

ROAD HOME PROGRAM
PRE-CLOSING PROCESS



PERFORMANCE AUDIT

ISSUED JULY 5, 2007

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July 5, 2007

Jerry Luke LeBlanc
Commissioner of Administration
Division of Administration

Dear Commissioner LeBlanc:

This report provides the results of our performance audit on the pre-closing process for the Road Home program. The audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended.

The report contains our conclusions and recommendations. Appendix A contains the Office of Community Development's response to recommendations. I hope this report will benefit you in your decision-making process.

Sincerely,

Steve J. Theriot, CPA
Legislative Auditor

SJT/dl

RHPPCP07

Office of Legislative Auditor

Steve J. Theriot, CPA, Legislative Auditor

Road Home Program

Pre-Closing Process

July 2007



Audit Control # 40070006

Objectives and Overall Results

We conducted a performance audit to evaluate the effectiveness of the pre-closing process at ensuring applicant files are ready to be closed. This audit was specifically requested by the Office of Community Development (OCD) to develop recommendations to improve this process before this function moved under new ICF management. We worked in conjunction with OCD staff to develop our audit plan and conduct the audit. On April 18, 2007, we gave OCD a letter that summarized our preliminary observations and recommendations. The objectives of our audit and the corresponding results of our work are summarized below.

Objective 1: Does the pre-closing process ensure that applicant files are complete and accurate?

Results: The pre-closing process does not always ensure that applicant files are complete and accurate. Although ICF has developed a process that includes two levels of internal quality assurance and quality control reviews, applicant files continue to have errors. ICF has internal quality control reviews from pre-closing quality assurance advisors and the internal compliance team. Even after these internal reviews, ICF's external reviewer, Deltha Corporation, found errors. For example, Deltha's review on April 9, 2007, found that 15% of the files could not be forwarded to First American because of errors and First American found that 12% of files sent from pre-closing had problems. Errors continue to occur despite multiple levels of review because of the following:

- No overall analysis to determine the cause of the errors
- Daily quotas have resulted in less thorough reviews
- Lack of detailed policies and procedures for advisors to follow
- Road Home policies change frequently leaving little time to comprehend changes
- Some advisors and quality assurance advisors did not complete their review checklists
- The team that uploads and scans in documents does not have quality assurance performed on their activities

It is vital that ICF establish an effective process to ensure that pre-closing files contain accurate and complete information because homeowners are now receiving their awards in a lump sum payment and if the award amount is incorrect, it will be difficult and resource-intensive for the state to recoup these funds.

OCD agrees with the recommendations in this report and has discussed our recommendations with ICF management. Appendix A contains a copy of OCD's response.

Scope and Methodology

This audit is the fourth in a series of reports that reviews various processes within the Road Home program. We reviewed the pre-closing process at the request of OCD.

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We followed generally accepted government auditing standards as promulgated by the Comptroller General of the United States.

To conduct this audit, we performed the following steps:

- Interviewed pre-closing management and staff
- Obtained and reviewed quality assurance and quality control procedures and results
- Obtained and reviewed results from First American's review
- Conducted a file review using eGrants to determine if appropriate checklists were complete

