

DIVISION OF ADMINISTRATION  
OFFICE OF COMMUNITY DEVELOPMENT



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AGREED-UPON PROCEDURES REPORT

ISSUED JUNE 13, 2007

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June 13, 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 performed the procedure enumerated below, which was agreed to by you, as executive director of the Office of Community Development (OCD), primarily to assist you in evaluating whether your contractor, ICF International (ICF), was abiding by the travel policies set forth in its contract. 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 this procedure is solely the responsibility of management of OCD. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

The procedure we performed and our finding are as follows:

1. We examined all the ICF travel expenses incurred from June 12, 2006, through December 31, 2006, for compliance with ICF travel policy. The finding related to this procedure begins on page 3 and the recommendations are listed on page 7.

We were not engaged to and did not conduct an examination, the objective of which would be to express an opinion on the financial statements taken as a whole. 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



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Following the state solicitation for proposal process, ICF International (ICF) was awarded a three-year \$756 million contract to administer the Road Home program for the State of Louisiana. The contract is divided into phases. Phase I covers the period June 12, 2006, through October 11, 2006. Phases II and III cover the period October 12, 2006, through June 11, 2009.

In Phase I of the contract, travel costs were considered other direct costs.<sup>1</sup> Division of Administration, Office of Community Development (OCD) paid ICF \$1,545,151 for Phase I travel including \$1,117,396 for ICF employee travel costs and at least \$427,755 for subcontractor travel. Of the \$1,545,151, a total of \$48,845 was not in accordance with ICF’s travel policy, and it is not clear whether an additional \$65,048 related to training and recruiting should be categorized as travel costs though these costs are otherwise allowable under the contract.

However, in Phases II and III travel is categorized separately from the other direct costs and fixed<sup>2</sup> at \$19,142,768 to be paid out evenly over the period on a twice-a-month basis.

Period	Amount
October 12, 2006 - December 31, 2006	\$1,998,859
January 1, 2007 - December 31, 2007	10,823,230
January 1, 2008 - December 31, 2008	3,934,744
January 1, 2009 - June 11, 2009	2,385,935
<b>Total</b>	<b>\$19,142,768</b>

Federal regulation 48 CFR 16.202-1 defines a fixed-price contract as one “that is not subject to any adjustment on the basis of the contractor’s cost experience in performing the contract.” This contract type imposes minimum administrative burden on the contracting parties but does not remove them.

Negotiating a contract that is based on fair and reasonable cost is one such burden. Federal regulation 48 CFR 16.202-2 provides, in part, that a firm fixed-price contract is appropriate when fair and reasonable cost is established at the outset. According to Steve Green, Disaster Recovery Unit Financial Manager, OCD and ICF used federal cost principles in arriving at the \$19,142,768 fixed-price travel allowance. Using federal cost principles in the build-up of the total price satisfies the federal requirements.

<sup>1</sup> According to the contract, the State will reimburse the Contractor for Other Direct Costs (ODC) based on the actual costs billed to the Contractor. For ODCs procured by a subcontractor, the Contractor’s actual costs shall be defined as the amount paid by it to the subcontractor for the ODC. Examples of ODCs include cost of office space, furniture, software costs, communication cost, office supplies, insurance, taxes, and training. In Phase I, travel was considered an ODC but is considered separately in Phases II and III.

<sup>2</sup> Effective October 12, 2006, Amendment 3 to the contract removed travel cost from ODCs and provided for a fixed allowance of \$19,142,768 over the life of the contract (ending June 11, 2009) to be paid out on a pro rata basis. All travel paid under this provision is to be conducted in accordance with ICF’s travel policies.

## ICF TRAVEL

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Federal regulation 48 CFR 31.102 further provides, in part, that “. . . The final price accepted by the parties reflects agreement only on the total price. Further, notwithstanding the mandatory use of cost principles, the objective will continue to be to negotiate prices that are fair and reasonable, cost and other factors considered.” Federal regulation 48 CFR 31.201-3 defines reasonable cost as one “if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.”

In accordance with the contractual travel provisions, for the period October 12, 2006, through December 31, 2006, OCD paid ICF \$1,998,859<sup>3</sup> for travel according to the pro rata schedule. This amount was paid by OCD without respect to the actual travel cost incurred by ICF during this period. In response to this examination, ICF provided documentation to support \$457,214 in ICF employee travel and \$365,652 in subcontractor travel for total travel costs of \$822,866 for the period. After application of ICF’s federally approved cost allocation, that total equals \$946,296. Therefore, for the period October 12, 2006, through December 31, 2006, ICF was paid \$1,052,563 more than its actual costs.

Since the contract specifies that the travel payments be made evenly on a twice-a-month basis and there have been changes in the program since the payment schedule was developed, that schedule may no longer reflect the timing of expected travel expenditures. Because there are differences between the contractually specified schedule of travel payments and current projections of future travel expenditures, it may be appropriate for OCD and ICF to discuss and possibly negotiate an equitable adjustment to the schedule.

