Division of Administration
Office of Community Development
Road Home Homeowner's Program

Louisiana Legislative Auditor

Agreed-Upon Procedures Report

Issued September 5, 2007

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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 performed the procedures enumerated below, which were agreed to by you, as executive director of the Office of Community Development (OCD), primarily to assist you in evaluating whether homeowner grant recipients were eligible for the Road Home Program and whether they received the correct award amount. 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 of America. The sufficiency of the 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.

We reviewed a statistically valid random sample of 80 awards selected from the 10,372 homeowner grant closings that occurred from program inception through May 9, 2007, to determine whether:

(1) recipients of Road Home program funds met the eligibility requirements as specified in program policies, and

(2) recipients received the correct award amount.

The findings related to these procedures begin on pages 5 and 7 and the recommendations are listed on pages 6-7 and 12.

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

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Background

We reviewed a statistically valid random sample[1] of 80 awards selected from the 10,372 homeowner grant closings totaling $784,484,468 that occurred from program inception through May 9, 2007, to determine whether:

(1) recipients of Road Home Program (RHP) funds met the eligibility requirements as specified in program policies, and

(2) recipients received the correct award amount.

Throughout this review, we worked in cooperation with the Office of Community Development (OCD) and ICF, International (ICF) staff to collect information and keep them informed of our observations. ICF is the contractor OCD hired to administer the Road Home Program. Our procedures and the corresponding results are summarized below. The results are based on available information at the time of our review and do not reflect subsequent updates to e-Grants,[2] WorlTrac,[3] the data warehouse,[4] or other information sources.

Procedures and Results

Procedure: Determine whether recipients of RHP funds met the eligibility requirements--ownership, occupancy, and structure type, as specified in program policies.

Results: Ownership - All the award recipients were the owners of the damaged residences before the storm. However, for five awards where there were multiple owners of the property, not all of the owners signed the closing documents or executed a power-of-attorney delegating their rights.

Occupancy - All award recipients were the occupants of the damaged residences at the time of the storm. However, 19 (23.75%) of the awards lacked sufficient proof in e-Grants or data warehouse to demonstrate that the recipient was the occupant of the home before the storm as required by RHP policy.

Structure Type[5] - All recipients were residing in homes that were allowable for funding under the RHP.

(See pages 5-7 for details and recommendations.)

[1] Our statistically valid random sample of 80 awards out of a population of 10,372 is based on a 90% confidence level with a 10% upper limit and a 5% error rate.
[2] e-Grants is the computer system that ICF and OCD use to process homeowners through the RHP. Most of the data in this computer system is manually input by ICF employees and is verified against data stored in the data warehouse.
[3] WorlTrac is the computer system ICF and OCD use to document home evaluation information.
[4] The data warehouse is a repository of information gathered from multiple sources such as FEMA and insurance companies. Some of the data in the warehouse is manually input while other data is uploaded electronically. The data warehouse also feeds data into the e-Grants system.
[5] Allowable structure types include single family units, townhomes, duplexes where the owner is also an occupant, manufactured homes, and condominiums.

Procedure: Determine whether recipients of RHP funds received the correct award amount.

Results: Thirty-seven percent of the award amounts sampled had other values or information available in program data sources that suggested a different value could have been used in the award calculation. Based on values available in program data sources at the time of audit, the RHP paid 19 homeowners a total of $166,871 more than they should have received and 11 homeowners a total of $29,103 less than they should have received. Furthermore, subsequent, post closing updates to program data sources support our findings.

Since our results lead to a wide range in dollar value, projecting the dollar values to the entire population of 10,372 could be misleading. However, based on our sample results, we estimate that 2,463 applicants may have been awarded more than they should have received and 1,426 applicants may have been awarded less than they should have received. The table below summarizes our sample results.

Summary of Sample Results					
Result	**Number of Applicants**	**Percent of Applicants**	**Lowest Value**	**Highest Value**	**Total Adjustments**
Overpaid	19	23.75%	$350	$54,966	$166,871
Underpaid	11	13.75%	$243	$13,050	$29,103

(See pages 7-12 for details and recommendations.)

