

DIVISION OF ADMINISTRATION
OFFICE OF COMMUNITY DEVELOPMENT
INVOICE REVIEW



AGREED-UPON PROCEDURES REPORT

ISSUED SEPTEMBER 5, 2007

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1600 NORTH THIRD STREET
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BATON ROUGE, LOUISIANA 70804-9397**

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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September 5, 2007

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

MS. SUZIE ELKINS, 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 January 23, 2007, through June 30, 2007, which were agreed to by you, 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:

1. Procedure

Compared all ICF invoices to the contract guidelines to determine if they were submitted in accordance with the guidelines; had all the required signatures; were within the required time period; were supported by subcontractor invoices, time records, and receipts; and verified that the supporting documentation agrees with the invoice.

Finding

Subcontractor invoices totaling \$5,989,198 were initially submitted without adequate supporting documentation. During the application of these procedures, supporting documentation of \$5,748,493 was submitted leaving \$240,705 unsupported.

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OCD requested that we do further analysis of ICF invoices for markups on labor and unit costs. This request was that we report those costs which were invoiced at an amount greater than 15% of the cost incurred. During the period, ICF's markup exceeded 15% by \$3,045,535 and \$173,574 for unit prices and labor, respectively. OCD used this information to negotiate price reductions that were or will be amended into the contract.

2. Procedure

Compared labor rates billed for ICF employees to labor rates specified in the contract and compared the budget to actual expenditures.

Finding

Labor charges of \$41,612 were billed in excess of the contract on one occasion and appeared to be caused by a transposition.

Since June 2007 budget information was not available, we used budget information available for May 2007. Through May 31, 2007, ICF billed \$276,800,000, which is \$12,170,000 (4.5%) over the budgeted amount. Charges to the Homeowner Program are \$59,730,000 over budget, but charges to the Rental, Homeless, and Piggyback Programs are \$47,560,000 under budget.

From June 12, 2006 (inception) through June 30, 2007, ICF billed OCD \$286,386,132, which includes \$70,548,885 for Phase I and \$215,837,247 for Phases II & III. The total contract is \$756,000,000 and due to expire on June 12, 2009.

3. Procedure

Traced subcontractor employee hours billed by ICF to approved subcontractor invoices.

Finding

No exceptions were noted.

4. Procedure

Verified that subcontractor employee hours are billed to OCD in accordance with the proper ICF labor classification.

Finding

Since ICF subcontractors do not have the same labor categories as defined in the contract, subcontractor labor charges are “mapped” to a category of labor covered by the contract. ICF billed \$300,133 for subcontractor labor that was “mapped” to labor categories not covered by the contract or task orders. Also, incorrect labor classifications resulted in overcharges in some cases and undercharges in other cases for a net over billing of \$97,895. Since OCD had review procedures in place, the over billings were identified before payment and subsequently not paid.

5. Procedure

Determined if subcontractor invoices include the approval signature of an ICF program manager.

Finding

ICF submitted subcontractor invoices totaling \$115,490 that were not approved by the ICF program manager. Subsequently, the ICF program manager approved the invoices and the invoices were paid.

6. Procedure

Compared unit costs billed to the rates established in the contract.

Finding

No exceptions noted.

7. Procedure

Determined if unit costs billed are supported by subcontractor invoices.

Finding

No exceptions noted.

8. Procedure

Determined if other direct costs (ODCs) were submitted with supporting invoices and/or receipts.

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Finding

We questioned ODCs totaling \$1,116,854 that ICF invoiced. These ODCs charged for travel, personnel recruitment, overhead expenses, or unsupported charges. The largest ODC that we questioned was for \$875,000. After ICF provided OCD with additional information, OCD paid ICF \$876,644 of the questioned ODCs.

OCD will pay ICF, on a pro rata basis over the life of the contract, a fixed fee totaling \$13,530,000 to manage ODCs. As of June 30, 2007, management fees totaled \$5,329,231 and ODCs totaled \$22,444,733.

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

DP:JM:dl

Attachment

OCD-ICFINV07

Management's Response

INVOICE REVIEW



Kathleen Babineaux Blanco
GOVERNOR

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF COMMUNITY DEVELOPMENT

Jerry Luke LeBlanc
COMMISSIONER OF ADMINISTRATION

August 27, 2007

Mr. Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
Baton Rouge, LA 70804-9397

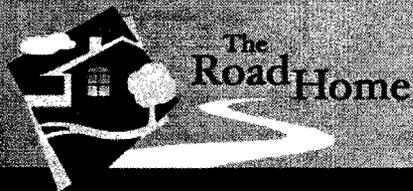
Dear Mr. Theriot:

We would like to thank the Office of the Legislative Auditor for their cooperation and support of our efforts to ensure that invoices the Office of Community Development (OCD) receives on the contract from ICF Emergency Management Services (ICF) for the administration of the Road Home program are accurate, allowable and properly documented. We feel the value they add by having an independent third party review ICF invoices is beneficial to both OCD and the people of Louisiana. Due to the size and the complexity of the contract and the program, this is not an easy task.

