

**U. S. Department of Housing and Urban Development
Office of Inspector General for Investigation
Inspections and Evaluations Division**



**Inspection of the State of Louisiana's
Road Home Elevation Incentive Program
Homeowner Compliance**

**March 2010
IED-09-002**

Executive Summary

The Office of Inspector General, Inspections and Evaluations Division, conducts independent, objective examinations of U.S. Department of Housing and Urban Development (HUD) activities, programs, operations, and organizational issues.

We completed an inspection of homeowner compliance with the State of Louisiana's (State) Road Home Elevation Incentive (elevation grant) program.¹ We wanted to know whether homeowners used funds to elevate their homes as set out in their grant agreements.

Our inspection covered 199 (about 10 percent) of the 1,906 property owners who received more than \$44.4 million in elevation grants during the first round of State funding in 2006 and 2007. We selected the properties from the first State survey of 684 of the 1,906 elevation grant recipients.² In this survey, 190 homeowners (28 percent) responded that they had elevated their properties and provided supporting documentation. We inspected properties of nonresponders to this survey and responders who claimed on the questionnaire that they had elevated but did not provide supporting documentation. The properties inspected were primarily located in four New Orleans metropolitan area parishes—Orleans, Jefferson, St. Bernard, and St. Tammany.³

Results of our inspections strongly suggest that the elevation grant program is at risk and could fail to achieve its intended goal of reducing homeowner flood risks from future hurricanes. Most homeowners had not elevated their homes, even though they received grants of up to \$30,000 in 2006 and 2007 to pay toward the construction costs. Seventy-nine percent of the inspected homes (158 of 199 properties) were not elevated. These noncompliant homeowners received grant funds exceeding \$3.8 million. Interviews with homeowners who had not elevated their homes revealed a lack of understanding about the obligations set out in the grant agreements.

Noncompliance in the elevation grant program can only be reversed through strong enforcement and a robust recovery program. The second round of grant funding is now complete, with an additional 27,291 eligible homeowners receiving elevation grants totaling approximately \$800.6 million. As of early December 2009, the State had disbursed more than \$845 million in elevation grants to more than 29,000 homeowners to leverage the cost of elevating their homes. The level of risk exposure is substantial and demands greater homeowner compliance for program success.

State officials have begun several initiatives designed to increase homeowner compliance. Among them, staff is currently implementing a program, funded through the Federal Emergency Management Agency that will reimburse Road Home recipients up to \$100,000 in elevation costs. The State has designed a survey instrument to monitor compliance and has proposed ways to increase outreach to homeowners. It has also drafted an enforcement policy. However, it should now be moving from policy development to enforcement and recovery while there is still time to turn the noncompliance around.

¹ The State program is funded by HUD Community Development Block Grant disaster recovery funds.

² The first State survey was conducted by contractor ICF International during 2008 and completed in January 2009.

³ Homeowners in these four parishes have received more than 72 percent of the State-awarded elevation grants.

We provided a draft copy of our report to the Assistant Secretary, Office of Community Planning and Development, and the Executive Director, State of Louisiana, Office of Community Development, Disaster Recovery Unit, on February 23, 2010. HUD and the State agreed with the recommendations in this report. We received HUD's written response on March 10, 2010, and the State's written response on March 12, 2010. OIG considers HUD's and the State's planned corrective actions sufficient to close recommendation 1. However, recommendations 2, 3, and 4 remain open. The complete text of HUD's and the State's comments are included in appendixes A and B, respectively.

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Introduction

The State of Louisiana's (State) Office of Community Development and the Louisiana Recovery Authority, an advisory board, developed the Road Home program in 2006 to assist homeowners with the costs of repairing properties damaged by Hurricanes Katrina and Rita. The homeowner assistance program was designed to compensate property owners for repair costs not covered by homeowners or flood insurance. It offered an eligible applicant Community Development Block Grant (CDBG) disaster recovery-funded grants in return for an agreement to repair and reoccupy the property he or she lived in before and at the time of the storms and use it as a primary residence within 3 years of closing. Depending on the compensation option selected,⁴ three forms of grant assistance were available to eligible applicants: (1) a compensation grant, (2) an elevation incentive (elevation grant), and (3) an additional compensation grant. Combined, the overall grant amount to an eligible homeowner cannot exceed the maximum assistance cap of \$150,000.

