPONSES

Office of Finance and Support Services
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

December 22, 2020

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

Dear Mr. Purpera:

The Office of Finance and Support Services (OFSS) appreciates the opportunity to respond to the finding titled, Inaccurate Annual Fiscal Reports, resulting from the fiscal year ending June 30, 2020 Executive Department financial audit.

The errors that occurred in the Annual Fiscal Report (AFR) for the Executive Department were due to the misclassification of new leases and an initial overstatement of lease revenues on the Division of Administration's (DOA) AFR; and the overstatement of operating expenditures on the Office of Technology Services' (OTS) AFR.

Upon correcting the classification of the new DOA leases in the note disclosure from operating leases to lessor leases within the DOA AFR, OFSS obtained subsequent financial information relative to these leases indicating that amounts previously identified and reported as lease revenue in the Office of Statewide Reporting and Accounting Policy (OSRAP) AFR portal were inaccurate. OFSS immediately requested that OSRAP open the AFR portal so that the correction could be made to the AFR. As both corrections have been made, OFSS will ensure the leases are properly classified and the amounts are verified prior to submission into the OSRAP AFR portal for FYE 21 and going forward.

After reviewing the actuarial report, OFSS identified necessary adjustments that should have been made to the OTS AFR for Pension Liability and OPEB Obligation. These adjustments were erroneously applied to the Beginning Net Position resulting in an overstatement in Operating Expenses. Upon preparing the FYE 21 AFR for OTS, OFSS will ensure that adjustments are properly applied.

The adjustment presented that is necessary for proper presentation of the Executive Office financial statements in the fiscal year ending June 30, 2020 CAFR for the State of Louisiana has been accepted and made by OSRAP.

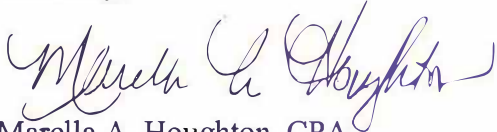
Daryl Purpera, Legislative Auditor

December 22, 2020

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Thank you for your team's commitment to high standards and professionalism in working with OFSS during the audit. If you have any questions or need additional information, please contact Judith Jackson, Director of Financial Reporting, via email at judith.jackson@la.gov or by telephone at (225) 342-5280.

Sincerely,



Marella A. Houghton, CPA

Deputy Undersecretary

Cc: Jay Dardenne, Commissioner of Administration
Barbara Goodson, Deputy Commissioner
Desireé Honoré Thomas, CPA, CGMA, Assistant Commissioner
Randy Davis, CPA, Assistant Commissioner
Erin Sindelar, CPA, Internal Audit Administrator
Yvette Beamon, Audit Manager, Internal Audit
Lindsay Schexnayder, CPA, Director of OSRAP
Judith Jackson, Director of Financial Reporting

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

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

December 16, 2020

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

RE: Inadequate Recovery of Small Rental Property Program Loans

Dear Mr. Purpera:

The Division of Administration, Louisiana Office of Community Development (OCD) is submitting the following as a response to the audit finding titled "Inadequate Recovery of Small Rental Property Program Loans."

The Small Rental Property Program has two tiers of compliance obligations. The federal compliance requirements are for the CDBG funds issued to a borrower to meet a National Objective and be expended on an Eligible Activity. On top of the federal requirements, the State has its own program requirements. Upon the initial placement of an eligible tenant in a habitable unit at a restricted rent amount, the HUD requirements have been satisfied. Most of the matters made the subject of your report deal with the borrower's non-compliance with the State's program rules, not the HUD requirements.

OCD has allocated approximately \$649 million to the SRPP program to fund approximately 4,500 applicants and we maintain an ongoing monitoring process to promote compliance and continued existence of affordable housing. Consistent with the program's mission of preserving and expanding much needed affordable housing, OCD's primary focus for the Small Rental Property Program (SRPP) is to assist property owners in achieving and maintaining compliance, i.e., creating and continuing affordable housing opportunities, as opposed to foreclosure and/or recapture of funds, and are, therefore, not subject to recapture by HUD.