Eligibility

Eligibility for the program is based on several factors including ownership and occupancy of the damaged residence before the storms and type of structure. These requirements must be met to be eligible for the program. Initially, a homeowner had to be registered for FEMA individual assistance and the home had to be declared destroyed or substantially damaged by FEMA to receive funding under the RHP, but the policy was changed. The current policy[6] allows homeowners who were not registered with FEMA to be eligible. Since RHP policy does not rely on FEMA eligibility as a requirement, it was not evaluated as part of this procedure.

Initially, program regulations required a title search to determine ownership while a record of homestead exemption was the method of determining occupancy. On May 1, 2007, RHP policy was changed to allow a homestead exemption as proof of ownership for those applicants selecting to repair and/or rebuild their property. For those selecting to allow the RHP to buy their home and relocate within Louisiana or sell their property and relocate outside of Louisiana, a full title search is still required.

RHP policy also provides that where a property has multiple owners, all owners must sign the application, be present at the closing, and sign closing documents unless one owner has been given power-of-attorney.

To verify that the eligibility requirements of the program were met, we:

(1) examined documentation in e-Grants;

(2) requested title search information from First American Title, an ICF subcontractor;

(3) searched the data warehouse for homestead exemption information;

(4) searched Louisiana Tax Commission 2005 homestead exemption data;

(5) reviewed tax commission data for homestead exemptions; and

(6) requested service confirmations from electricity service providers.

Ownership

All 80 sampled awards had documentation showing that the recipients met the ownership requirements of the program through the existence of a title search, obtained from First American Title, or homestead exemption information as applicable to the circumstance and timing of the award. However, for five awards, where multiple owners were identified, required signatures or documentation were not obtained before closing.

[6] RHP policy currently allows for homeowners who are not registered with FEMA to be eligible for RHP if the home evaluation determines that the home received a certain threshold of damage. The threshold of damage that must be met is not defined, but previous versions of the policy have the threshold of damage as equal to or greater than $5,200.

Though homestead exemption is an indication of ownership, its usefulness is limited in that it does not identify multiple owners. By no longer conducting title searches for those selecting to repair/rebuild, the RHP policy will not ensure that multiple owners are always identified and proper signatures are obtained before closing. Failing to obtain the signature of all owners before closing could subject OCD to unnecessary liability.

Subsequent to these instances and after considering the risks, OCD adopted a policy that does not require all homeowners to sign a power-of-attorney delegating their rights or to be present at closing. This policy was implemented to alleviate what OCD considered the greatest bottleneck to scheduling closings and disbursing funds. OCD's intent with this policy change was to dramatically increase the overall number of homeowners who are able to go to closing and receive their award.

<u>Occupancy</u>

According to RHP policy, homestead exemption is proof of occupancy. If homestead exemption documentation was not available, a utility bill, in the name of the applicant or co-applicant, for the month preceding the applicable storm would suffice as proof of occupancy. Our review revealed that 19 (23.75%) of the sample awards were granted without homestead exemption documentation and/or utility bills to support that the recipient was the occupant of the home before the storm.

Because proper documentation to support the occupancy requirement was not available in e-Grants or the data warehouse, we contacted the electric utility company listed on the application to confirm service in the applicant or co-applicant's name and the Louisiana Tax Commission to obtain 2005 homestead exemption information. Using the additional information, we were able to confirm that all 80 sampled award recipients were occupants at the time of the storm.

While homestead exemptions are an indicator of occupancy, this assurance would be enhanced and more reliable if combined with other available evidence. Tax Commission data and local assessors are the primary sources for the existence of homestead exemption data. The reliability of the data is dependent upon the assessors recording and reporting changes in an accurate, timely manner. Reliability is also dependent on the manner in which each assessor records homestead exemption information. Much stronger assurance is gained when the homestead exemption is combined with some other proof of occupancy.

Recommendations

We recommend the following:

- OCD should develop policies and procedures to ensure all owners are identified before closing.
- In addition to homestead exemptions, other proof of occupancy to include electric bills, telephone bills, water bills, tax bills, voter registrations, and e911 listings that apply to the August/September 2005 period should be gathered and compared

to applicant data to provide greater assurance that the recipient was the occupant of the home.