Elevation Grant Eligibility

To qualify for an elevation grant under the Road Home Elevation Incentive program, an applicant had to own and occupy a property located in a floodplain based on the advisory base flood elevation (ABFE)⁵ or base flood elevation (BFE) established by the Federal Emergency Management Agency (FEMA). Approved applicants signed an elevation incentive agreement (grant agreement) with the State promising to elevate their homes to the minimum ABFE requirements for a particular parish or the BFE in effect on August 26, 2006. In May 2008, elevation allowances were set at a flat rate of \$20,000 for owners of manufactured (mobile) homes and \$30,000 for owners of site-built homes, subject to the \$150,000 maximum assistance cap. Homeowners were required to fulfill the terms of their grant within 3 years of the date of the agreement. For those who failed to comply or return the grant funds, program remedies were written into the grant agreement to recover the funds through the State's debt collection processes.

Elevation Spending

As of early December 2009, the State had disbursed more than \$845 million in elevation grants to more than 29,000 homeowners. The initial awards began in November 2006 and continued through April 2007. However, payments were suspended because officials were concerned about a possible budget shortfall involving the entire Road Home program. When the payments were suspended, the State had disbursed approximately \$44.4 million to 1,906 homeowners. In early 2008, having received additional CDBG disaster recovery funding, the State resumed elevation grant disbursements. Between March 2008 and early December 2009, an additional 27,291 eligible homeowners received elevation grants totaling approximately \$800.6 million.

⁴ Under the homeowner assistance program, homeowners have three compensation options: (1) stay in their home, (2) purchase another home in Louisiana, or (3) sell their home and choose not to remain a homeowner in the State.

⁵ An ABFE becomes a BFE upon adoption by the respective municipality.

New Funding Sources

As the CDBG-funded elevation grants have been exhausted, the State has sought other Federal sources to continue its program. State officials recently rolled out FEMA's Hazard Mitigation Grant Program, publicly inviting Louisiana residents to take advantage of this new funding opportunity. More than 16,000 applicants have expressed interest in participating in this program, which reimburses eligible Road Home applicants for costs of up to \$100,000 incurred in elevating existing or reconstructed homes.

Grant Performance Monitoring

State officials monitor the elevation grant agreements and homeowner performance through participant surveys. Survey questionnaires are mailed to grant recipients selected using a statistical sample. Responses are supplemented by follow-up telephone calls, requests to local units of government regarding building permits and inspections, and selected on-site inspections. State contractors, ICF International in 2008 and Hammer and Gaines in 2009, performed two surveys of the 2006 and 2007 elevation grant recipients, sampling more than 600 homeowners each time. Also, in early 2009, the State surveyed approximately 1,000 homeowners who received elevation grants in 2008. Each of the three surveys reported a high incidence of nonresponders and indicated low compliance rates.

Scope and Methodology

We inspected 199 (about 10 percent) of the 1,906 properties, the owners of which received more than \$44.4 million in elevation grants in 2006 and 2007. The inspections were performed with the professional assistance of an Office of Inspector General (OIG) licensed appraiser. The properties inspected were primarily located in four New Orleans metropolitan area parishes—Orleans, Jefferson, St. Bernard, and St. Tammany. Homeowners in these four parishes received more than 72 percent of the State-awarded elevation grants. Properties were primarily selected based on the first State survey of early elevation grantees. In particular, we focused on nonresponders to this survey and to responders who claimed on the questionnaire that they had elevated but did not provide supporting documentation.

We interviewed 24 owners of inspected properties to obtain their comments concerning why they had or had not elevated their homes. We also interviewed disaster recovery officials from the State's Office of Community Development and staff from HUD's Office of Community Planning and Development, Disaster Recovery and Special Issues Division, regarding the status of the Road Home Elevation Incentive program.

We conducted the evaluation in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

Observation – Road Home Elevation Incentive Program Is at Risk

Inspection of 199 properties owned by elevation grant recipients and located in the New Orleans metropolitan area revealed that most homeowners had not elevated their homes. Seventy-nine percent of the inspected homes (158 of 199 properties) were not elevated, even though 100

percent of the homeowners received grants of up to \$30,000 in 2006 and 2007 to pay toward the elevation construction costs. As a consequence, there is a significant risk that the Road Home Elevation Incentive program, currently funded at \$845 million through CDBG disaster recovery funds, could fail to achieve its intended goal of reducing homeowner flood risks and the costs of repairing damage from future hurricanes.