In summary, as of June 30, 2020, the LLA has determined that 1,237 applicant files have been identified as noncompliant. Of these, 159 files have been determined to be uncollectible, leaving 1,078 files that are actively being addressed. Using the two tiers defined above, 397 files have not met a National Objective (per HUD's 2016 monitoring report discussed below), while the remaining 681 satisfied HUD requirements but are non-compliant with the State's program rules.

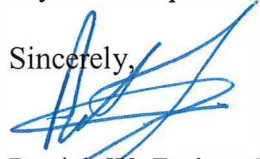
Regarding the first group, in June 2016, OCD, working with the Louisiana Housing Corporation (LHC) and the U.S. Department of Housing and Urban Development (HUD), identified 397 SRPP borrowers that did not meet a National Objective. OCD's Legal Section and LHC program staff have been communicating with non-compliant borrowers and evaluating proposed workouts. OCD sent default letters to and initiated recapture efforts on all borrowers. Each file is processed with a goal of either reaching compliance, securing repayment, or identifying another viable workout plan. As of June 30, 2020, of the 397 files identified, 73 borrowers have become compliant or repaid their loans, 18 borrowers have transferred their housing obligations to other compliant properties, and 27 have been determined uncollectable for various reasons.

The 681 remaining files identified by the Louisiana Legislative Auditor (LLA) as non-compliant have met a National Objective and have satisfied HUD's requirements and, as such, are not subject to repayment to HUD; OCD's compliance and repayment efforts relating to the state imposed continuing requirements of the program are ongoing.¹ The optimal outcome of these efforts is the continued provision of affordable housing through compliance.

In conclusion, OCD and LHC will continue the efforts to recover those loans determined to be ineligible in accordance with policies and procedures that are acceptable to HUD. Concurrently, OCD will also continue to assist rental property owners to become compliant and to resolve any program compliance issues, thus increasing available affordable rental housing and reducing or eliminating the need to recapture funds from rental property owners, where appropriate.

The contact person responsible for the corrective action is Edwin Legnon, OCD Director of Finance and Reporting. Once approved by HUD, the anticipated completion date for this corrective action plan will coincide with the closing of the SRPP program.

If you have questions or require additional information, please feel free to contact me.

Sincerely,


Patrick W. Forbes, P.E.
Executive Director
Office of Community Development

C: Jay Dardenne, Commissioner of Administration
Desireé Honoré Thomas, Assistant Commissioner of Statewide Services
Erin Sindelar, Internal Audit Administrator

¹An important note with respect to these files is that since there have been periods of compliance, a portion of each loan is forgiven, reducing the amount outstanding and collectible on the loan.

Office of the Commissioner
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

June 16, 2021

Mr. Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

RE: Inadequate Controls over Certain Coronavirus Relief Fund Transactions

In response to your letter dated June 9, 2021, the Division of Administration, Office of the Commissioner (DOA) is submitting the following in response to the audit finding titled "Inadequate Controls over Certain Coronavirus Relief Fund Transactions."

DOA **does not concur** with the finding. Adequate controls were indeed established to insure that all state applications for coronavirus relief fund (CRF) reimbursement were thoroughly reviewed and that all expenditures reimbursed were allowable and properly documented prior to the transfer of appropriated CRF funds.

It is important to consider the unusual and unprecedented circumstances that existed in the state and across the nation when the CARES act was enacted and the state CRF program was created. The immediate goal was to provide direct emergency assistance to critical areas of state government that were directly and immediately impacted by the pandemic and that required financial assistance to maintain necessary operations.

