

DIVISION OF ADMINISTRATION
OFFICE OF COMMUNITY DEVELOPMENT
ICF BILLING REVIEW
JULY 2008 THROUGH DECEMBER 2008



AGREED-UPON PROCEDURES REPORT
ISSUED JUNE 10, 2009

**LEGISLATIVE AUDITOR
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BATON ROUGE, LOUISIANA 70804-9397**

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

May 8, 2009

Independent Accountant's Report on the
Application of Agreed-Upon Procedures

PAUL RAINWATER, EXECUTIVE DIRECTOR
OFFICE OF COMMUNITY DEVELOPMENT
DIVISION OF ADMINISTRATION
Baton Rouge, Louisiana

We have performed the procedures enumerated below for ICF International (ICF) billings for the period July 1, 2008, through December 31, 2008, which you agreed to, as the executive director of the Office of Community Development (OCD), primarily to assist you in evaluating the validity of ICF's billings to the state. OCD management is responsible for approving ICF invoices. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the applicable attestation standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of management of OCD. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

Procedure: Compare all ICF invoices to the contract guidelines to determine if they are submitted in accordance with the guidelines; have all the required signatures; are within the required time period; are supported by subcontractor invoices, time records, and receipts; and verify that the supporting documentation agrees with the invoices.

Finding: During the period, ICF billed OCD \$85,053,571 for labor; \$13,283,341 for unit costs; \$22,662,352 for other direct costs; \$2,401,538 for management fees; and \$2,118,708 for travel for a total of \$125,519,510. OCD paid a total of \$124,085,070, leaving an unpaid balance of \$1,434,440.

Management fees and travel were billed in accordance with the contract. However, we noted exceptions for labor, unit costs, and other direct costs totaling \$8,489,553, which

are presented below. During the application of our procedures, ICF submitted additional documentation to support \$4,717,566 of these exceptions and issued credits totaling \$969,717. Also, OCD withheld payment of \$1,434,440 for certain exceptions. The remaining unresolved exceptions total \$1,367,830. Subsequent to this reporting period, ICF provided additional documentation and issued additional credits that may resolve some or all of these exceptions.

Procedure: Compare labor rates billed for ICF employees to labor rates specified in the contract.

Finding: No exceptions noted.

Procedure: Trace subcontractor employee hours billed by ICF to approved subcontractor invoices.

Finding: ICF did not provide sufficient documentation to support labor charges totaling \$3,182,256, over billed \$26,139 for subcontractor labor, and billed \$53,348 for excess markup on subcontractor labor. We also noted that ICF included charges totaling \$3,824 that should have been classified as travel and reimbursed under the fixed price travel portion of its contract. ICF provided additional documentation to support \$3,122,820 of these exceptions and issued credits of \$81,892. The remaining unresolved exceptions total \$60,855.

Procedure: Verify that subcontractor employee hours are billed to OCD in accordance with the proper ICF labor classifications.

Finding: We noted that ICF billed \$512,894 for labor categories that are not included in its contract or the contract amendments. ICF provided additional documentation to resolve \$373,963 of the exceptions noted. The remaining unresolved exceptions total \$138,931.

Procedure: Determine if subcontractor invoices include the approval signature of an ICF program manager.

Finding: No exceptions noted.

Procedure: Compare unit costs billed to the rates established in the contract.

Finding: No exceptions noted.

Procedure: Determine if unit costs billed are supported by subcontractor invoices.

Finding: We noted that ICF did not provide sufficient documentation to support unit costs totaling \$675. We also noted over-billings totaling \$36,637. In addition, ICF billed \$47,630 for unit costs that appear to be duplicate charges. ICF provided additional

documentation to resolve \$46,645 of the exceptions noted and issued credits totaling \$21,041. The remaining unresolved exceptions total \$17,256.

Procedure: Determine if other direct costs billed are submitted with supporting invoices and/or receipts.

Finding: ICF did not provide sufficient documentation to support other direct costs totaling \$921,552 and billed \$1,435,043 for other direct costs that are not included in its contract or contract amendments or in ICF's subcontracts. In addition, we noted duplicate charges totaling \$122,505 and over-billings totaling \$172,649. ICF provided additional documentation to resolve \$693,447 of the exceptions noted and issued credits of \$177,281. In addition, OCD withheld payment of \$1,433,896 for certain exceptions. The remaining unresolved exceptions total \$347,125.

ICF also billed \$1,974,284 for other direct costs that do not appear to be allowable under its contract or benefit the program. ICF provided additional documentation to resolve \$480,574 of these noted exceptions and issued credits totaling \$689,504. Also, OCD withheld payment of \$544 for certain exceptions. The remaining unresolved exceptions total \$803,662.