Selection of Properties

We selected our inspection sample of 199 properties using the results of the first State survey sent to 684 of the 1,906 early elevation grantees who received grant funds during the first round of State funding in 2006 and 2007. Survey results were divided into five compliance categories.

State of Louisiana Road Home compliance survey results

Category		Results	
1	Owners in compliance	190	28%
2	Claimed elevation but missing documentation	91	13%
3	Claimed elevation in progress	64	9%
4	Claimed elevation not yet started	179	26%
5	No response	160	24%
Total		684	100%

We focused the inspection efforts on properties from categories 2, 4, and 5. Category 2 properties were inspected to determine whether homeowner responses should be considered reliable. Category 4 properties were inspected to determine the percentage of homeowners that had elevated their homes after they responded to the State survey. Properties of category 5 homeowners were inspected to determine the elevation status of this large group of “no response” grantees.

Results of Property Inspections

Our property inspections disclosed significant levels of homeowner noncompliance. Seventy-nine percent of property owners in our sample (158 of 199 properties) received grant funds but had not elevated their homes as evidenced by our inspections. The cost to the taxpayer because of this level of homeowner noncompliance exceeds \$3.8 million.

OIG inspection results

Category	Inspected	Elevated		Not elevated	
2	37	6	16%	31	84%
4	41	5	12%	36	88%
5	121	30	25%	91	75%
Total	199	41	21%	158	79%

Category 2

Many of the State-surveyed homeowners who claimed to have elevated their homes (but did not submit supporting documentation) had not done so. We inspected 37 (40 percent) of the 91

category 2 properties from the State survey. Only six of these properties were elevated (16 percent).

Category 4

We inspected 41 (22 percent) of the 179 category 4 properties from the State survey for which homeowners reported that they had not yet elevated their properties. Only five (12 percent) of these homeowners had elevated their homes between the time they responded to the State survey in late 2008 and our inspection in August 2009.

Category 5

We inspected 121 (75 percent) of the 160 category 5 properties of homeowners who did not respond to the State's survey. Only 30 properties were elevated (about 25 percent).

The inspection results indicate that most of the 1,906 homeowners who received first-round elevation grants have likely not elevated their properties. Only 28 percent of homeowners that responded to the State's survey were reported as being in full compliance with elevation requirements at the end of 2008. Another 13 percent responded that they had elevated but did not provide documentation. Our inspections determined that a significant number of these homeowners had not elevated their properties.

Elevation Compliance Varied by Neighborhood

Analysis of inspection results indicates that compliance with elevation grant agreements varied among the four New Orleans parishes surveyed. We noted that of the 35 homes that we inspected in the West Bank area of Orleans and Jefferson Parishes, none had been elevated. This area did not experience widespread flooding from Hurricanes Katrina and Rita. The following map shows the locations of three properties presented as examples.



The West Bank

As illustrated in the following example, the \$30,000 homeowner grant is probably not sufficient to pay for elevating this West Bank home. The home is a large, site-built structure fixed to a concrete slab. Although it is possible to detach the home from the foundation and elevate it,



2310 Beck Street, City of New Orleans (West Bank)

the costs of doing so could be prohibitive. New flooring must be constructed and inserted into the first level. Garages that have to be elevated may no longer be usable for their original purpose. Moreover, this New Orleans neighborhood was not heavily flooded.

Our drive-through inspection of the adjoining neighborhood found little evidence of elevation activity. Nevertheless, in Jefferson Parish alone, the State awarded and had disbursed more than \$112 million in elevation incentive grants to 3,770 homeowners in neighborhoods such as Gretna, Harvey, Marrero, and Terrytown as of the end of August 2009. In the Orleans Parish portion of the West Bank, 937 homeowners received more than \$27 million in elevation grants.

Lower Ninth Ward

We inspected 13 properties in the Lower Ninth Ward. Only two homes had been elevated. This section of New Orleans was heavily flooded. Homes were destroyed and razed. The area is now populated by numerous vacant lots. Five of the properties in our Lower Ninth Ward sample were vacant lots. Other homes were boarded and empty or occupied by the homeowners and grant recipients but had not been elevated.

The next example is typical of the occupied homes in the area. The wood frame house was originally built on piers sunk into the ground. To elevate to FEMA standards, as required by the grant agreement, the house would have to be jacked and new higher piers sunk for support.