Also, please find attached a response from ICF.

Sincerely Yours,

Thomas Brennan
Deputy Executive Director



August 28, 2007

Mr. Thomas Brennan, Assistant Executive Officer
Office of Community Development
State of Louisiana's Division of Administration
P.O. Box 94095
Baton Rouge, LA 70804-9095

Dear Mr. Brennan:

Thank you for the opportunity to review and comment on the recent Office of the Legislative Auditor (OLA) draft report on ICF's billings under *The Road Home* contract. In our view, the draft report presents findings in a cursory manner. Given the absence of context, there is a reasonable chance for readers of the report to draw incorrect conclusions. Therefore, we wish to take this opportunity to address our concerns below.

Procedure 1 – Compared all ICF invoices to the contract guidelines to determine if they were 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 that the supporting documentation agrees with the invoice.

The OLA had two findings. The first was that almost \$6 million in subcontractor invoices lacked adequate supporting documentation. As you know, the contract does not specify the type or amount of supporting documentation to accompany our invoices. We have consistently provided whatever supporting documentation has been requested. The supporting documentation we had been providing was considered by the OLA auditor in charge of reviewing our invoices to be adequate.

The OLA changed lead auditors for this function at the end of January 2007, which coincided with the beginning of the time period reviewed by the OLA. When the new OLA auditors indicated to us the need for additional supporting documentation not previously requested or required, we provided it. The report mentions that there is still \$240,705 that is unsupported. If the OLA indicates to us which specific charges are unsupported, we would be happy to supply the documentation from our files.

The OLA's second finding relates to the markup on labor and subcontractor costs. The paragraph in which this is discussed should be removed from the report as it has nothing to do with the OLA's stated purpose of comparing our billings to contract guidelines. In order to bring balance to this discussion, the auditors might mention that we agreed to forego our standard markup for all appraisals. To place a finer point on this fact, we have completed over 65,000 appraisals to date, with perhaps this many more yet to be completed. The absence of markup has resulted in a significant cost savings to the State, and an overall lowering of our average subcontractor mark up to beneath 15 percent.

Procedure 2 – Compared labor rates for ICF employees to labor rates specified in the contract and compared the budget to actual expenditures.

The OLA presents information which compares billings to budgeted amounts. As you are aware, the Homeowner Assistance Program has gone through many changes since the total budget was established last October. In addition, there have been many more applicants to the Program than anyone had projected as the basis for budgeting. If the auditors are to include this information in their report, we think it important that they provide a full context for the information they present.

Procedure 5 – Determined if subcontractor invoices include the approval signature of an ICF program manager.

The OLA finding was that ICF had submitted subcontractor invoices totaling \$115,490 that were not approved by the ICF program manager, and that these invoices were subsequently approved by the ICF program manager. This is a mischaracterization of the situation. The invoices were approved by the ICF program manager prior to their submittal to the State. The invoices are scanned and submitted electronically. The ICF program manager indicated her approval on the “Invoice Approval Form,” which accompanies the invoices. In this particular case, that approval form was inadvertently not scanned with the invoice. When that was brought to our attention, we provided the form showing the ICF program manager’s approval. This trivial matter does not belong as a finding in this report.

Procedure 8 – Determined if other direct costs (ODCs) were submitted with supporting invoices and/or receipts.

The OLA discusses two findings. The first finding was that about \$1.1 million in invoiced costs were questioned, with the largest single item being a cost of \$875,000. This \$875,000 item was for the acquisition from West Telemarketing of the assets required to operate a call center in Baton Rouge for *The Road Home* Program. The acquisition of those assets had been approved in advance by OCD and the transaction is fully documented.

While not explicitly stated in the finding, it appears that the implicit statement is that the effective fee percentage earned so far is excessive. We will be happy to negotiate the fee as a percentage of the ODCs. However, we were advised this was contrary to Louisiana contract law to have a contract on a cost plus percentage of cost basis. Therefore, our contract has a fixed fee that does not vary with the amount of the ODCs. We also hope that the OLA will take this opportunity to point out how this arrangement is one explanation for why the ODCs are running below budget.

The effective fee percentage we earn will only be known at the end of the contract, after the total amount of ODCs are known. This effective fee will be reduced substantially by the addition of a recently identified new program requirement, which will add about \$10 million in ODC costs. Given that the “finding” is not really a finding and that is misleading, we believe it should be removed from the report.

Thank you again for the opportunity to comment on this draft report.

Sincerely,

A handwritten signature in black ink that reads "John D. Thornton". The signature is written in a cursive style with a large initial "J" and a distinct "D".

Chief Administrative Officer