The COVID-19 Crisis Began in March 2020

The first case of COVID-19 was confirmed in Louisiana on March 9, 2020. On March 13, Governor John Bel Edwards signed a Proclamation¹ to close all Louisiana public schools by March 16, 2020. As of March 22, 2020, the Governor issued a stay-at-home order², effective March 23, 2020, directing Louisiana residents to shelter at home and most non-essential businesses to close. All state office buildings were closed to the public; however, all essential state services and functions were ordered to remain fully operational. The Proclamation refers to the federal guidance³ issued by the Cyber and Infrastructure Security Agency (CISA) on March 19, 2020, as a source of guidance used to identify critical essential infrastructure. The CISA guidance, which was issued to support state and local government response to the pandemic, included law enforcement and corrections, and

¹ Attachment 1 - Proclamation Number JBE 2020 – 27

² Attachment 2 - Proclamation Number JBE 2020 – 33

³ Attachment 3 - CISA – *Guidance on the Essential Critical Infrastructure Workforce*

reiterated that this critical infrastructure has a “special responsibility in these times to continue operations.”

CARES Act is Enacted and Federal Relief Funds Are Transferred to the State

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES) was enacted. As part of the CARES Act, the Coronavirus Relief Fund (CRF) was created to aid state and local governments navigating the impact of the Coronavirus Disease 2019 (COVID-19) pandemic. The State of Louisiana received \$1.8 billion, of which over \$950 million was the state’s portion to be administered by DOA. The U.S. Treasury issued guidance on April 22, 2020 to provide more details related to the eligibility requirements for CRF funding.⁴ Louisiana, along with the other 49 states across the nation, was faced with interpreting the limited guidance provided, and with developing programs to distribute the emergency funding as soon as possible.

To assist states with administering the CRF funding, supplemental guidance was issued by the U.S. Treasury in the form of Frequently Asked Questions⁵ (FAQs). These FAQs gave broad discretion to states by providing that “**governments are responsible for making determinations as to what expenditures are necessary due to the public health emergency with respect to COVID-19 and do not need to submit any proposed expenditures to Treasury.**” DOA acted pursuant to this express grant of authority in evaluating the expenditures submitted by state entities for reimbursement, including those of concern to LLA in this proposed finding. Upon determining eligibility, DOA separately identified the nature of the documentation needed to support the expenditure requests.

State Leaders Assessed the Needs Across the State Resulting from COVID-19

As the administrator of CRF funds, DOA executive management, along with the Office of General Counsel, Office of Planning and Budget, and Internal Audit, collaborated to determine the most prudent policies and procedures for the expeditious distribution of CRF funds. Simultaneously, DOA, in connection with leaders throughout the Executive branch, as well as the Louisiana Legislature, identified the most critical needs for the state portion of the CRF funding. Consideration was given during the development of the Louisiana CRF programs to the eligibility requirements included in the initial US Treasury guidance. Specifically, in order to be eligible for reimbursement, the expenditures must be necessary expenditures due to the public health emergency, could not be included in the most recently approved budget as of March 27, 2020, and must be incurred between March 1, 2020 and December 30, 2020. The guidance also states that expenditures are eligible if they were budgeted but used for a significantly different purpose.

A number of critical state entities, including the Department of Public Safety, the Department of Corrections, the Louisiana Department of Health, and the University Systems throughout the state, were identified as entities facing new and/or significantly different expenditures necessary to adequately respond to the pandemic. DOA met with leaders of these entities to discuss their needs relative to the pandemic and to make recommendations to amend the budget. A preliminary presentation was made to the Appropriations Committee on May 4, 2020, and discussions continued. Final fiscal year 2020 appropriations of the state portion of CRF funding were made by

⁴ Attachment 4 – *Coronavirus Relief Fund – Guidance for State, Territorial, Local, and Tribal Governments, April 22, 2020*

⁵ Attachment 5 – *Coronavirus Relief Fund – Frequently Asked Questions, Updated as of May 4, 2020*

the Legislature through Act 255 of the 2020 Regular Legislative Session.⁶ The Legislature allocated \$146,218,086 in CRF funds to the Department of Corrections (DOC) for fiscal year 2020 through supplemental appropriations.