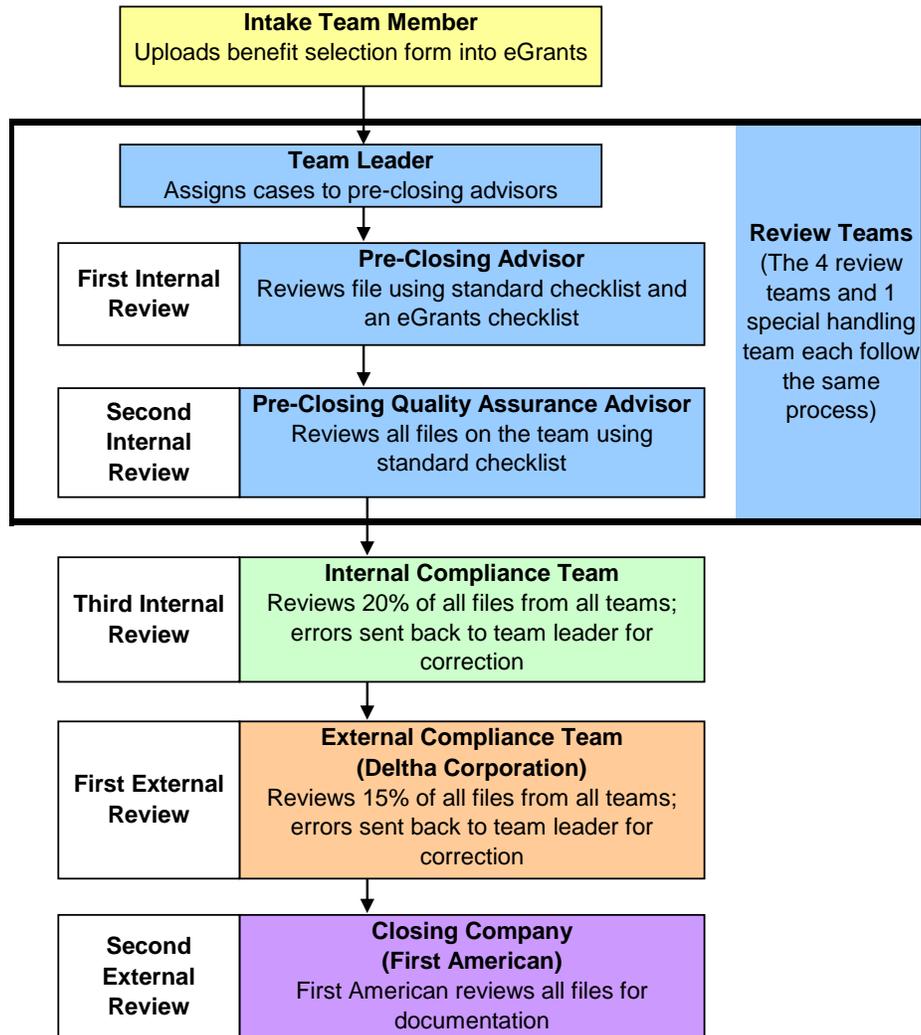
Background

ICF developed the pre-closing process to help ensure that applicant files were complete and ready to go to closing. The pre-closing review begins when ICF receives the benefit selection form from the applicant indicating which option the applicant has chosen.

The pre-closing section is comprised of an intake team, four review teams, one special handling team, and an internal compliance team. The special handling team performs the same functions as the review teams, but for special cases.

The pre-closing process includes three internal reviews and two external reviews. The first external review is completed by Deltha Corporation, a subcontractor that conducts quality assurance on various program processes. The second external review is completed by First American Title, the subcontractor that handles closings. Exhibit 1 outlines the overall review process and illustrates the various quality assurance reviews.

**Exhibit 1
Overall Pre-Closing Process**



Source: Prepared by legislative auditor’s staff using information from ICF.

Does the pre-closing process ensure that applicant files are complete and ready to go to closing?

Overall, we found that despite multiple levels of quality assurance, pre-closing files still contain numerous errors. As shown previously in Exhibit 1, the pre-closing process has three internal reviews and two external reviews. We obtained and reviewed the review results of the third level of internal review (internal compliance team) and the first external review (Deltha Corporation). These reviews found errors that should have been detected by first two levels of review completed by the review team (pre-closing advisor and pre-closing quality assurance advisor). Exhibit 2 summarizes these errors.

**Exhibit 2
Summary of Errors From Internal Compliance and
External Compliance Team Reviews**

Entity	Date(s) of Review	Number Reviewed	Errors
Internal Compliance Team (3 rd Level of Review)	April 6, 2007	44 of 220 (20%)	15 (34%) files had one or more errors and were not approved for transfer to First American. Examples of specific errors identified were: <ul style="list-style-type: none"> • 7 errors related to affordable compensation loan documentation • 5 errors related to loan calculations • 6 errors related to documentation not being uploaded or legible • 5 errors related to forms (e.g., outdated form, CDBG form) • 3 errors related to insurance penalties
Deltha (1 st Level of External Review)	April 3-9, 2007	209 of 1,391 (15%)	22 (10%) files had one or more errors and were not approved for transfer to First American. Examples of specific errors identified were: <ul style="list-style-type: none"> • 6 errors related to missing closing instructions • 9 errors related to affordable compensation loan documentation or eligibility • 3 errors related to pre-storm value
Auditor's Note: This information is designed solely to give examples of errors in the reviews. We did not evaluate the quality or accuracy of each reviewer's work.			
Source: Prepared by legislative auditor's staff using information provided by ICF and Deltha.			

In addition to the above reviews, First American also conducts a review of the information that is sent to them for closings (second external review). According to data from First American from March 6 to March 30, First American reviewed 10,623 files and found that 1,276 (12%) files had errors. First American said it sends e-mails to ICF with a list of the files with errors and ICF will correct and resubmit. Exhibit 3 summarizes the errors identified in First American's review.