- OCD should ensure documentation supporting ownership and occupancy is stored in e-Grants.

Award Calculation

Overall, we found that 37% of the award amounts sampled had other values or information available in program data sources that suggested a different amount could have been awarded. During our review, we encountered several factors that contributed to the discrepancies, including:

(1) estimated cost of damage issues;

(2) conflicting FEMA information;

(3) conflicting homeowner's insurance information;

(4) conflicting flood insurance information;

(5) incorrect application of penalties;

(6) incorrect additional compensation grant eligibility determinations; and

(7) incorrect disbursement amounts.

In addition, current program policy dictates the use of data warehouse information as the primary source for some values used in the award calculations. However, the reliability and accuracy of the data warehouse information is questionable given that in many instances information was available in an applicant's file that was contradictory to the value in the data warehouse, which was ultimately used in calculating the award amount.

Estimated Cost of Damage

To complete the closing, activity and values in an applicant's file are suspended and the award amount is calculated. However, some damage estimates were updated in WorlTrac after the activity and values had been suspended. These updates reflect subsequent information and differ from the estimated cost of damage amounts used to calculate the awards. According to ICF representatives, possible reasons for the differences include the following:

- Situations where the home could not be evaluated and only the homeowner provided information was available. Thereafter, more accurate damage estimates are obtained from third party sources.

- Follow-up quality control reviews, which are being conducted on all home evaluations conducted early in the program. These follow-up reviews sometimes reveal errors in the original home evaluation that are then corrected.

- Errors discovered during quality assurance reviews.
- Errors identified during resolution re-evaluations resulting from appeals of awards by homeowners.
- Retroactive application of current evaluation policy and procedures for evaluations performed before implementing WorlTrac.

Therefore, award amounts may not be correct because of changes to the damage estimates. Because the changes to WorlTrac appeared to occur after closings, estimated cost of damage adjustments were not included in our sample results.[7]

In 16 instances, the estimated cost of damage data in e-Grants, the computer system used to process homeowners through the RHP, differed from the data warehouse, a repository of information gathered from multiple sources, but the data warehouse value agreed to WorlTrac, the computer system used to document home evaluation information.

- In four instances, the total estimated cost of damages in WorlTrac was less than the estimated cost of damages in e-Grants.
- In four instances, the total estimated cost of damages in WorlTrac was greater than the estimated cost of damages in e-Grants.
- In the remaining eight instances, the total estimated cost of damages in WorlTrac differed from the estimated cost of damages in e-Grants but would not affect grant amounts because the pre-storm value remained the lower value and the recipients did not receive additional compensation grants.[8]

In another 21 instances, the information in e-Grants and the data warehouse was the same but differed from WorlTrac.

- In four instances, the total estimated cost of damages in WorlTrac was greater than the estimated cost of damages in e-Grants.
- In six instances, the total estimated cost of damages in WorlTrac was less than the estimated cost of damages in e-Grants.
- In the remaining 11 instances, the total estimated cost of damages in WorlTrac differed from the estimated cost of damages in e-Grants but would not affect grant amounts because the pre-storm value remained the lower value and the recipients did not receive additional compensation grants.

[7] Had we included estimated cost of damage in our sample results, the total number of awards potentially over or underpaid would have increased 20% from 30 to 46.

[8] Estimated cost of damage is used in the formula to calculate additional compensation grants. Therefore, changes to estimated cost of damage could affect additional compensation grant awards.

In two instances, because of updates in WorlTrac, the damage classification assigned to a home could have changed.

- In one instance, the classification could have changed from Type 1 to Type 2.[9] Had this change been applied before calculating the grant award, the recipient would have been awarded a lesser amount.
- In the other instance, the classification could have changed from Type 2 to Type 1. Though the pre-storm value remained the lower value, had this change been applied before calculating the award amount, the additional compensation grant award would have changed resulting in the recipient receiving a greater amount.

<u>FEMA</u>

FEMA proceeds received for structural damage to homes are part of other compensation.[10] The other compensation total is deducted from the pre-storm value or the estimated cost of damage in calculating the compensation grant amount.