5445 Urquhart Street, City of New Orleans (Lower Ninth Ward)

East Bank Neighborhood (Lakeview District)

We inspected 10 properties in the Lakeview District, which unlike the West Bank District, was heavily flooded. It was in this neighborhood that we found a somewhat higher incidence of elevated properties. The example below shows a newly constructed house built on pilings, an elevated lot with a retaining wall, and an elevated concrete foundation.



6628 General Diaz Street, New Orleans, LA (East Bank, Lakeview District)

The owner told us that the State elevation grant covered only a small fraction of the actual cost to elevate this home.

Homeowner Comments

Interviews with 18 homeowners that had not elevated their properties elicited responses that indicated a lack of understanding about the grant program and the obligations set out in the grant agreements.

Homeowners explained that they were not fully aware of their obligations and the penalties for failing to elevate their properties. However, terms of their covenants with the State unequivocally obligated grant recipients to pay back the funds for noncompliance. Section 4c of the elevation incentive agreement reads:

c. *Obligation to Return Elevation Incentive for Failure to Comply :*

If the home on the Property does not meet or exceed the applicable ABFE's or BFE's by three years from the date of this Elevation Incentive Agreement, the entire amount of my Elevation Incentive must be repaid to the State of Louisiana.

Four of the eighteen denied that they had applied for and received elevation funding. Four others told us that they were not sure whether they had received the money. Another four homeowners told us that they believed they were not necessarily required to elevate their homes under the terms of the elevation grant agreement. Other homeowners told that us they had spent all of the money received from the Road Home program, including elevation money, in repairing and reoccupying their homes. Although the 3-year compliance period for the early grant recipients had not expired at the time of our inspections, most will expire before mid-year 2010.

HUD Program Manager Comments

The Director of the Disaster Recovery and Special Issues Division explained that the division had been working through the monitoring process to ensure that Louisiana's Road Home program is successful in achieving its objectives. However, HUD staff had not specifically monitored compliance with elevation grant program requirements. The Director emphasized that the State, ultimately, is responsible for designing and implementing its CDBG disaster recovery-funded programs. The division can monitor and provide suggestions for changes that staff believe will lead to better outcomes, but it cannot direct that program changes be made unless the State's program violates Federal laws or regulations.

The level of noncompliance observed during our inspection warrants, at a minimum, closer HUD scrutiny and collaboration with the State to encourage homeowners to elevate their properties or return the grant funds.

State Program Managers' Comments

State Office of Community Development officials acknowledged the difficulty of ensuring that homeowners meet the intent of the elevation grant program by using the awards to elevate their properties. According to staff, the State had originally envisioned an elevation grant program that would provide reimbursement to homeowners based on documented costs of construction. Instead, HUD directed the office to change the program design and disburse the grant funds to homeowners up front as “disaster compensation” but with an enforceable obligation to use the funds for home elevation. However, once the funds were disbursed, the State lost effective control of the funds.

New Funding as a Solution

State officials see FEMA’s Hazard Mitigation Grant program (HMGP) as a partial solution to the lack of homeowner compliance in the CDBG disaster recovery-funded Road Home Elevation Incentive program. The HMGP, which has been recently promoted to Louisiana homeowners, reimburses eligible Road Home applicants for costs up to \$100,000 incurred in elevating existing or reconstructed homes. As designed, FEMA would pay for elevation costs that exceed grant amounts awarded to homeowners under the \$30,000 Road Home Elevation Incentive program. HMGP will be limited to eligible Road Home applicants, and because it is a reimbursement program, staff believes that the program will give the State far greater assurance that elevation is completed. In spring 2008, the State notified all eligible Road Home applicants of elevation funding availability and requested that interested homeowners return forms indicating their desire for HMGP funding. Apparently due to the limited initial response to this request, the State increased the cap on HMGP funding in April 2009 from \$30,000 to \$100,000 per grantee. According to officials, the State is working with more than 16,000 applicants who have expressed interest in participating in HGMP.

Outreach and Monitoring

State officials acknowledged a need to provide more outreach to participating homeowners, including education with regard to their obligations under elevation grant agreements and technical assistance with regard to contracting and property rehabilitation. According to State officials, the budget for HMGP provides funding for such outreach.