**Exhibit 3
First American Review Results**

Error Description	Total	Percentage
Total files transferred from 3/6/07 to 3/30/07	10,623	
Files with no final closing instructions (FCI) in eGrants	645	6.07%
Files where no option was selected or dollar amounts did not agree	98	0.92%
Files that required a CDBG form but did not have one in eGrants	167	1.57%
Files that required an income worksheet but did not have one in eGrants	114	1.07%
Files that required a benefit selection form but did not have one in eGrants	145	1.36%
Files that have mismatched amounts, incorrect names, wrong option numbers, two or more FCIs, etc.	107	1.01%
Total Errors	1,276	12.01%
Source: Prepared by legislative auditor's staff using data from First American.		

We identified various issues with the current pre-closing process that may contribute to the prevalence of errors in pre-closing files. These issues are summarized as follows:

While pre-closing teams correct individual errors, they do not analyze all errors collectively to find common causes. According to ICF, errors are sent back for correction to team leaders who give these to individual advisors. However, errors are not necessarily evaluated as a whole to determine the reason the error occurred and used as a means to improve the overall process. While correction of errors is important, errors should also be evaluated to determine the cause of the problem, the extent of the problem, and how the problem could be prevented in the future.

Recommendation 1: OCD should require ICF to evaluate the overall quality assurance and quality control process and results to determine the cause of why errors keep occurring and use this evaluation to make improvements in the program.

Summary of Management's Response: OCD agrees with this recommendation and states that they hold weekly quality assurance and quality control meetings and provide feedback to ICF for continuous improvements to the program.

Pre-closing advisors must meet an unwritten quota of 15 files a day to meet the overall daily quota of 400 files that must be transferred to First American. According to ICF management, meeting this quota was difficult for advisors and some advisors may not have reviewed the file sufficiently.

Recommendation 2: OCD should determine if the goal of 400 files a day is an appropriate goal for this process. If determined appropriate, OCD should require ICF to develop a plan to complete this level of quality reviews with minimal errors. When developing this plan, ICF should consider whether current staffing levels are sufficient to complete the goal of 400 files per day.

Summary of Management's Response: OCD agrees with this recommendation and states that a thorough discussion between OCD, LRA and ICF needs to be held to determine the appropriateness of this goal. If the goal is not changed, then OCD will request ICF to prepare a plan to include how quality and speed will be reconciled.

Pre-closing does not have sufficient procedures that detail how advisors should review and prepare pre-closing files. Pre-closing management has developed some general business rules and associated flowcharts that provide an overview of each step of the process, but these business rules do not contain sufficient detail on how files should be reviewed and how teams should conduct their activities. Advisors do have checklists that help guide their reviews but without specific policies and procedures, advisors could be performing reviews differently.

Recommendation 3: OCD should require that ICF develop specific policies and procedures for each team to use that details how they should prepare and review files and conduct other activities.

Summary of Management's Response: OCD agrees with this recommendation and has submitted a letter to ICF on May 3, 2007 requesting that they take action to implement this recommendation.

Some advisors said that they find it difficult to stay up-to-date with changing Road Home policies. Some advisors we interviewed said that with their daily quota of files to review, they do not have time to check the Road Home portal for policy updates. In addition, policies change so frequently in the program that it is hard to comprehend and implement a policy before the policy changes again. Therefore, the inability to stay up-to-date and adequately comprehend policy changes may be another reason why files contain errors.

Recommendation 4: OCD should require that ICF update and train staff on Road Home policies. One way to do this is to follow the 'best practice' recommendation made in the Housing Assistance Center report and to designate one person as a trainer who can stay up-to-date with policy changes and be responsible for training staff on understanding and implementing the policies.

Summary of Management's Response: OCD agrees with this recommendation and has submitted a letter to ICF on May 3, 2007 requesting that they take action to implement this recommendation.

Some advisors and quality assurance advisors did not complete their review checklists. We reviewed a sample of 40 files to determine if the required advisor and quality assurance advisor checklists were complete and in eGrants and found the following:

- In six of 40 files (15%), the advisor did not completely fill out the review checklist.
- In 16 of 40 files (40%), the quality assurance advisor did not completely fill out the quality assurance checklist. In some of these cases, the checklist was not completed at all.

Therefore in these cases, we were not able to tell if the review was conducted but not documented or if the review was not conducted at all.

Recommendation 5: OCD should require ICF to reiterate to staff the importance of completing the review checklist as this checklist serves as documentation of the review. One way to help with the checklists is to require that the team leader review the checklists for completion. Currently, the team leader "spot-checks" the electronic file, but there is no set procedure for what each team leader checks for.

Summary of Management's Response: OCD agrees with this recommendation and has submitted a letter to ICF on May 3, 2007 requesting that they take action to implement this recommendation.

