

EXECUTIVE DEPARTMENT
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MAY 27, 2009

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

April 24, 2009

HONORABLE BOBBY JINDAL, GOVERNOR
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2008, we considered the Executive Department's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Reports of the Executive Department are not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Executive Department for the year ended June 30, 2007, we reported findings related to an ineffective internal audit function, inadequate controls over the Road Home Homeowner Assistance Program, and inadequate controls over capital outlay transactions. The findings related to the internal audit function and to capital outlay transactions have been resolved by management. The finding related to the Road Home Homeowner Assistance Program is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2008.

**Inadequate Controls Over the Road Home
Homeowner Assistance Program**

For the second consecutive year, the Louisiana Office of Community Development (OCD) had not fully implemented adequate controls over the administration of the Road Home Homeowner Assistance Program of the Community Development Block Grant

(CDBG, CFDA 14.228). OCD focused on making payments to disaster victims as quickly as possible because the State of Louisiana initially 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-close reviews. This decision was beyond the control of OCD and inherently caused challenges to the timely planning, design, and implementation of adequate control procedures. Furthermore, this expedited payment process did not ensure that the program regulations, approved action plans, and the federal compliance requirements applicable to the program were followed by the contracted program manager, ICF Emergency Management Services (ICF) in accordance with state law and OMB Circular A-133.

In recognition of this increased risk and in an effort to improve controls and address the significant errors being found in post-close reviews, OCD implemented a pre-closing review process in July 2007 and has continued to modify its monitoring procedures to address additional risks and program changes. However, despite implementing a pre-close review process, OCD's internal monitoring and external reviews have continued to disclose significant program eligibility and payment calculation issues. Absent approval by the federal government to hold the state harmless for repayment of ineligible or unallowable payments, the state could be liable to the federal government for those amounts. Furthermore, disbursing funds to ineligible recipients limits the availability of those funds for eligible recipients in need of assistance. In addition, OCD made net disbursements of \$7,381,000 of CDBG funds to the Road Home Corporation (Louisiana Land Trust), a subrecipient, without a valid subrecipient agreement in place.

ICF, as the state's contracted program manager, is responsible for awarding funds to recipients in accordance with the program regulations and action plans. OCD, as the state's designated recipient and administrator of the CDBG funds, is responsible for ensuring ICF's compliance with program regulations. The Code of Federal Regulations (24 CFR 570.501) provides that "The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility."

Good internal controls over program compliance should include policies and procedures to ensure that, prior to the disbursement of program funds, eligibility requirements are met and award calculations are made correctly based on accurate data. In addition, adequate monitoring over the contracted program manager should include followup to exceptions noted in reviews, including an appropriate response to indications of noncompliance or possible fraudulent activities. When relying on information in a data warehouse, adequate controls should include sufficient testing to ensure the accuracy and reliability of that data. In addition, 24 CFR 570.503 requires that before disbursing CDBG funds to a subrecipient, "the recipient shall sign a written agreement with the subrecipient," to cover the entire period of time that the subrecipient controls the use of CDBG funds. These regulations specify the minimum requirements for such an agreement.

During fiscal year 2008, in addition to post-close monitoring, pre-close monitoring was performed by both ICF and OCD. However, even though ICF conducted two levels of pre-closing reviews prior to OCD, OCD's reviews resulted in a cumulative error rate of 12.5% for the period July 2007 to June 2008. Despite the significant errors noted, OCD did not increase its level of review above its normal range of 5% to 10%, nor did OCD perform additional follow-up reviews on noted errors to ensure that ICF adequately corrected those awards prior to payment. In addition, ICF and OCD relied upon the accuracy of information in a data warehouse being maintained by ICF. The reliability and accuracy of the data in the data warehouse, including insurance benefit data, is questionable.