State officials developed a revised Road Home Covenant Compliance Monitoring Plan in December 2008 that includes compliance monitoring of the elevation grant agreements. The plan provides for monitoring a sample of elevation incentive grant recipients through mailed surveys. The surveys are to be supplemented by information and data collected from local parish jurisdictions including ABFE maps and requirements related to building code compliance, such as required permits, inspections, etc. Recipients who return the survey questionnaire with documentation showing that they have elevated and obtained flood insurance, if required (e.g., copies final inspection, elevation certificate, and flood insurance policy), or they are in the process of elevating (e.g., building permit) are considered in compliance. Recipients who respond that they have not yet elevated before the expiration of the 3-year compliance period are sent a follow-up questionnaire together with a letter reminding the recipient that the deadline for completing elevation is approaching.

Enforcement

State officials explained that, when the monitoring process determines that a recipient is out of compliance with the elevation agreement and the 3-year performance period has expired, the recipient's grant will be considered repayable to the State. These recipients will be informed that they must reimburse the State for the amount of the elevation grant or immediately take steps to comply with their obligations. Enforcement actions could include denial of future State benefits or possible legal action through the State attorney general's office. Homeowners not identified through the monitoring process will also be subject to enforcement actions if information comes to the attention of the State Office of Community Development.

Recommendations

The Road Home Elevation Incentive program carries unique risk factors. The program design allowed the awarding and disbursing of funds to homeowners based on a contractual promise to elevate their properties. Our property inspections of early program participants disclosed a potential high risk of default on those promises. Noncompliance in the elevation grant program can only be reversed through strong enforcement and a robust recovery program. And given that \$845 million in Federal funds has been disbursed, involving more than 29,000 Louisiana homeowners, it is imperative that HUD and State officials work quickly and collaboratively to improve program compliance going forward.

We recommend that HUD's Office of Community Planning and Development require the State to

1. Coordinate efforts with HUD to address and reduce the incidence of noncompliance in the Road Home Elevation Incentive program.
2. Ensure that monitoring of the elevation grants provides adequate coverage to specifically identify compliant and noncompliant recipients. (The State's present sampling method provides the ability to determine with confidence what percentage of homeowners have not elevated, but it will not identify them individually.)
3. Identify and advise all elevation grant recipients who have yet to meet the terms of their grant agreements of their obligation to either elevate the subject property or return the elevation grant funds to the State.
4. Enforce the program remedies for noncompliance as set out in the elevation grant agreements starting with recovery, where warranted, of the \$3.8 million in grant funds from the 158 noncompliant homeowners in our sample.

Comments and OIG Response

We discussed the observations with HUD and the State during the inspection and provided a copy of the draft report to the Assistant Secretary, Office of Community Planning and Development, and the Executive Director, State of Louisiana, Office of Community Development, Disaster Recovery Unit, on February 23, 2010. HUD and the State agree with the recommendations in this report and are in the process of taking corrective actions to increase homeowner compliance (see appendixes A and B).

OIG considers the planned corrective actions sufficient to close recommendation 1. However, recommendations 2, 3, and 4 remain open. There is a high risk of continued noncompliance based on our inspection observations, as the compliance periods for many of the elevation grant recipients expire in the coming 18 months. HUD and the State's corrective actions will require follow-up to ensure compliance rates increase and program goals are met. We also strongly believe that aggressive enforcement to recover grant funds, where warranted, must be an integral part of the State's strategy to "encourage the homeowner to become compliant."

OIG will revisit the Road Home Elevation Incentive program at a future date to review the level of the State's success in reducing the noncompliance, achieving intended program goals, and enforcing funds recovery.

Appendix A - HUD's Office of Community Planning and Development's Comments

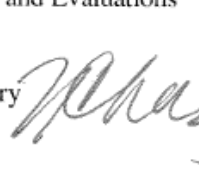


OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

MAR 10 2010

MEMORANDUM FOR: Jennifer L. Sorenson, Director, Inspections and Evaluations
Divisions, Office of Investigation, GIH

FROM: Yolanda Chávez, Deputy Assistant Secretary
for Grant Programs, DG 

SUBJECT: Written Response to Observations - Report # IED-09-002
Inspection of the State of Louisiana's Road Home Elevation
Incentive Program Homeowner Compliance

This status memorandum is in response to the draft audit IED-09-002, dated February 23, 2010, of the State of Louisiana's Road Home Elevation Incentive Program Homeowner Compliance. The objective of this inspection was to determine whether homeowners that received elevation grants used the funds to elevate their homes in compliance with their executed grant agreements. The Department is aware of the complexities and high risk associated with the Road Home Elevation Incentive Program. The State has implemented program monitoring and has monitored elevation grant agreements and homeowner performance through participant surveys. The State's surveys indicated a low compliance rate.