Correctional Facilities Nationwide Faced the Impacts of the Pandemic

The immediate impacts of the pandemic on prisons nationwide were expansive and significant. New challenges and public health guidelines significantly changed the day-to-day operations required to protect the health of both those in custody and those employed by the state, and to support public safety. Prison populations were deemed high risk due to the inability to socially distance, as well as the vulnerability of the population to COVID-19. On March 23, 2020, the US Centers for Disease Control and Prevention (CDC) issued *Interim Guidance on Management of COVID-19 in Correctional and Detention Facilities*⁷. The CDC stated that the guidance was issued “to ensure the continuation of essential public services and protection of the health and safety of incarcerated and detained persons, staff, and visitors.” In this interim guidance, the CDC outlined recommendations for correctional facilities in 3 categories – Operational Preparedness, Prevention, and Management of COVID-19.

On April 7, 2020, by Proclamation⁸, Governor Edwards excluded correctional institution personnel, as first responders, and health care providers from being eligible to utilize leave under the Emergency Paid Sick Leave Act and the Emergency Family and Medical Leave Expansion Act. This was necessary to ensure continuity of security and health care services throughout Louisiana’s prisons and youth facilities. Later, on May 8, 2020, the CDC published a focused Morbidity and Mortality Weekly Report – *Public Health Response to COVID-19 Cases in Correctional and Detention Facilities – Louisiana, March – April 2020*⁹ which further details the challenges of correctional facilities specifically in Louisiana. This report explains the COVID-19 Management Assessment and Response (CMAR) tool which was developed and deployed by Louisiana Department of Health and the CDC to assist correctional facilities with the new operational changes required during the pandemic.

The U.S. Treasury’s initial guidance and FAQs identify Public Safety and Public Health employees in a number of instances as categorically being COVID-19 related due to the essential function of these two groups in response to the public health emergency. In supplemental guidance included in the updated CRF guidance on September 2, 2020¹⁰, Treasury announced that, “as an administrative accommodation”, states may “presume that public health and public safety employees” are “substantially dedicated to mitigating or responding to the COVID-19 public health emergency.” Therefore, Treasury declared that the “entire payroll costs” of any public health employee or public safety employee (terms which Treasury broadly defines) can be reimbursed with CRF funds. The guidance further authorized for reimbursement “COVID-19 related expenses of maintaining state prisons and county jails, including as it relates to sanitation and improvement of social distancing measures, to enable compliance with COVID-19 public health precautions.” Given the presumption that public safety and public health employees’ daily work activities are substantially dedicated to mitigating and responding to COVID-19, it was

⁶ Attachment 6 – Act 255 of the 2020 Regular Session of the Louisiana Legislature

⁷ Attachment 7 - CDC Interim Guidance on Management of COVID-19 in Correctional and Detention Facilities

⁸ Attachment 8 – Proclamation No. 2020-43 referencing the Families First Coronavirus Response Act

⁹ Attachment 9 - May 8, 2020, CDC Morbidity and Mortality Weekly Report – *Public Health Response to COVID-19 Cases in Correctional and Detention Facilities – Louisiana, March – April 2020*

¹⁰ Attachment 10 – *Coronavirus Relief Fund – Guidance for State, Territorial, Local, and Tribal Governments, Updated September 2, 2020*

reasonable and well within its discretionary grant of authority for DOA to conclude that the costs of maintaining and operating prisons and youth facilities are eligible for CRF reimbursement.

Administration of CRF Funding and Application for Reimbursement

The finding incorrectly states that DOA “did not thoroughly review certain state agency expenditures prior to approving reimbursement” and that “100 percent of non-payroll expenditures DOC submitted would be allowable.” DOA utilized the discretionary authority to make determinations and the presumption afforded by Treasury, along with the COVID-19 related challenges discussed above, to determine eligibility and the documentation required for each reimbursement. In order to maintain sufficient documentation and complete records of all disbursements of CRF funds, DOA, with the assistance of the Office of Technology Services (OTS), created an online application portal at LouisianaCARES.la.gov. All state agencies, including DOC, were required to submit documentation supporting the eligibility of the expenditures included in their applications for reimbursement submitted through the portal. All state entities, with the exception of the Legislative Auditor, submitted documentation as required, and responded to requests for explanation and additional support as needed.