At the request of OCD, the Recovery Assistance Division (RAD) of the Louisiana Legislative Auditor performed agreed-upon procedures on the Road Home Homeowner Program and issued a report dated April 23, 2008. The procedures were performed to assist OCD in evaluating whether homeowner grant recipients were eligible and whether they received the correct award amount. The results of those procedures, conducted on a sample of program disbursements from May to September, 2007, indicated that while 97% (261 of 269 award recipients sampled) of grant funds were awarded in accordance with program policy, conflicting documentation suggests that 74 (28%) awards could have been calculated differently or may need adjustment. The RAD report cites 38 recipients as potentially overpaid from \$406 to \$110,727 and 36 recipients as potentially underpaid from \$374 to \$45,000 for a potential net program overpayment of \$321,533. In addition, for 29 (11%) awards totaling \$1,949,688, recipients were either determined to be ineligible or eligibility could not be verified, which may require recovery. Furthermore, the report cites questionable and conflicting data in the data warehouse; pre-storm home valuation issues; estimated cost of damage issues; conflicting FEMA information; conflicting insurance information, unsupported self-certifications, unsigned forms, and disbursement amounts not supported by file documentation as causing these findings. The report also states that, during the performance of its procedures, RAD was made aware of an additional applicant whose eligibility was questioned for which the program will seek to recover \$92,627 awarded in error.

In another RAD report issued December 3, 2008, it was disclosed that OCD paid \$10,688,681 of CDBG funds to ICF for administrative expenses that were not adequately supported and/or reasonable. OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states that to be allowable under federal awards, costs must be necessary and reasonable and adequately documented. After additional review under OMB Circular A-87, we have determined that \$10,659,405 of those expenses are considered questioned costs because they were either not supported by adequate documentation prior to payment or they were not reasonable considering program requirements, ICF's contract with OCD, and sound business practices.

The Performance Audit Division (PAD) of the Louisiana Legislative Auditor conducted a performance audit, issued on January 14, 2009, on the reliability of certain data used in the Road Home program stored in ICF's data warehouse. The procedures were

performed at OCD's request to assist in determining whether data used in ICF's post-closing review could be relied on for establishing final recipient eligibility and award amounts. PAD's audit disclosed the following:

- Homestead exemption data used by ICF to determine grant eligibility was not reliable or accurate because ICF loaded the data using out-dated specifications and ICF used an insufficient method to match applicants with the data. After reloading the data and sufficiently matching applicants with the data, 12,000 applicants no longer had a homestead exemption and 8,000 applicants no longer had a match with the data. These applicants, who had already closed and received grant payments, were no longer eligible for awards and ICF will have to collect additional eligibility documentation to determine whether these applicants are indeed eligible.
- Insurance data used to calculate award amounts is not reliable because it is not complete and up-to-date. ICF received homeowner's insurance information from insurance companies on only 48% of the applicants which it requested information. As a result, for 54% of applicants who closed as of March 1, 2008, ICF relied on insurance information provided by applicants instead of verifying insurance information with insurance companies. Since approximately 15% of paid grant recipients as of March 1, 2008, were listed as insured by Louisiana Citizens Property Insurance Corporation (Citizens), PAD analyzed 15,342 applicants with Citizens insurance and compared Citizens data to insurance amounts used in grant award calculations. PAD found that 6,396 (42%) of these applicants had received approximately \$68.8 million more in insurance payments from Citizens than what was used to calculate their grant awards. By not considering the \$68.8 million, ICF increased the risk that these applicants were overpaid.
- As of March 2008, ICF employed 350 people who were applicants to the Road Home program and many of these employees had access that should have been segregated in ICF's IT system. Without proper segregation of duties there is a possibility that ICF employees could have worked on their own applications. This is especially important since ICF did not enable audit features in its system. Audit logs are important because they record activities and transactions and help to support accountability and the identification of problems.

Other audits and reviews have been performed by the Louisiana Legislative Auditor that cite other control weaknesses and/or deficiencies in the program and include management's responses, as appropriate. These reports can be accessed on the Internet at www.lla.la.gov:

- Road Home Program Review of LMI Determinations Performance Audit, issued September 12, 2007

- Road Home Program Pipeline Reliability Performance Audit, issued October 31, 2007
- Road Home Program Home Evaluations Performance Audit, issued December 5, 2007
- Road Home Program Resolution Process Follow-up Performance Audit, issued February 6, 2008