We were not engaged to and did not conduct an examination, the objective of which would be to express an opinion on OCD's compliance with federal and state regulations, OCD's internal control over compliance with federal and state regulations, or OCD's financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you.

This report is intended primarily for the information and use of OCD. However, by provisions of state law, this report is a public document and has been distributed to the appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

SDP:JM:dl

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Management's Response

BOBBY JINDAL
GOVERNOR



ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

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

May 28, 2009

Mr. Steve J. Theriot, CPA
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804

Re: OCD/DRU Response to the ICF Invoice Review
Procedures for the six months ending December 31, 2008

Dear Mr. Theriot:

The Office of Community Development (ODC), Division of Administration appreciates the opportunity to respond to the procedures and findings prepared by your office on the review identified above. Our analysis of the report found that it accurately summarizes items discussed with ICF and your staff at the weekly meetings to review ICF invoices and the LLA Finding of Review.

We are in general concurrence with the five findings of the report and have taken steps to further analyze each finding. As of this report it is our understanding you have cleared approximately \$375,000 in findings leaving a balance of \$1,013,125 in unresolved exceptions. We will continue to work with your office and the ICF team to come to an agreeable solution with all parties.

We would like to thank your office for their hard work on this assignment. Your staff has shown remarkable professionalism and diligence in working through many difficult issues. Your services are greatly appreciated by the Division of Administration.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul Rainwater", with a long horizontal flourish extending to the right.

Paul Rainwater, Executive Director
OCD/Disaster Recovery Unit

Cc: Tom Brennan
Susan Pappan
Steve Upton

May 21, 2009

The Road Home Program
Louisiana Legislative Auditor – Invoice Review
July 1, 2008 – December 31, 2008
ICF Response

ICF invoices submitted on *The Road Home Program* in the six-month period from July 1, 2008 to December 31, 2008 totaled \$125,519,510. The Louisiana Legislative Auditor (LLA) identified remaining unresolved costs of only 1.1 percent of this total amount invoiced. The auditors' report indicates that in some cases ICF billings were, in their opinion, not in accordance with the contract and, in turn, identified exceptions of \$1,387,732.

The amount identified by the auditors does not mention or take into account the documentation provided by ICF to further reduce the questioned costs prior to the release of the auditors' report, nor the State – through the Office of Community Development (OCD) – generally concurring with ICF on the resolution of the questioned costs. After taking into consideration the amount of questioned costs that should be resolved by the additional documentation already provided, the costs that were questioned by the LLA but not OCD, and the costs that we believe to be appropriate charges under the contract, the remaining amount of questioned costs are \$234,813. We believe that all of these costs will be cleared after additional documentation is provided.

In the report, the auditors performed eight procedures in their review of ICF invoices. In three of these procedures, there were no findings. The five remaining procedures are addressed in this response in the same order as presented in the report.

1. The report states that the auditors continue to question \$60,855 in costs where “ICF did not provide sufficient documentation to support labor charges.”

ICF has provided supporting, detailed information to the State to clear \$33,985 of this questioned amount of costs. Also, ICF has provided documentation for the auditors' review which will clear an additional \$3,813.

Within the remaining questioned balance outstanding, the auditors took the surprising position that certain ICF program-specific training costs were not chargeable under the contract, questioning \$7,245 in labor costs to provide needed policy training to employees. OCD agrees with ICF that this is an allowable charge consistent with the statement of work and terms of our contract.

The resulting outstanding balance of \$15,812 is comprised of two subcontractor invoices and is related to the subcontractors not having provided adequate documentation for the time charges. ICF has contacted the subcontractors who in turn are providing the

requested documentation which we believe will clear this finding to the satisfaction of the auditors.

2. The auditors questioned \$138,931 in subcontractor costs that “are not included in their contract or the contract amendments.”

Due to a single ICF subcontractor’s labor billing, \$138,931 was questioned. ICF requested the required documentation related to this expense from the subcontractor and provided it to the auditors, clearing the questioned cost. OCD agrees with ICF that the documentation provided by the subcontractor and ICF supports this cost incurred.

3. The report states that “ICF did not provide sufficient documentation to support unit cost.” The auditors’ report questions \$17,010 related to units, describing these costs as “duplicate charges.”

ICF has provided explanation to the State sufficient to clear \$14,899 in unit costs that were questioned by the auditors. The remaining \$2,111, though not yet cleared, was charged in accordance with our implementing Program policies approved by the State. ICF is in the process of gathering support and will soon provide documentation to the auditors.