The inclusion, for reimbursement purposes, of operating and maintenance costs for DOC was made in good faith based on the guidance available at the time. To incorporate an invoice-level, detailed review of all operating costs prior to reimbursing funds would have created undue and unbearable administrative burden for an agency already in the midst of a public health emergency. Allowing costs to be reimbursed categorically, i.e. operating expenditures, was the most prudent choice given the availability of detailed records for future examination. It was the policy of DOA to approve funds for transfer only after a complete review of the application and supporting documentation. Based upon DOA’s determination that the costs necessary to operate and maintain their facilities were reimbursable, DOC submitted substantial documentation, including system reports from the statewide accounting system, which DOA has access to, as support for these required expenses. These reports provide the type of expenditure, vendor, amount and date of each transaction, as well as the transaction number necessary to obtain additional documentation, if necessary.

Additionally, DOA made the determination, before the first application was received, that those entities that utilize the statewide accounting system would not be required to submit information that would unnecessarily duplicate the details that are held in the accounting system. When operating expenses are deemed eligible, for instance, summary level system reports for payroll and operating expenditures are sufficient, such that detailed receipts and invoices need not be submitted to DOA for review. State agencies maintain supporting documentation for transactions processed through the statewide accounting system and were informed that DOA at any time could request additional documentation, such as individual invoices, to further support the eligibility of an expenditure. Therefore, state agencies were placed on notice that full and complete records should be maintained. Policies and procedures related to the reimbursement of eligible expenditures were created to allow for the rapid but compliant distribution of funds for critical needs due to the pandemic. As part of the review, DOA discussed the expenditures with agency management, even prior to application, and reviewed the amounts, vendors, and payment dates on the reports. Reviewers were able to discuss any unusual expenditures to verify that payments were indeed for necessary operational activities.

Accordingly, it is DOA’s position that the application process, including the resulting archived and available documentation, for all recipients of CRF funds are sufficient to comply with the

requirements of the CARES Act and supports the existing eligibility determinations. DOA has maintained a dynamic approach to the administration of the CRF funds and has appropriately adjusted related procedures and eligibility determinations as new guidance was released throughout the pandemic. In the summer of 2020, DOA began evaluating the expenditures using more detailed guidance from the U.S. Treasury, as it became available, for the purpose of ensuring the state would not be required to return funds due to the lack of clarity of eligibility requirements. Notwithstanding this level of heightened scrutiny of reimbursement requests, the state entities that were appropriated CRF funds were instructed to continue to submit eligible expenditures into the portal such that the program overall will have excess eligible expenditures to support funds previously approved for reimbursement in the event a certain expenditure is later determined to be ineligible, either due to additional guidance or as a result of an audit. As of June 2020, DOA has received and approved eligible public safety payroll expenditures in excess of \$157 million and anticipates approving an additional \$215 million prior to the program end date.

Outstanding Request for Sufficient Documentation

As mentioned above, only one state entity, LLA, was able to bypass the policies and procedures set forth by DOA and received CRF funding without providing support adequate to determine eligibility and without an approved application. DOA reached out to LLA regarding these fund transfers and was advised of LLA's position that the Louisiana Legislature appropriated these funds to LLA, which gave LLA the authority to unilaterally drawdown the funds. If, in fact, this position is defensible, all state entities could submit proof of legislative appropriation and receive CRF funds without any further documentation. This would be untenable and contrary to the accountability requirements associated with Federal grant funding. In an effort to confirm LLA's claim that the appropriation itself is sufficient documentation, we contacted the U.S. Treasury and asked if the appropriation of CRF funds by a state legislature had an effect on eligibility under CARES. DOA was told that it has no effect at all.