OCD has continually responded both verbally and in writing to the results of external reviews that it is aware that grant award eligibility and calculation issues have occurred because of the state's decision to expedite payments to homeowners. Subsequent to that decision, it has been OCD's intent to make final verifications of eligibility and award amounts post-closing, rather than pre-closing and to resolve all eligibility and award calculation issues through post-closing procedures. As mentioned previously, we recognize that the decision to expedite payments under the Road Home Homeowner Assistance Program was beyond the control of OCD. We also recognize that OCD has continued to modify and improve program controls including the implementation of pre-close reviews and the engagement of RAD to review final closed files. However, because of the significant errors being disclosed by OCD's pre-closing reviews, the lack of adequate followup regarding the correction of noted errors, the lack of reliable information in ICF's data warehouse, and the lack of completed files through final post-close reviews, we are unable to determine whether program disbursements as of June 30, 2008, were in substantial compliance with program regulations.

Management of OCD should continue working to establish adequate controls over the Road Home Homeowner Assistance Program. Management should also review previously disbursed awards to identify program funds which were not disbursed in accordance with the applicable program regulations and should actively pursue the recoupment of overpayments, as well as ensuring that underpaid recipients are fully compensated. In addition, management should ensure the reliability of data in ICF's data warehouse, ensure the allowability of expenditure reimbursements prior to disbursement of federal funds, and ensure that complete and valid subrecipient agreements are in place before disbursing funds to subrecipients.

OCD does not concur with the finding and contends that it did adequately monitor the program and that its controls over the program were adequate (see Appendix A, pages 1-8).

Additional Comments: In its response, OCD highlights the importance of the post-close process in its internal control over the program and states that "The LLA, in fact, acknowledges this important shifting of many of the Program's processing activities, including verification, documentation, and compliance, from pre-closing to post-closing . . ." In addition, OCD states in its response that "Until the LLA includes the Program's grant review and other important post-closing controls within its A-133 audit, it can not fully assess the control environment or draw a conclusion whether or not OCD has fully implemented adequate controls over the administration of the Road Home

Program.” We agree with this point, which supports our position that we cannot determine if program funds were disbursed in substantial compliance with program regulations during the year ended June 30, 2008. Although we recognize that the design of procedures does not require supporting documentation for program disbursements at the time those funds are disbursed, it also precludes us from being able to perform the required audit procedures to determine that program funds were disbursed in substantial compliance with program compliance requirements.

Controls and monitoring procedures over a federal program should provide reasonable assurance that the program is being administered in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Because of the evidence described previously, we do not have sufficient assurance that payments made to recipients during the fiscal year ended June 30, 2008, were made in accordance with the requirements of the program. Although OCD implemented additional controls by performing pre-closing reviews on program applicants, we found that the controls were not adequate to ensure that recipients were eligible and that payments made to recipients were calculated in accordance with program requirements.

The summary schedule of prior audit findings prepared by OCD, as required by OMB Circular A-133, Section 315(b) reports that the prior year finding is fully corrected. Based on our follow-up procedures, as described above, we have reported that the finding has not been resolved and have therefore repeated the finding in our report. In accordance with OMB Circular A-133, Section 510(a)(7), we are required to report that the results of our follow-up procedures disclose that the summary schedule of prior audit findings prepared by OCD materially misrepresents the status of the prior year finding.

Inadequate Controls Over the Temporary Assistance to Needy Families Program

The Governor’s Office of Community Programs does not have adequate control procedures over the Temporary Assistance to Needy Families Program (TANF, CFDA 93.558) to ensure that requests for reimbursements are accurate and in compliance with program requirements before submitting those requests to the Department of Social Services (DSS) for payment to compliant schools. The Memorandum of Understanding (MOU) between DSS Office of Family Support and the Governor’s Office of Community Programs states that compliant schools will be reimbursed a minimum of \$500 and a maximum of \$600 per month per student depending on classroom staff qualifications provided the student attends 74% of all classes for the month.

Of 24 requests for reimbursements reviewed, three (12.5%) were calculated based on incorrect student attendance resulting in underpayments to the schools totaling \$2,175.

The Governor’s Office of Community Programs has not placed sufficient emphasis on the review of requests for reimbursements to ensure that the reimbursements are made correctly and in compliance with program requirements. Failure to properly review

requests for reimbursement before submission to DSS for payment increases the risk that fraud and/or errors could occur and not be detected and subjects the Governor's Office of Community Programs to noncompliance with the MOU.