4. The auditors’ report indicates a combined total of \$1,170,935 in unresolved Other Direct Costs (ODCs) “...that are not included in their contract or contract amendments or in ICF’s subcontracts” or “...do not appear to be allowable under the contract or benefit the program.”

The provisions in our contract governing ODCs are in Section 3.1 and the third amendment to the contract. It is important to note that specific types of ODCs are not listed and included in the contract or contract amendments.

Of the \$1,170,935 in questioned costs:

- \$388,447 consists of ODCs procured by our subcontractor, Shaw Environmental & Infrastructure, Inc., and questioned by the auditors:
 - \$33,088 – The auditors believe certain items including cable TV located in lobby areas for applicants, kitchen utensils (plastic spoons, forks), coffee, and water should be included in a company’s overhead and not charged direct. OCD has twice audited ICF’s indirect rates and understands that these items are not included in our *Road Home* rate structure, so there is no duplication of costs.
 - \$163,212 – The auditors have questioned the need for individual desktop computers for *Road Home* staff to perform their jobs through access to our IT systems, and questioned to whom individual machines were assigned.

ICF has explained our process of assigning such equipment to personnel to the satisfaction of OCD.

- \$108,662 – The auditors question charges related to lease extensions and security deposits needed for certain facilities to house the Program. Facility lease extensions occurred as directed by OCD. The subcontractor, Shaw, is gathering the lease extension documentation to clear this finding.
- \$62,580 – A Shaw invoice was described as neither sufficiently detailed nor legible in the opinion of the auditors. Shaw will provide more detail to clear the finding.
- \$17,923 – The auditors question the documentation in support of telephone charges. Shaw is gathering the necessary documentation to clear the finding.

\$2,982 – The auditors have taken the position that the State should not pay mark up on sales tax on ODC purchases. This approach is consistent with Shaw’s standard business practice, allowable under Federal Acquisition Regulations, and consistent with the terms of the contract.

- \$303,388 is associated with defending claims arising out of our implementation of the *Road Home* program on behalf of the State. Section 5 of the contract addresses legal expenses:

“Except as provided above in the second and third paragraphs of this Section 5, Contractor shall be allowed to charge as an expense under this Contract, all reasonable costs and fees incurred by it in defending and/or paying any claim brought by any third party against it, arising out of, directly or indirectly, Contractor’s performance of its obligations under this Contract.”

- \$273,178 in severance paid to contractor employees assigned to *Road Home* was specifically approved by the State, yet the auditors identify this cost as unresolved.
- \$65,175 is related to conducting needed outreach events to applicants. Though we do not understand the auditor’s position, the auditors believe these costs which were incurred to rent ten facilities throughout the affected parishes to hold applicant events, should be charged against fixed-price travel. OCD disagrees with this position and agrees with ICF. Such facility costs within Louisiana were never considered by the State or ICF as part of travel expenses, and were not included in the buildup of the travel budget in our contract, which was reviewed by the State prior to executing the third amendment to our contract.

- \$61,623 consists of subcontractor and vendor expenses questioned for lacking sufficient documentation in support of the invoiced amount. This documentation has been collected and submitted to the auditors for their review; \$36,975 has since been cleared by the auditors.
- \$33,295 is an annual fidelity bond for a title company's (subcontractor) escrow account. OCD required ICF to provide the bond as necessary protection to the State. ICF has provided the documentation to justify the expense, and OCD agrees with ICF.
- \$32,117 of subcontractor IT expenses related to *Road Home* services was identified as unresolved by the auditors. The subcontractor, Ruleburst, was selected through a competitive procurement and approved by OCD. During the period of performance, changes to the Program reduced the need for the subcontractor's services. ICF discontinued the subcontractor's role. These expenses were incurred prior to the notice to discontinue service was issued. ICF has previously provided OCD with a summary of the subcontractor's role. OCD agrees with ICF this is an allowable expense.
- \$10,635 was an annual charge to renew the license for an employment screening tool associated with hiring *Road Home* personnel. OCD agrees with ICF this is an allowable charge.
- \$3,077 includes various open items. We are in the process of gathering the supporting documentation to justify the expenses.

While ICF appreciates the auditor's focus in assuring the accuracy of our invoices to the State, a significant amount of the questioned costs seems to disregard the specific provisions of our contract and the requirements and direction from OCD in implementing the Program.

We have suggested on many occasions that the auditors consider meeting with both ICF and OCD to address questioned costs in a collaborative manner and, in the process, obtain input from subject matter experts within OCD and ICF in advance of writing an assessment of our performance. We continue to welcome the opportunity to meet and vet these issues in such a constructive manner.