LLA later provided a lone invoice to DOA for services not yet rendered, along with Act 311 of the 2020 Regular Session¹¹, as support for its drawdown of CRF funds totaling over \$2.8 million. When contacted to provide sufficient support to document eligibility, LLA advised DOA that the supporting documentation was being maintained in LLA's accounting system and the expenditures (payroll costs) are still being incurred. This lack of documentation is not consistent with what DOA requires of all other state entities and is not sufficient to support use of CRF funds. Furthermore, based on the finding referenced above, LLA would not approve of the level of documentation or the premature drawdown of funds if either involved any other state entity.

It is DOA's position that LLA should immediately remit all detailed supporting documentation that is sufficient to support the funds withdrawn without approval. Otherwise, LLA should return the funds until sufficient evidence to support compliance with Treasury guidance is available. As the administrator of the program, it is DOA's responsibility to determine eligibility by reviewing documentation to support the applicant's requests for reimbursement and this review must be performed prior to disbursement of funds.

Conclusion

Contrary to the finding referenced above, DOA established and implemented adequate controls over the CRF funds. The finding states that "DOA did not require DOC to submit support that each

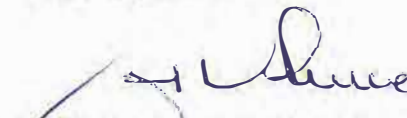
¹¹ Attachment 11 – Act 311 of the 2020 Regular Session of the Louisiana Legislature

expenditure incurred was a COVID-19 related expenditure”; however, as explained above, the reports submitted by DOC provided enough evidence to prove the expenditures were operating costs which were pre-determined to be eligible. The reimbursement of DOC operating costs was not the result of “inadequate controls” but of an informed management decision made during the development of the program with which LLA does not agree.

Beyond the circumstances explained herein, the eligibility of the expenditures questioned by LLA is now irrelevant. DOA determined that reimbursement files would be supplemented with additional eligible expenditures beyond state entities’ allocations due to the unprecedented nature of the CARES Act, the lack of detailed guidance available to states prior to receiving funding, and in anticipation of differing interpretations. LLA was made aware of this approach a number of times during the audit, as early as August 2020. Specifically related to DOC expenditures, DOA considered the lack of clarity related to operating costs compared to the clear and presumed eligibility of public safety payroll costs and began replacing reimbursed operating costs with eligible payroll expenditures. We did not adjust the FY 2020 files while LLA was in the process of reviewing them but rather determined it would be more appropriate to make necessary changes when the auditors’ review of the files was complete

Furthermore, this program remains open and active. The state continues to accumulate expenditures and will continue to make adjustments to the reimbursement files through December 31, 2021. Over \$372 million in eligible public safety payroll expenditures alone are available to replace any reimbursements deemed ineligible. The State of Louisiana is not at risk of having to return any CARES Act funding to the federal government.

Very truly yours,



Jay Dardenne, Commissioner
Division of Administration

Attachments referenced in management’s response can be found by clicking [HERE](#).

Office of Community Development
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

October 23, 2020

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

RE: Inadequate Grant Recovery of Homeowners Assistance Program Awards

Dear Mr. Purpera:

The Division of Administration's Louisiana Office of Community Development (OCD) is submitting the following as a response to the Legislative Auditor's audit finding titled "Inadequate Grant Recovery of Homeowners Assistance Program Awards (HAP)."

In August 2015, OCD executed a Road Home close-out plan with HUD which formalized a partnership between the state and HUD to address noncompliance with the HAP. The agreement was completed with concurrence of both HUD's Community Planning and Development (CPD) and Office of Inspector General (OIG) sections. The plan calls for OCD to continue to follow its recapture policies and procedures, as well as for to annual monitoring of the program by HUD. Since 2016, HUD has performed four annual monitoring visits and has provided useful Technical Assistance; the reports from these visits have not included any findings. The annual monitoring visit for 2020 was cancelled due to COVID-19, with the next visit expected to be in April 2021.

Since the last LLA audit, OCD has reduced the amount of non-compliant grants by \$19.9 million while identifying an additional \$38,359 for a net reduction of \$19.8 million of non-compliant grants either through documentation of compliance or grant recovery.