Management should establish procedures to ensure that all requests for reimbursement are reviewed for accuracy before submission to DSS for payment. Management concurred with the finding and recommendation and implemented a plan of corrective action (see Appendix A, page 9).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying 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. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the department and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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



BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

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

March 24, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Louisiana Legislative Auditor
1600 N. Third St.
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

As per your letter dated March 10, 2009, the Division of Administration, Office of Community Development (OCD) is providing the Louisiana Legislative Auditor (LLA) with its response to the A-133 audit finding of inadequate controls over *The Road Home* Homeowner Assistance Program. OCD notes that this audit is based on work performed by other LLA sections, initiated at the request of OCD. In fact, one of the LLA sections is paid by OCD, as part of the control environment, to conduct agreed-upon procedures.

We appreciate the LLA's acknowledging the need behind the State's decision, early on, to redesign *The Road Home* Program. The change in design made it possible for homeowners to receive grant awards more quickly than initially planned. As a result, also acknowledged by the auditors, the State necessarily accepted certain tradeoffs inherent in a faster process. Essentially, it was viewed by State and Federal officials that it is better in an unprecedented disaster recovery operation for all homeowners to receive their funds quickly, with the attendant risk of problems in some awards made, than to delay all homeowners their receipt of funds simply to avoid problems in some awards.

This redesign of the Program to accelerate awards was made possible largely by shifting "downstream," after closing, many of the important but necessarily time-consuming activities that had earlier been planned to be performed "upstream," or prior to issuing an award letter. The Program's post-closing function was expanded beyond its original role of essentially archiving files to address the many situations where additional activities were required to

complete files or reconcile applicant data, given awards were being made on an expedited basis. The LLA, in fact, acknowledges this important shifting of many of the Program's processing activities, including verification, documentation, and compliance, from pre-closing to post-closing, as follows:

"... [T]he State of Louisiana initially made a decision to accept additional risk associated with expedited payments with the understanding that any ineligible or unallowable payments would be detected and corrected in post-close reviews."

"...[I]t has been OCD's intent to make final verifications of eligibility and award amounts post-closing, rather than pre-closing and to resolve all eligibility and award calculation issues through post-closing procedures."

Given the importance attributed to the Program's post-closing activities, both by OCD and the LLA, any audit of OCD's controls over *The Road Home* Program naturally must extend through post-closing, to be accurate, complete, and consistent with the State's goals for the Program. **Until the LLA includes the Program's grant review and other important post-closing controls within its A-133 audit, it can not fully assess the control environment or draw a conclusion whether or not OCD has fully implemented adequate controls over the administration of *The Road Home* Program.**

By disregarding the Program's post-closing controls in arriving at its finding, the LLA essentially is subjecting the *Road Home* to a double standard. On one hand, the auditors acknowledge the important need for post-closing activities to allow the Program to make grant awards faster, based on the Program's redesign by the State, recognizing that some risks will be incurred in the process. On the other hand, when the expected risks materialize, the LLA criticizes OCD for having such problems and indicates that it lacks controls, all while overlooking the Program's compensating controls in post-closing.

As it happens, it was through innovative efforts such as establishing post-closing controls that the State was able to award 100,000 *Road Home* grants by February 2008, ten months earlier than the originally projected date of December 2008. The Program's numerous back-end controls, particularly within the grant review process, are intended to detect and correct problems associated with the risks inherent in making these expedited awards to homeowners. Through these controls, it is possible for OCD to accomplish the dual objectives of disbursing funds as rapidly as possible in a post-disaster environment and also ensure the integrity of the ultimate outcome of the process.

OCD does not concur with the LLA's finding of "inadequate controls over the Road Home Homeowner Assistance Program." Simply put, such a finding is not based on the Program's actual design.