According to RHP policy, ". . . FEMA IA (Individual Assistance) will be determined and verified by *The Road Home* program through the FEMA NEMIS[11] database. If *The Road Home* is unable to verify the FEMA IA amount through the FEMA NEMIS database, *The Road Home* will use the payment amount provided by the homeowner at the time of application. If a homeowner is able to provide documentation demonstrating that the FEMA IA amount provided by the FEMA NEMIS database includes amounts not paid to cover structural loss, *The Road Home* will use the documentation provided by the homeowner to adjust the FEMA IA payout amount." This policy is applied by using the value from the data warehouse in the award calculation unless the applicant disputes it. In those instances, applicant supplied information could be used in the calculation if it is provided by FEMA. Using this approach does not take into account information the applicant provided on the application for benefits, which may conflict with the value obtained from the data warehouse.

According to OCD and ICF personnel, the data warehouse values are used in an effort to minimize fraud, reduce risk to the program, and expedite processing. However, the data warehouse values are known to contain inaccuracies because of information sources not providing information requested and data transfer problems between data warehouse and NEMIS. Furthermore, the process ignores applicant provided information until the applicant disputes the values. Resolving discrepancies between applicant supplied information and data warehouse values before closing may reduce the need to recover funds from or disburse additional funds to recipients after closing.

[9] Type 1 classification applies to damage in excess of 50% and the calculation uses the cost to replace the entire structure. Type 2 applies to damage of 50% or less and only the cost to repair the damage is used to calculate the benefit.
[10] Other compensation is amounts received from FEMA for structural damage to the home, flood insurance proceeds, homeowners' insurance proceeds, and proceeds from the sale of the home following the storm.
[11] The National Emergency Management Information System (NEMIS) is the FEMA information database that supplies FEMA information to the data warehouse for Road Home applicants.

Our sample revealed that in 11 instances, the data warehouse was blank indicating the applicant had not received any FEMA funding while the applicant provided information indicated FEMA benefits had been received. Had the applicant supplied information been used in the calculation, 10 instances would have resulted in lesser award amounts and one would not affect the calculation.

<u>Homeowner's and Flood Insurance</u>

Homeowner and flood insurance proceeds received are also part of other compensation. According to RHP policy, ". . . Insurance proceeds will be determined and verified by *The Road Home* program through insurance databases and individual insurance companies. If *The Road Home* is unable to verify the private insurance proceeds through the insurance companies, *The Road Home* will use the payment amount provided by the homeowner at the time of application. If a homeowner is able to provide documentation demonstrating that the insurance proceeds amount provided by the insurance company includes items not covered in the home evaluation or not paid to cover structural loss, *The Road Home* will use the documentation provided by the homeowner to adjust the private insurance payout." This policy is applied by using the value from the data warehouse in the award calculation unless the applicant disputes it. In those instances, applicant supplied information could be used in the calculation if it is provided by an insurance company. Using this approach does not take into account information the applicant provided on the application for benefits, which may conflict with the value obtained from the data warehouse.

According to OCD and ICF personnel, the data warehouse values are used in an effort to minimize fraud, reduce risk to the program, and expedite processing. However, the data warehouse values are known to contain inaccuracies because of information sources not providing information requested and data transfer problems between data warehouse and the third-party databases. Furthermore, the process ignores applicant provided information until the applicant disputes values. Resolving discrepancies between applicant supplied information and data warehouse values before closing may reduce the need to recover funds from or disburse additional funds to recipients after closing.

In addition, program policy subtracts recoverable depreciation when determining the insurance proceeds amount. Recoverable depreciation represents the amount an applicant can recover once repairs are made. For option 1 closings, applicants will be repairing their homes, thus able to receive the recoverable depreciation amount from their insurance provider. OCD personnel have confirmed that some applicants are returning grant funds that represent the recoverable depreciation. Including recoverable depreciation in insurance proceeds as part of the award calculation for option 1 would reduce the need to recover funds from recipients repairing their homes.

Our sample revealed that in 15 instances for homeowner's and one flood insurance, the applicant supplied information does not agree with e-Grants or the data warehouse.

- In six instances for homeowner's and one for flood, the applicant supplied information indicates more insurance proceeds were received than were used in calculating the award amount. Had the higher amounts been used in the calculation, the award amounts would have decreased.