Unlike the other teams, the intake team does not have a quality assurance function embedded on its team. The intake team is responsible for scanning in all documents associated with the pre-closing file and uploading the documents to eGrants. It is important that all documents be scanned and uploaded to eGrants correctly because these documents provide closing information and amounts to First American. However, currently no quality assurance and quality control is conducted over these activities.

Both the internal compliance team and staff at First American have found problems with missing and illegible documents. For example, internal compliance's review on April 6, 2007, found that out of 44 files, 10 (23%) had an intake team error. As noted earlier, First American also found that from March 6, 2007, to March 30, 2007, 645 files out of 10,623 (6%) did not have final closing instructions uploaded into eGrants.

Recommendation 6: OCD should require that ICF conduct quality assurance on intake team activities.

Summary of Management's Response: OCD agrees with this recommendation and states that ICF has appointed two advisors to review intake team work to ensure that data is appropriately logged into JIRA and eGrants.

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APPENDIX A: MANAGEMENT'S RESPONSE



Kathleen Babineaux Blanco
GOVERNOR

State of Louisiana
DIVISION OF ADMINISTRATION

RECEIVED
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OFFICE OF COMMUNITY DEVELOPMENT

JUN 25 PM 1:45

Jerry Luke LeBlanc
COMMISSIONER OF ADMINISTRATION

June 25, 2007

Mr. Steve J. Theriot, CPA
1600 North Third Street
PO Box 94397
Baton Rouge, LA 70804-9397

Re: OCD/DRU Response to May 2007 Audit conducted by the Office of Legislative Auditor
Audit Control #40070006 Road Home Program
Pre-Closing Process

Dear Mr. Theriot:

This letter, the updated edition of the previous ones dated June 15 and June 20, 2007, is the written response to your performance audit on the ICF pre-closing process. This audit was conducted as a joint effort with staff from OCD and your office participating.

Recommendation 1:

OCD should require ICF to evaluate the overall QA/QC process and results to determine why errors keep occurring, and use this evaluation to make improvements in the program.

OCD Response:

OCD has weekly meetings with the QA/QC and weekly meetings with ICF to report back on the results of the concerns for the QA/QC meeting. OCD is also doing oversight and is providing feedback to ICF for continuous improvements to the program. OCD began to facilitate these meetings prior to the audit report. OCD does agree that improvements can and will continue to happen in this ever evolving program.

Recommendation 2:

OCD should determine if the goal of 400 files a day is an appropriate goal for this process. If determined appropriate, OCD should require ICF to develop a plan to complete this level of quality reviews with minimal errors. When developing this plan, ICF should consider whether current staffing levels are sufficient to complete the goal of 400 files per day.

OCD Response:

Due to public pressure, a goal of 400 files a day was set. OCD agrees that a thorough discussion between OCD, LRA and ICF needs to be held to determine the appropriateness of this goal, in

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light of LLA and OCD's observations. Should this volume continue OCD will request ICF to prepare a plan to include how quality and speed will be reconciled.

OCD will continue to closely monitor the status of Road Home homeowner applicant closings, since it is critical to the rebuilding of Coastal Louisiana. This goal will be re-evaluated on a quarterly basis with necessary adjustments made, and we will continue to act in assuring that we manage speed with accuracy.

Recommendation 3:

OCD should require that ICF develop specific policies and procedures for each team to use that detail how they should prepare and review files and conduct other activities.

Recommendation 4:

OCD should require that ICF update and train staff on Road Home policies. One way to do this is to follow the 'best practice' recommendation made in the Housing Assistance Center report and to designate one person as trainer who can stay up to date with policy changes and be responsible for training staff on understanding and implementing the polices.

Recommendation 5:

OCD should require ICF to reiterate to staff the importance of completing the review checklists, as this serves as documentation of their review. One way to help with this is to require that the team leader review the checklists for completion. Currently, the team leader 'spot checks' the electronic file but there is no set procedure for what each team leader checks.

OCD Response to 3, 4, 5:

The OCD concurs with recommendations 3, 4, and 5 in the report. OCD submitted a letter to ICF on May 3rd, requesting that they take actions to implement these recommendations outlined in the Audit Report.

Recommendation 6:

OCD should require that ICF conduct quality assurance on intake team activities.

Steve J. Theriot, CPA
June 25, 2007
page 3

OCD Response:

OCD concurs with recommendation number 6. ICF has appointed two advisors the responsibility for reviewing the intake team work to ensure data is appropriately logged into Jira and eGrants.

Sincerely,



Susan Elkins
Executive Director
Office of Community Development

c: Thomas Brennan, OCD Deputy Executive Director
Mike Taylor, DRU Director
Mike Spletto, DRU Senior Housing Manager
Rich Gray, DRU Senior Monitoring Supervisor
Isabel Reiff, ICF