To combat the low compliance rate, the State has taken measures to assist elevation grant recipients in meeting the program requirement to elevate their homes. First, the maximum amount awarded as an elevation grant may not have been sufficient funding to cover the cost to elevate a home. The State has identified FEMA's Hazard Mitigation Grant Program (HMGP) as an additional funding source to aid in reducing the gap between Road Home funds received and the actual cost to elevate. Currently, 13,530 homeowners who received Road Home elevation funds have expressed an interest in the HMGP funds. Highlighting the State's progress, 4,594 of the interested participants have already received environmental clearance from FEMA. As an added measure of assurance, the HMGP is a cost reimbursable program, which will allow the State to implement proper controls. The State is also allowing participants to request a one-year extension to comply with program elevation requirements due to issues surrounding the following: 1) Additional damages resulting from Hurricanes Ike/Gustav; 2) difficulties finding licensed contractors to perform specialized work; and/or 3) the availability of HMGP funding.

HUD's Disaster Recovery and Special Issues (DRSI) division has reviewed the draft audit and included comments on the IG's reported observations.

RECOMMENDATION 1: Coordinate efforts with HUD to address and reduce the incidence of noncompliance in the Road Home Elevation Incentive Program.

Management Decision: HUD agrees with the recommendation.

Recommended Actions: HUD will continue to support the efforts of the State of Louisiana in successfully administering the Road Home Program. HUD is also aware of the complexities and the high risk associated with ensuring compliance with the elevation grant program requirements. HUD is committed to ongoing coordination with the State to address and reduce the incidence of noncompliance in the Road Home Elevation Incentive Program. HUD DRSI will continue to provide technical assistance and additional oversight to ensure compliance.

Status: The State has worked diligently to develop protocols and procedures to maximize compliance with the elevation program requirements. To address the low compliance rate, the State has implemented participant outreach, identified an additional funding source to reduce the gap in elevation costs, and developed an enforcement methodology and protocol. HUD has provided guidance and technical assistance in the development of these tools. Coordination on this critical component of the Road Home program will provide the necessary technical assistance and federal oversight to ensure programmatic compliance. **HUD requests that this recommendation be closed at the time of final report issuance.**

RECOMMENDATION 2: Ensure monitoring of the elevation grants provide adequate coverage to specifically identify compliant and noncompliant recipients. (The State's present sampling method provides the ability to determine with confidence what percentage of homeowners have not elevated but will not identify them individually.)

Management Decision: HUD agrees with the finding recommendation.

Recommended Actions: HUD will continue to monitor the State's implementation of its outreach and monitoring strategy. As noted by the IG, the state has been monitoring the elevation grant program through participant surveys. The State's work in conducting these assessments allowed them to identify the significant funding gap (need) that is hindering compliance with elevation program requirements established by the Road Home Program. To adequately ensure that the State's outreach and monitoring strategy and all associated procedures are being carried out, DRSI staff will assess Louisiana's progress on a regular basis. HUD will carry out this level of oversight through existing technical assistance mechanisms (i.e. weekly conference calls, routine monitoring and technical assistance visits, and weekly review of Road Home progress and statistics) that keeps HUD and the State in continual coordination.

Status: As stated in the recommended actions, the State has developed an outreach and monitoring strategy that allows the State to provide essential programmatic education to applicants, as well as ensure compliance with elevation program requirements. The State is using FEMA's Hazard Mitigation Grant Program to help fund and deliver an extensive outreach and education initiative for homeowners elevating their homes. Louisiana has also developed a Covenant Compliance Monitoring Plan that implements a phased protocol for ensuring compliance based on the anticipated expiration of the performance period for each recipient. In addition to the Compliance Monitoring Plan, the State also has a procedure in place for enforcement of the covenant and subsequent grant recovery if necessary. The State has provided

HUD with documentation outlining its monitoring procedures and recovery methods. The State is committed to ongoing monitoring of the elevation grant program through its participant surveys and statistical sample reviews. **HUD requests that this recommendation be closed at the time of final report issuance.**

RECOMMENDATION 3: Identify and advise all elevation grant recipients who have yet to meet the terms of their grant agreements of their obligation to either elevate the subject property or return the elevation grant funds to the State.

Management Decision: HUD agrees with the finding recommendation.