- In nine instances for homeowner's, the applicant supplied information indicates less insurance proceeds were received than were used in calculating the award amounts. Had the lesser amounts been used in the calculation, the award amounts would have increased.

In six additional instances, e-Grants indicates the homeowner insurance amount used in the calculation was verified by data warehouse information. However, at the time of our review, the insurance amount used in the calculation did not match the data warehouse information. In addition, e-Grants did not contain sufficient applicant supplied information to support the amount used in the calculation. If the data warehouse values had been used, three awards would have been reduced and three would have increased.

Penalties

To fully qualify for the RHP, homeowners are required to carry hazard insurance and those in a floodplain are required to carry flood insurance unless their community opted out of the National Flood Insurance Program (NFIP). If the homeowner did not carry the appropriate insurance, a 30% penalty is supposed to be deducted from the homeowner's compensation grant.

In our sample, one recipient with a damaged address located in a flood plain did not have the required flood insurance and did not receive a penalty. In addition, four recipients did not have insurance documentation in e-Grants demonstrating that they had the appropriate insurance in effect at the time of the storm. However, program policy allows for applicants to self certify insurance at closing without having to present proof of adequate insurance. These four recipients indicated on their applications that they had appropriate insurance and signed the certification document at closing, which states that all information contained on the application is true and correct.

Additional Compensation Grant

To be eligible for the additional compensation grant, the homeowner's household income must be less than or equal to 80% of the area median income adjusted for household size. In our sample, 21 applicants received an additional compensation grant. Two of those applicants were not eligible recipients based on the information contained in their file at the time of closing and three others lacked signed income verification forms as required by RHP policy. In an additional instance, the additional compensation appears to be misclassified. According to the grant disbursement statement, the applicant received an additional compensation grant. However, income documentation is not available to verify eligibility and e-Grants indicates the amount was for elevation assistance.

<u>Disbursements</u>

Calculation source documentation in e-Grants should support award amounts indicated on the disbursement statement. One grant recipient's award calculation is less than the grant amount indicated on the disbursement statement which indicates a possible overpayment.

Before beginning our review, OCD implemented a monitoring plan which is resulting in findings similar to those contained in this report. OCD is working with ICF to resolve the deficiencies. Also, while we were conducting our review, the Antifraud, Waste and Abuse team, staffed by KPMG, an ICF subcontractor, conducted an internal review, the results of which are similar to the findings detailed in this report.

Recommendations

To aid in calculating accurate award amounts, we recommend that OCD:

(1) ensure the procedures ICF has in place to verify the accuracy of documentation across all computer systems are functioning properly;

(2) conduct and document, when data warehouse information and applicant supplied information differ, further examination to determine the value that should be used in calculating the award amount;

(3) ensure documentation supporting the amount used in the calculation is stored in e-Grants, WorlTrac, or the data warehouse before closing;

(4) review the method of calculating insurance proceeds and consider adjusting the option 1 calculation to include recoverable depreciation;

(5) require that if no other insurance documentation is available, a certification letter from the applicant's insurance company be obtained before calculating an award instead of relying on applicant self certification at closing; and

(6) ensure penalties are applied uniformly and correctly.

OCD should also initiate procedures to provide additional funding to those recipients who were potentially underpaid and recover funds from those recipients who were potentially overpaid.

On May 11, 2007, the Louisiana Legislative Auditor entered into an agreed-upon procedures engagement with OCD to review a statistically valid random sample selected from homeowner grant closings from program inception through May 31, 2007. The objectives of our engagement were to determine that sampled applicants were eligible to receive funding under the program and that the amount of each award was properly calculated and disbursed. To fulfill our engagement, we:

(1) reviewed e-Grants files and data warehouse information for the following:

a. Application

b. Signed release form

c. Signed certification form

d. Photo identification

e. Social Security number

f. Ownership information

g. Occupancy information

h. Proof of insurance

i. Other federal assistance received

j. Valuation of property

k. Accuracy of calculations

l. Applicant's income

(2) collected policy and procedure information from OCD, ICF, and ICF subcontractors as needed; and

(3) used external sources of information, when necessary.