LLA Reports Cited To Support the A-133 Finding of Inadequate Controls

The auditors, in support of their finding of inadequate controls, rely on the Recovery Assistance Division (RAD) of the Louisiana Legislative Auditor agreed-upon procedures report to base their opinion that the controls over the Road Home Homeowner Assistance Program are inadequate. **The RAD report dated April 23, 2008, states that based on a sample of program disbursements from May to September, 2007, 97% (261 of 269 award recipients sampled) of grant funds were awarded in accordance with program policy.** Despite this definitive statement the auditors elect to draw upon the less definitive language of the report which states, "conflicting documentation *suggests* that 74 awards (28%) *could* have been calculated differently or *may* need adjustment" as the basis for determining that the controls are inadequate. The *Road Home* was expected to adhere to Program policies as established by the Louisiana Recovery Authority (LRA) and OCD. While the LLA may disagree with some of these policies, this audit is not the forum to raise such issues.

The auditors also support their finding by relying on the RAD Agreed-Upon Procedures Report issued December 3, 2008, which states, "OCD paid \$10,688,681 of CDBG funds to ICF for administrative expenses which were not adequately supported and/or unreasonable." It should be noted that while \$10.7 million is a large dollar amount it represents only a little more than one percent of the expected total amount to be paid to ICF. In January 2008, OCD elected to pay ICF invoices in full with the understanding that ICF would issue credits to OCD for any unallowable costs. This was done because of the length of time between OCD receiving an ICF invoice, the RAD's review of the invoice and subsequent payment. There is virtually no risk to OCD that at contract conclusion it will have paid the contractor for undocumented and/or unreasonable administrative expenses. Based on the past history, the majority of expenses initially questioned by the RAD as being inadequately supported; adequate supporting documentation was obtained or OCD concluded that the expense was adequately supported. For those expenses that could not be supported, credits were issued by ICF. For those expenses that in the opinion of the RAD were questionable because they were unreasonable, the majority of those have been resolved; and for those that OCD concurred were unreasonable, credits were issued or OCD offset the amount against subsequent contractor invoiced amounts.

Mr. Steve J. Theriot, CPA

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Currently, \$7.4 million of the \$10.7 million OCD has paid ICF for administrative expenses that the RAD concludes are not adequately supported and/or unreasonable remain unresolved. This amount will be resolved prior to the conclusion of the ICF contract.

The Performance Audit Division (PAD) of the LLA issued an audit on January 14, 2009, on the reliability of certain data used in *The Road Home* Program stored in ICF's data warehouse. The LLA uses the finding of this report in support of its A-133 finding of inadequate controls.

This report cites that the *Road Home* contractor loaded homestead exemption tax data into its data warehouse using an outdated file specification; as a result, certain data to determine an applicant's occupancy was not accurate. The LLA omits the important fact that the contractor loaded the tax data exactly as instructed, on two occasions, by the Louisiana Tax Commission, following the file layout specification that it provided. Related, the LLA leaves out of its audit that of the approximately 12,000 applicants initially "mismatched" for occupancy, the vast majority – all but about 2,000 – have since been re-verified for occupancy using the other means available to the Program. So far, none of the approximately 10,000 applicants that the contractor has re-verified for occupancy has proven to be ineligible due to this issue. The contractor has reported that they do not expect that this outcome will be any different for the remaining 2,000 applicants still in the process of being re-verified for occupancy.

The LLA also indicates that by not considering \$69 million in insurance proceeds paid to grant recipients who carried insurance with the Louisiana Citizens Property Insurance Corporation (Citizens), there is a risk that these applicants were overpaid in their grant awards. In response to this concern, it is important to keep in mind that the Program can only utilize third-party insurance information, such as from Citizens, if it is provided to the Program. Third party verification of insurance payments continues to plague this program. Insurance companies are slow to non-responsive to requests to verify payments. In fact, the PAD audit report confirms the non-responsiveness of insurance companies, specifically Citizens. The PAD report states that, "according to ICF data, between July 2007 and October 2007, a total of 24,194 verification requests were sent to Citizens insurance for claim payment verification. As of March 1, 2008, only 1,126 or 5% of these requests were verified and returned by Citizens to ICF." At this rate it would have taken Citizens 10 years to verify insurance payments. The State and the *Road Home* contractor have gone to great lengths to request information from insurance companies, but the companies are not required to cooperate with the Program and have not always done so.