For the period January 1, 2007, through March 31, 2007, OCD paid ICF \$2,497,668 in accordance with the pro rata schedule. For the same period, according to ICF, \$2,779,782<sup>4</sup> of travel costs were incurred by ICF employees and subcontractors (see the following table<sup>5</sup>). However, as of March 31, a portion of this amount had not actually been paid by ICF to its subcontractors, who had not provided invoices, and was an estimate of the amount yet to be billed to ICF by its subcontractors.

Actual costs paid by ICF	\$1,269,063
Accrued - employee	489,708
Accrued - subcontractor	1,021,011
<b>Total</b>	<b>\$2,779,782</b>

As a result, for the period January 1, 2007, through March 31, 2007, OCD paid ICF \$1,021,011 more than ICF paid to employees and subcontractors and \$282,114 less than ICF’s estimated actual costs. Since the beginning of Phase II, OCD has paid ICF \$770,449 more than its estimated cost incurred.

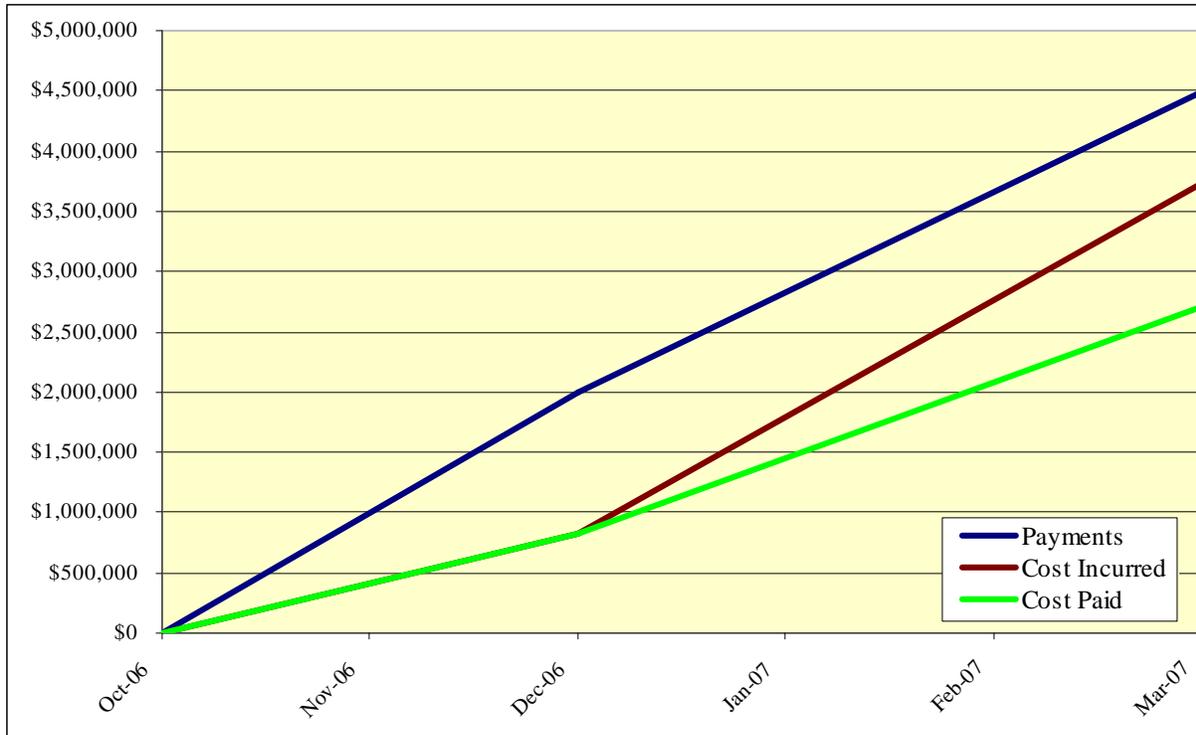
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<sup>3</sup> We examined the source documentation supporting the actual travel costs for the period October 12, 2006, through December 31, 2006.

<sup>4</sup> We did not examine the source documentation supporting the actual travel costs for the period from January 1, 2007, through March 31, 2007.

<sup>5</sup> The information presented in this table was provided by ICF and has not been examined by legislative auditor’s staff.

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**Note:** As ICF continues to pay its employees and subcontractors, cost paid should eventually equal cost incurred.

While OCD and ICF used an appropriate method to develop the fixed price and pro rata basis upon which payments are made, the methodology was dependent on certain assumptions, anticipated program design, and expectations. Had all materialized as planned, the level of actual travel costs may have approximated the anticipated level of payments. When asked whether future costs will be in line with payments from OCD, ICF representatives maintain that over the life of the three-year contract actual travel costs will exceed the \$19,142,768 fixed-price travel allowance.