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Total RHP benefit for option 1[12] is the sum of the compensation grant, the elevation allowance, and the additional compensation grant calculated in that order.

The compensation grant amount is the lesser of the homeowner's uncompensated cost of damage or uncompensated loss of value up to the program cap of $150,000 and is calculated as follows:

Compensation Grant Award Calculation	
Lesser of:	Pre-Storm Value
	Estimated Cost of Damage
Less:	Other Compensation[13]
Equals:	Uncompensated Loss
Lesser of:	Uncompensated Loss
	$150,000 Cap
Less:	30% Penalty (if applicable)
Equals:	Compensation Grant Award

The elevation allowance builds on the compensation grant and is capped at $30,000. The following table demonstrates how the elevation allowance is calculated.

Elevation Allowance Calculation	
	Estimated Elevation Cost
Less:	Other Elevation Compensation
Equals:	Uncompensated Elevation Costs
Lesser of:	Uncompensated Elevation Cost
	Available Balance[14]
	$30,000 Elevation Cap
Equals:	Elevation Allowance

[12] All 80 sampled closings were option 1 (repair/stay).
[13] Other compensation is amounts received from FEMA for structural damage to the home, flood insurance proceeds, homeowners' insurance proceeds, and proceeds from the sale of the home following the storm.
[14] The available balance in this calculation is the difference between the $150,000 award cap and the compensation grant award.

If household income is less than or equal to 80% of the area median income adjusted for household size then the applicant is eligible for the additional compensation grant which builds on the compensation grant and the elevation allowance and is capped at $50,000.

Additional Compensation Grant Award Calculation	
	Estimated Cost of Damage
Plus:	Estimated Elevation Cost Type 1 (if applicable)
Less:	Other Compensation
Less:	Compensation Grant Amount
Less:	Elevation Allowance (if applicable)
Equals:	Compensation Gap
Lesser of:	Compensation Gap
	Available Balance[15]
	$50,000 Additional Compensation Grant Cap
Equals:	Additional Compensation Grant

[15] The available balance in this calculation is the difference between the $150,000 award cap and sum of the compensation grant award and the elevation allowance.

Management's Response

State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF COMMUNITY DEVELOPMENT

KATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

August 22, 2007

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

Dear Mr. Theriot:

The purpose of this letter is to respond to the report prepared by your office on the review of closed Road Home files. The report is a result of the OCD requesting the Office of Louisiana Legislative Auditor's (OLA) assistance in reviewing this particular process of the Road Home Program. The review was conducted as a result of a signed contract between the Office of Community Development and the Office of Legislative Auditor dated May 11, 2007. The purpose of OCD paying for these services was to provide transparency to the program, evaluate performance of the program and document any changes that may be needed to assure a successful Road Home Program. We appreciate the work that the OLA has completed and have taken their recommendations under review.

The review was conducted to determine whether:

1. Recipients of Road Home program funds met the eligibility requirements as specified in program policies, and
2. Recipients received the correct award amount.

To determine these purposes, 80 awards were selected from a universe of 10,372 homeowner grant closings that occurred from program inception through May 9, 2007.

As discussed with you and members of your staff , OCD disagrees with several conclusions of the audit. Some recommendations indicate a misunderstanding of how the program was designed, especially with respect to program policies and the urgency to provide homeowners with their compensation. In administering programs to aid Louisiana in recovery from the catastrophic effects of Hurricane Katrina and Rita maximum flexibility is necessary. Rules that govern normal operations during normal times need to be flexible and must be flexible. OCD finds itself in the position of having to balance the expediency with the exceptional need for accountability. This requires innovation in the decision making process to ensure the continued flow of funds and the subsequent rebuilding of impacted areas of Louisiana. An example of this is that oral changes to existing policy to correct problems are necessary to be followed by signed policies and signed CCB's. OCD also disagrees with the results of the financial impact of either paying too much, or not enough. Based on a joint ICF/OCD review, underpayments are $4,200 and overpayments are $81,900, which, based on established procedures, will be paid out or recovered by the post-closing department. At the time of closing, the correct amount was awarded for seventy-two of the eighty applicants. This represents 1.6 percent of the sampled disbursements that totaled $5.4 million. In comparison to the OLA "Summary of Sample Results" the OCD presents their conclusion below.