Recommended Actions: HUD will continue to work in conjunction with the State as it moves to resolve issues of noncompliance. HUD will also work with the State in its efforts to identify and advise elevation grant recipients of additional resources to assist in meeting the terms of their grant agreements. The State's commitment to ongoing monitoring of the elevation grant program through its participant surveys and statistical sample reviews will be critical in identifying noncompliant grant recipients and advising them of their programmatic obligations. The State has outlined the uses of HMGP funding as a partial solution to elevation grant compliance issues. This new source of funding coupled with the State's outreach and monitoring plan will provide additional assurance to the State as it moves more program participants to compliance.

Status: As stated in the recommended actions, the State has developed an outreach and monitoring strategy that allows the State to provide essential programmatic education to applicants, as well as ensure compliance with elevation program requirements. The State has identified FEMA's Hazard Mitigation Grant Program as a funding source to conduct the extensive outreach needed to educate participating homeowners. Louisiana has also developed a Covenant Compliance Monitoring Plan. In addition to the Compliance Monitoring Plan, the State also has an established procedure in place for covenant enforcement and subsequent grant recovery if necessary. The State has provided HUD with documentation outlining its monitoring procedures and recovery methods. HUD will continue to evaluate this recommendation through our monitoring visits and move for closure once the state makes significant progress in this process.

RECOMMENDATION 4: Enforce the program remedies for noncompliance as set out in the elevation grant agreements, starting with recovery of the \$3.8 million in grant funds from the 158 noncompliant homeowners in our sample.

Management Decision: HUD agrees with the finding recommendation.

Recommended Actions: HUD will continue to work in conjunction with the State as it moves to resolve issues of noncompliance and enforce the necessary program remedies for noncompliance with elevation grant agreements. HUD will support the State's established recovery and recapture procedures as a critical enforcement effort. As the State identifies and advises elevation grant recipients of additional resources to assist in meeting the terms of their

grant agreements, they will also advise grant recipients of the consequences associated with noncompliance. Funds will be subject to recovery and recapture for all recipients ultimately found to be noncompliant.

Status: Louisiana has developed a Covenant Compliance Monitoring Plan. It is HUD's understanding that the State's plan includes a protocol whereby the State will verify compliance of each recipient's elevation activities upon the expiration of their respective period of performance. In addition to the Compliance Monitoring Plan, the State also has an established procedure in place for covenant enforcement and subsequent grant recovery if necessary. The State has provided HUD with documentation outlining its monitoring procedures and recovery methods. HUD will continue to evaluate this recommendation through our monitoring visits and move for closure once the State makes significant progress in this process.

Appendix B - State of Louisiana's Office of Community Development's Comments

BOBBY JINDAL
GOVERNOR



ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

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

March 9, 2010

Ms. Jennifer L. Sorenson, Director
Inspections and Evaluations Division
Office of Investigation
451 7th Street, S.W.
Washington, D.C. 20410-4500

SUBJECT: Inspection of the State of Louisiana's Road Home
Elevation Incentive Program Homeowner Compliance
File: IED-09-002

Dear Ms. Sorenson:

The Division of Administration, Office of Community Development, Disaster Recovery Unit, (OCD/DRU), appreciates the opportunity to respond to the observation the HUD-OIG, Inspections and Evaluations Division presented in its draft report on Elevation Incentive Program Homeowner Compliance.

The HUD-OIG, Inspections and Evaluations Division report contains one observation, that being, the "Road Home Elevation Incentive Program is at Risk". The HUD-OIG inspected 199 properties owned by elevation grant recipients primarily located in four New Orleans metropolitan area parishes – Orleans, Jefferson, St. Bernard and St. Tammany. Based on this property inspection the HUD-OIG determined that 158 properties, (79 percent), were not elevated.

As cited in the HUD OIG report, OCD/DRU has monitored the elevation grant agreements and homeowner performance through participant surveys. In fact, there have been two surveys performed on the 2006 and 2007 elevation grant recipients and one survey of the homeowners who received elevation grants in 2008. HUD-OIG is correct in that the three surveys reported a high incidence of non-responders and indicated low compliance rates.