A portion of the ICF travel costs reported for the period October 12, 2006, through December 31, 2006, was not paid in accordance with ICF’s travel regulations and/or was not properly documented. Amendment 3 to the contract, signed October 18, 2006, states, in part, that “. . . All travel paid under this provision shall be conducted in accordance with Contractor policies . . . ” This language indicates that ICF’s travel policy is the benchmark which encourages the use of federal per diem rates rather than requiring it. To that end, ICF reduced most meal, lodging, and incidental charges to coincide with federal per diem rates sometime after employee reimbursement but before giving the expense reports to the legislative auditor for audit purposes.

**ICF Employee Travel**

ICF coded \$457,213 to Road Home travel for employee travel costs as follows:

<b>Category</b>	<b>Charge</b>
Subcontractor	\$10
Meals - business	2,340
Airfare	126,541
Mileage	19,969
Auto rental	58,106
Excess per diem	(426)
Meals - employee	70,551
Alcohol	NONE
Local transportation	19,907
Other	1,614
Lodging	157,411
Employee welfare	1,190
<b>Total</b>	<b>\$457,213</b>

These travel expenses include \$24,878 for training and \$19,007 for out-of-state travel that were not to the employees' domicile. Though these costs may be allowable under the contract, it is not clear as to whether they should be included as travel costs or as an other direct cost. In addition, ICF included \$12,853 in travel costs that are not in accordance with the travel policy.

**ICF Subcontractor Travel**

The state paid ICF \$365,652 for Phases II and III travel though approximately half of the subcontractor travel submitted lacks proper documentation. ICF requested additional documentation from the subcontractors, which has delayed reimbursement for the expenses. Recently, ICF began processing subcontractor travel reimbursements with a 25% hold back if the documentation is not sufficient.

In addition, the ICF travel policy does not require odometer readings for personal vehicle mileage reimbursements. Federal regulation 41 CFR 301.10.302 states that distance measurements for travel are determined by paper or electronic highway mileage guides or the actual miles driven as determined from odometer readings. Mileage reimbursements of \$50,394 were charged though federally required documentation does not exist to support the charge.

We recommend that OCD:

- (1) consider renegotiating the travel payment provisions of the contract to bring travel payments in line with fair and reasonable travel costs in both amount and timing or the fixed price if both parties feel the originally anticipated level of travel has substantially changed because of unforeseen programmatic changes;
- (2) seek reimbursement of \$61,698 for travel costs or require ICF to provide documentation to support the travel claims that are not in accordance with the contract or ICF travel policies;
- (3) require ICF to periodically report actual travel costs paid and continue to maintain documentation thereby allowing OCD to ensure that the fixed-price portion of the contract is resulting in that which is reasonable and prudent when compared to the federal travel guidelines and ICF policy used to establish the fixed price; and
- (4) require ICF to process and pay subcontractor travel within a reasonable number of days of the occurrence and consistent with its subcontractor agreements.

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The Joint Legislative Committee on the Budget requested that the Louisiana Legislative Auditor (LLA) conduct an audit of ICF travel. On February 23, 2007, LLA entered into an agreed-upon procedures agreement with OCD to review all ICF travel expenses incurred from June 16, 2006, through December 31, 2006, in relation to the contract dated June 12, 2006, and its subsequent amendment dated October 12, 2006. The objective of our review was to determine if ICF had complied with its travel policy. To fulfill our agreement, we:

- (1) reviewed all applicable travel documents given to us by ICF;
- (2) determined if travel claimed was in accordance with ICF travel policy;
- (3) reviewed federal travel regulations and guidelines; and
- (4) reported our finding.

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## Management's Response

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**Kathleen Babineaux Blanco**  
GOVERNOR

**State of Louisiana**  
DIVISION OF ADMINISTRATION  
**OFFICE OF COMMUNITY DEVELOPMENT**

**Jerry Luke LeBlanc**  
COMMISSIONER OF ADMINISTRATION

June 12, 2007

Mr. Steve Theriot, CPA  
Legislative Auditor  
Office of Legislative Auditor  
State of Louisiana  
P. O. Box 94397  
Baron Rouge, LA 70804-9397

Dear Mr. Theriot:

The Office of Community Development has reviewed and has the following comments on the audit of ICF travel costs which was recently completed by the Louisiana Legislative Auditor.

In response to Recommendation 1, as with all contracts, OCD will continue to monitor this and renegotiate, as determined necessary.

On Recommendation 2, OCD will act to recapture any funds not supported by ICF travel policies.

On Recommendation 3, OCD agrees, and will have actual travel costs reported and take appropriate steps up to and including amending the contract.

Regarding Recommendation 4, OCD has addressed this issue of timely subcontractor payment, with ICF previously and will vigorously follow up to insure this recommendation is implemented.

We appreciate the opportunity to comment on this audit.

Sincerely Yours,

Susan Elkins  
Executive Director

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