The LLA states in the A-133 finding that: “The reliability and accuracy of the data in the data warehouse, including insurance benefit data, is questionable.” In its A-133 conclusion, the LLA similarly points out “...the lack of reliable information in ICF’s data warehouse...” **Yet, the PAD data warehouse audit report cited by the LLA seems to indicate a different conclusion of the auditors: “With the exception of data on insurance payments, the data from the warehouse ICF uses to calculate an applicant’s award amount *is generally reliable.*”**

Lastly, the LLA states that 350 of the contractor staff working on the *Road Home* also were applicants to the Program, with many of them having access to the Program’s IT systems. The State and ICF were concerned about the ability of employees of *Road Home* contractors who also are applicants being able to access eGrants and work on their own applications. For example, all contractor personnel working on the Program must certify that they have read, understand, and will abide by the Program’s *Standards of Ethical Conduct*, which provides: “A *Road Home* team member must never process or review his or her own application.” Contractor employees are required to make a similar certification in the Program’s related *Conflict of Interest Agreement*. The contractor has reported to OCD that they have reviewed all of the employee-applicants that have access to eGrants and have not found any instances of an employee fraudulently self-processing his or her own grant award. In addition, the HUD-OIG is in the process of finalizing its review of all *Road Home* employees who received an additional compensation grant. The HUD-OIG preliminary draft report does not contain a finding that a *Road Home* employee fraudulently or improperly self-processed their own grant award. In fact, the HUD – OIG in its assessment of relevant internal controls concludes, as stated in the draft report, that, “we, [HUD-OIG], did not identify any significant weaknesses.”

Disbursements Without a Valid Subrecipient Agreement

The A-133 finding states that OCD made net disbursements of \$7,381,000 of CDBG funds to the Road Home Corporation (Louisiana Land Trust), a subrecipient, without a valid subrecipient agreement in place. OCD had in place a Loan and Regulatory Compliance Agreement in place prior to any Community Development Block Grant (CDBG) funds being disbursed to the Louisiana Land Trust (LLT). When this program first started it was envisioned that OCD would loan funds to the LLT and as the LLT sold properties it would repay the loan; hence, the need for the Loan and Regulatory Compliance Agreement. This Agreement was specific in that the Road Home Corporation was to expend CDBG funds in compliance with HUD regulations. When the program plan changed from a loan repayment arrangement to what it is now, OCD was aware that a subrecipient agreement was required. OCD and the LLT began negotiating the subrecipient agreement but encountered difficulties in the negotiating process. OCD and the LLT fully executed a subrecipient agreement in May 2008. HUD was made fully aware of this issue by OCD.

Pre-closing Monitoring

The A-133 finding is critical of OCD's pre-closing monitoring process stating:

“...[E]ven though ICF conducted two levels of pre-closing reviews prior to OCD, OCD's reviews resulted in a cumulative error rate of 12.5% for the period July 2007 to June 2008. Despite the significant errors noted, OCD did not increase its level of review above its normal range of 5% to 10%, nor did OCD perform additional follow-up reviews on noted errors to ensure that ICF adequately corrected those awards prior to payment.”

OCD began its pre-closing reviews on July 2, 2007, as an eligibility, compliance and procedure review with OCD checking over 75 items. In July, OCD set 30% as a tolerable error rate to transition into the pre-closing review process. The error rate was 27% in July. However, the average monthly error rate decreased by approximately 10% in the following three months: August, 15.6%; September, 16.9%; and October, 13.9%. On October 15, 2007, OCD reduced the tolerable error rate from 30% to 5%. From November 2007 through June 2008 the average monthly error rates ranged from a low of 0% to a high of 5.2%. In our view, it is misleading for the LLA to refer to a cumulative error rate of 12.5% since the error rates in the first four months were high, skewing the cumulative error rate. A truer representation is an error rate of 3% to 4%, based on the error rates experienced from November 2007 through June 2008.

Conclusion

In the A-133 report, the LLA concludes that it is not able to determine whether Program disbursements were in substantial compliance with Program regulations. Specifically, the auditors state:

“...[D]ue to the significant errors being disclosed by OCD's pre-closing reviews, the lack of adequate follow up regarding the correction of noted errors, the lack of reliable information in ICF's data warehouse, and the lack of completed files through final post-close reviews, we are unable to determine whether program disbursements as of June 30, 2008, were in substantial compliance with program regulations.”