In conclusion, OCD will continue its efforts to recover those awards determined to be ineligible in accordance with policies and procedures that are acceptable to HUD. Concurrently, OCD will also continue to work with homeowners to become compliant and to resolve grant compliance issues in order to reduce or eliminate the need to recapture funds from homeowners where appropriate.

Mr. Daryl G. Purpera

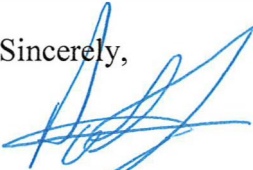
October 23, 2020

Page 2

The contact person responsible for the corrective action is Edwin Legnon, Director of Finance and Reporting for OCD. The anticipated completion date for this corrective action plan will coincide with the closing of the HAP program, once approved by HUD.

If you have any questions or require additional information, please feel free to contact us.

Sincerely,



Patrick W. Forbes, P.E.
Executive Director

- C: Jay Dardenne, Commissioner of Administration
- Desireé Honoré Thomas, Assistant Commissioner of Statewide Services
- Erin Sindelar, Internal Audit Administrator

Office of Statewide Reporting and Accounting Policy
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

October 30, 2020

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

Dear Mr. Purpera,

The Office of Statewide Reporting and Accounting Policy (OSRAP) concurs with the finding titled Inadequate Controls over Vendor Record Changes for the Executive Department audit for the fiscal year ending June 30, 2020. OSRAP implemented corrective actions in March, August, and October of 2020. Due to the sensitive nature of the vendor section processes, OSRAP has separately communicated these corrective actions to LLA.

Thank you for your commitment to high standards and professionalism in working with OSRAP during the audit. If you have any questions or need additional information, please contact me via email at Lindsay.Schexnayder@la.gov or by telephone at (225) 342-1091.

Sincerely,



Lindsay Schexnayder, CPA
Director

CC: Carrie Thompson, CPA, Legislative Auditor's Office, Audit Manager
Michael Kepper, CPA, Legislative Auditor's Office, Senior Auditor
Desireé Honoré Thomas, CPA, CGMA, Assistant Commissioner, Statewide Services

Office of Technology Services
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

Thomas H. Cole, CPA, CGMA
Temporary Legislative Auditor
1600 N. Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Cole:

Thank you for affording the Division of Administration, Office of Technology Services (OTS) the opportunity to respond to the *Weaknesses in Controls over IT and Data Recovery* audit findings presented on March 11, 2021.

- *Ransomware Incident*: OTS partially concurs with the statement as written, OTS inherited everything from the executive branch agencies during the consolidation of IT services. This included where the attackers exploited and gained access through a third party vendor. The third party vendor had been engaged prior to the consolidation. Prior to and directly after the ransomware attack, remediation activities were accomplished by OTS to reduce additional ransomware attack vectors, including, but not limited to: increased monitoring through the SIEM, deployment of an EDR solution to all domain controllers, initiation of a project to roll out EDR to all other workstations and servers (estimated completion - December 31, 2021) , implemented egress default deny at the top of ALL state managed firewall rulesets which explicitly allowed ACLs above it to support business functions, as well as implemented web proxies for standard egress internet access with AV scanning and blocking of uncategorized sites. Due to the vastness of the project to do a full scale replacement and implementation of these defenses, the lift needed in manpower, and purchase of infrastructure components, all aspects of the project have not yet been fully implemented. Without the efforts that had already been made, this attack could have resulted in an overwhelming loss of data. Instead, OTS was able to recover most critical data and major financial applications were not impacted. In addition, OTS continues to migrate legacy agency IT infrastructure over to an OTS consolidated infrastructure that is fully supported and monitored (estimated completion – September 30, 2022).
- *Incomplete Business Impact Analyses (BIA)*: While OTS concurs with the statement that there is a lack of documented information regarding recovery objectives for six (6) of the fourteen (14) In-Scope, OTS disagrees that the lack of BIAs affects the ability of OTS to recover or backup systems. Backup recovery schedules are confirmed with agencies whenever a system is migrated into the lines of service to ensure the frequency and retention schedule meets or exceeds the needs of the customer. In addition, when new