OCD/DRU is aware of the low compliance rate and has taken measures to assist homeowners in meeting the requirement to elevate their homes. First, the maximum amount of the elevation grant available to a homeowner, (\$30,000 for a site built home and \$20,000 for a manufactured home) through the CDBG funded Road Home Elevation Incentive program was not enough to

cover the cost to elevate a home. In an effort to reduce the gap between the amount of funds an applicant received through the Road Home Elevation Incentive program and the cost to elevate the state offered homeowners an additional source of funds through the FEMA funded Hazard Mitigation Grant program (HMGP). Under the HMGP up to \$100,000 in additional funding is available to homeowners for elevation and pilot reconstruction activities. To date, 13,530 homeowners who received elevation funds through the Road Home Elevation Incentive program have also expressed interest in the Hazard Mitigation Grant program. Of this number, 4,594 have already received environmental clearance from FEMA. It is important to note that HMGP is a cost reimbursable program; therefore, OCD/DRU will have assurance that these funds have been spent to elevate since the homeowner is required to supply invoices prior to the disbursement of funds. This in turn will add assurance that for those homeowners who received Road Home Elevation program funds and funds through the cost reimbursement Hazard Mitigation Grant program have elevated their homes. In fact, 86 homeowners or 54 percent of the 158 homeowners identified by the HUD-OIG as not having elevated have expressed interest in receiving additional elevation funds through the HMGP. Forty of the 158 have already been cleared by FEMA for participation in the HMGP. It should also be noted that 28 homeowners who have not expressed an interest in the HMGP are already in grant recovery for not elevating and/or other reasons.

OCD/DRU is also allowing homeowners to request a one year extension to comply with the elevation requirement. OCD/DRU anticipated it would be necessary for some homeowners to request an extension due to damages related to Ike/Gustav, difficulties finding licensed contractors to perform the work, and/or availability of HMGP funding.

In addition, OCD/DRU is developing a program to provide construction management services to homeowners who need assistance locating qualified contractors and/or managing their elevation, rehabilitation, or reconstruction project. It is anticipated that providing these services will enable homeowners to complete work on their home while also eliminating contractor fraud and ensuring cost reasonableness.

In addition to providing a response to the HUD-OIG's observation contained in the report OCD/DRU is providing responses to the report recommendations.

HUD-OIG recommended that HUD's Office of Community Planning and Development require the State to:

1. Coordinate efforts with HUD to address and reduce the incidence of noncompliance in the Road Home Elevation Incentive program.

OCD/DRU will continue to work with and appreciates any guidance HUD can provide to address and reduce the incidence of noncompliance.

2. Ensure monitoring of the elevation grants provides adequate coverage to specifically identify compliant and noncompliant recipients. (The State's present sampling method provides the ability to determine with confidence what percentage of homeowners have not elevated but it will not identify them individually.)

Currently, OCD/DRU and the Road Home contractor do not have the capacity to inspect all homes for which Road Home Elevation program funds were provided. OCD believes that the Hazard Mitigation Grant program will lend additional assurance that homeowners receiving Road Home Elevation program funds have elevated since the Hazard Mitigation Grant program is a reimbursement program requiring the homeowner to submit documentation supporting the elevation prior to funds being disbursed. This will reduce the number of Road Home Elevation homes that will require inspection to identify compliant and noncompliant grant recipients. OCD/DRU will evaluate the additional capacity needed to comply with this recommendation.

3. Identify and advise all elevation grant recipients, who have yet to meet the terms of their grant agreements, of their obligation to either elevate the subject property or return the elevation grant funds to the State.

All grant recipients identified as noncompliant will be notified of their obligation to either elevate or return the elevation grant funds. In May 2010, OCD/DRU will launch an outreach program to explain Road Home Covenant Requirements and the availability of additional assistance.

4. Enforce the program remedies for noncompliance as set out in the elevation grant agreements, starting with recovery of the \$3.8 million in grant funds from the 158 noncompliant homeowners in our sample.

OCD/DRU will review the 158 HUD-OIG identified noncompliant homeowners to determine if they have reached the three year elevation compliance date. OCD/DRU will

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evaluate whether the homeowner requested an extension to elevate or applied for additional elevation assistance through the Hazard Mitigation Grant program which changes their compliance date. When a homeowner is identified as noncompliant, OCD/DRU will notify them of their noncompliance and encourage the homeowner to become compliant. Any homeowner who does not comply will be required to repay Elevation Incentive funds through the State's grant recovery process.

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

Sincerely,



Robin Keegan, Executive Director
Office of Community Development/DRU

RK/SU

c: Ms. Angele Davis
Mr. Thomas Brennan
Ms. Lara Robertson
Mr. Richard Gray
Mr. Robbie Viator