In response to this conclusion of the auditors, OCD believes that Program disbursements as of June 30, 2008, are in substantial compliance with Program regulations. As discussed above, OCD believes a more accurate depiction of the pre-closing error rate is between 3% to 4%; the error rate experienced by the Program for the period November 2007 through June 2008, rather than the skewed 12.5% rate cited by the LLA. In addition, a RAD agreed-upon procedures report states that 97% of grant funds were awarded in accordance with Program policy. Regarding the assertion of a lack of reliable information in the data warehouse, the LLA in its audit of the data warehouse stated, in fact, that it is generally reliable (with the exception of data on insurance payments). Lastly, as the Program began completing grant review of closed files in April 2008, three months prior to the end of the A-133 audit period (June 30, 2008), there were an ample number of files for the LLA to examine through the post-closing review process. In our opinion, Program disbursements are in substantial compliance with Program regulations.

Recommendation

OCD generally concurs with the recommendation and feels that it has and will continue to establish controls over *The Road Home* Homeowners Assistance program.

Corrective Action Plan

Lara Robertson and Richard Gray, both OCD/Disaster Recovery Unit Directors, are the contact persons responsible for corrective action.

OCD has implemented the following improvements to the Program.

- Instituted the final file review process. The *Road Home* contractor is completing this process.
- Contracted with the RAD to review the final file review. The RAD review is ongoing.
- Developed a Recapture and Charge-Off policy. OCD is developing the procedures and working with the Louisiana Office of Attorney General and others to provide resources for the process. This is ongoing.
- The *Road Home* contractor has made two additional requests to insurance providers for insurance verification, one in August 2008 and the other in January 2009.
- Seeking HUD's guidance on what constitutes due diligence with regard to insurance duplication of benefits. This is ongoing.
- Executed a subrecipient agreement in May 2008 with the LLT.
- Brought on new contractors as ICF's contract expires. This is ongoing.

Mr. Steve J. Theriot, CPA
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We appreciate the cooperation and diligence of your staff in conducting this audit. If you have questions or require additional information, please let me know.

Sincerely,



Paul Rainwater
Senior Executive Director
Office of Community Development/DRU

PR/SU

c: Ms. Angele Davis
Ms. Sharon Robinson
Mr. Thomas Brennan
Ms. Lara Robertson
Mr. Richard Gray
Ms. Susan Pappan
Mr. Stephen Upton

BOBBY JINDAL
GOVERNOR



NATALIE ROBOTOM
DIRECTOR
OFFICE OF COMMUNITY PROGRAMS

State of Louisiana
Office of the Governor

February 19, 2009

Steve J. Theriot, CPA
Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

In response to the findings identified in the Legislative Audit conducted during October 2008, the Nonpublic School Early Childhood Development (NSECD) Program has worked closely with your office to remedy the issue of inadequate control over the Temporary Assistance for Needy Families Program (TANF).

We concur with the finding that the current process for issuing reimbursements allows for human error. Currently, verification of provider attendance logs and reimbursement statements is completed by matching attendance data against enrollment data collected by the NSECD office. Statements are reviewed by the Administrative Coordinator and the Program Manager prior to signature of authority required by the NSECD Program Director and the Director of the Office of Community Programs. On three occasions, human error occurred with the monthly submission of paper-based documents resulting in underpayments.

Petrouchka Moise, the NSECD Program Director, will be the contact person responsible for the corrective action needed. During the 2007-2008 academic year, the NSECD Program designed an automated web-based system to process schools' monthly invoices, tied to the 74% pupil attendance. This system is currently in the final testing phase.

For the current year, we have worked closely with our providers in assisting in the transition to our electronic billing system. Our test pool consists of five schools with a total of 13 classrooms. These schools will operate completely from the NSECD website for the attendance tracking and the end of the month invoicing. The process will be launched statewide for the 2009-2010 academic year.

Sincerely,

Natalie Robotom, Director
Office of Community Programs

cc: Petrouchka Moise, NSECD Program Director
Sharon Robinson, Internal Audit Administrator
Jeannathan Anderson, Special Services, DSS Office of Family Support