servers or storage requests are provisioned, these items are requested up front prior to being implemented. Remaining legacy, non-line of service servers and storage contain retention and backup schedules as determined by the agencies. OTS cannot make changes to backup schedules unilaterally on behalf of the customer agency as it is a paid service and schedules are provided to them as requested. For those agencies with incomplete Business Impact Analyses, the progress continues with the efforts of the applicable Applications and Data Management Managers, agency Business Leads, and the Agency Relationship Managers (ARMs). A deadline of June 30, 2021, has been set to provide the missing Recovery Point Objectives (RPOs) and Recovery Time Objectives (RTO) to the Application Development BIA Project Officer for completion of the BIAs.

- *Documented standards and procedures for certain security areas:* OTS concurs with the statement that all standards and procedures have not been fully documented. OTS continues to make progress in these efforts by (upon completion of a gap analysis, a level of effort and proposed timeframe to complete this task will be determined).

We appreciate the efforts made by the auditors to present a complete and accurate picture. Neal Underwood, Deputy Chief Information Officer, oversees operations and will be responsible for ensuring stated plans are put into place and objectives to correct defined deficiencies are met.

Sincerely,

A handwritten signature in blue ink that reads "Richard Howze". The signature is fluid and cursive, with the first name being more prominent.

Richard "Dickie" Howze
Chief Information Officer
Division of Administration/Office of Technology Services

Office of General Services
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

December 7, 2020

Mr. Daryl G. Purpera, CPA, CFE
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804

Dear Mr. Purpera:

The following is an official response to the finding identified in the audit letter dated December 2, 2020. My answers are specific to the Louisiana Federal Property Agency (LFPAA), which is a Division of Administration agency, managed by the Office of General Services (OGS).

The Office of General Services concurs with the finding regarding the lack of written policies and procedures for the Fixed Price Vehicle program. LFPAA's processes defer to the State Plan of Operations for guidance on fees charged, but this guidance is not specific to the Fixed Price Vehicle program. In addition, LFPAA has an internal policy that addresses the collection of delinquent debt, however, the policy does not include referring the delinquent debt to the Office of Debt Recovery to pursue collection of past due accounts, as required by R.S. 47:1676.

Corrective Action Plan:

- LFPAA will develop written policies and procedures that specifically outline the managerial and operational administration of the Fixed Price Vehicle program.
 - *Person(s) Responsible:* James L. Young, Director of General Services and James Desormeaux, Assistant Director (LFPAA)
 - *Corrective Action Planned:* Draft and submit for approval, Fixed Price Vehicle program policies and procedures, including procedures for application of service charges to property sold. LFPAA will also enter into an agreement with the Office of Debt Recovery for the collection of outstanding accounts.
 - *Anticipated Completion Date:* June 30, 2021.

Thank you for the opportunity to respond to this audit finding. Should you have any questions concerning the response, please feel free to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Young Jr.', with a long horizontal flourish extending to the right.

James L. Young Jr., Director of General Services

cc: Desiree Honoré Thomas, DOA Assistant Commissioner – Statewide Services
Erin Sindelar, Administrator – DOA's Internal Audit Section

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Executive Department for the period from July 1, 2019, through June 30, 2020, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report, and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, were a part of the audit of the Comprehensive Annual Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2020.

- We evaluated the Executive Department's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the Executive Department.
- Based on the documentation of Executive Department's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the Comprehensive Annual Financial Report.
- We performed procedures on the Coronavirus Relief Fund (CFDA 21.019) for the year ended June 30, 2020, as a part of the 2020 Single Audit.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2020, as a part of the 2020 Single Audit.
- We compared the most current and prior-year financial activity using Executive Department's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from the department's management for significant variances.

In addition, we performed procedures on the Louisiana Federal Property Assistance Agency's Fixed Price Vehicle program. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at the Executive Department, and not to provide an opinion on the effectiveness of Executive Department's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review the Executive Department's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The Executive Department's accounts are an integral part of the state of Louisiana's Comprehensive Annual Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.