Summary of Sample Results

Result	Number of Applicants	% of Applicants	Lowest Value	Highest Value	Total Adjustments
OLA Report of Overpaid	19	23.75%	$350	$54,966	$166,871
OCD Report of Overpaid	5	6.25%	$4,300	$50,000*	$81,900
OLA Report of Underpaid	11	13.75%	$243	$13,050	$29,103
OCD Report of Underpaid	3	3.75%	$200	$3,100	$4,200

* One homeowner received an ACG and is not eligible

In the event that there is an overpayment of a grant by ICF, the right to recover from ICF will be based upon whether it has breached its contract with regard to the issuance of the particular grant. No indemnity language is required for such recovery, For instance, if a grant is issued to a party who was clearly ineligible based on express program language, OCD would be entitled to recovery from ICF on a breach of contract theory. Express indemnity language is not required to allow such recovery from ICF .

The OLA staff stated in several instances that they were generally unable to determine that all recipients received the correct award amount. The premise of this assertion was that in many instances the auditors were not able to validate that the correct values were used in calculating the awards. They stated that they found other values and could not determine which values were the correct ones. However, as explained to the auditors, the values used to freeze a file and send it to closing were the most accurate values available at that particular time, based on policies to calculate an award.

OLA was also concerned with the inability to find supporting documents or values in eGrants, which is supposed to be the official record for each award. We agree, at the time of the audit, that eGrants did not contain all of the information it should to support each award, but the fact remains that an award cannot be calculated without the information being available in the MIS system. eGrants is simply one part of the MIS system that also includes multiple data feeds into the data warehouse and WorlTrac. The eGrants system is continually being enhanced, and each change adds more capabilities. As a result of a new pre-closing review process by OCD that began on July 2, 2007, more emphasis is being placed on assuring that files going to closing have documented evidence of all the data used to create the calculation and eligibility is available in eGrants. In addition, it is the responsibility of ICF's Post-Closing team to now review all closed files for the purpose of assuring that all substantiating documentation is in each file. ICF is also responsible for initiating actions to either recover overpayments or to arrange for additional funds for those recipients who were under compensated.

The Road Home program has been designed to award and disburse funds as quickly as possible. To accomplish this, it has been necessary to develop certain policies, such as Change Process (CP) 47 that was put in place in November 2006, to provide for a process to make adjustments to initial awards and disbursements. This process is referred to as the Post-Closing audit process. While the results of the audit indicate that some files were missing documents and that a few had overpayments or underpayment, the audit does not reflect that the program anticipated such occurrences and adopted early on a specific post-closing process to reconcile each file after closing. As noted earlier in this Management Response, activities are currently underway in post-closing to reconcile the files in question, as well as to address similar findings by OCD in our weekly review of closed files. It should be noted that the sample for the audit was selected almost three months ago, and since that time numerous improvements have been made to prevent or minimize similar problems from occurring in the future.

<u>The following are OCD's responses to each review area in the audit report:</u>

<u>Ownership</u>

The audit report indicates that for five awards where multiple owners were identified, required signatures or documentation were not obtained prior to closing.

<u>OCD Response:</u> We disagree with this conclusion on all five awards. Based on CP 125 B, as long as there is a Homestead Exemption match for one of the owners, the others do not have to sign. The CP to allow Homestead Exemption was drafted on April 11, 2007 and ICF was given written permission by OCD and the LRA on March 28, 2007 to use Homestead Exemption as a method of ownership verification and not require all listed owners to sign the closing documents. Four out of the five awards in question were all closed after the March 28th date. The other single award was verified from a mortgage and abstract. There was only one owner listed on the mortgage, while both owners were on the abstract. There was also a Partition of Community Agreement recorded that provided ownership of the home to one person. This file was closed prior to the CP implementation, but appropriate signatures were on file as required by existing policy.

Occupancy

The audit report indicates that there were 19 awards granted without the Homestead Exemption documentation and/or utility bills to support that the recipient was the occupant of the home prior to the storm. The audit states, however, that as a result of contacting the listed electric utility company and the Louisiana Tax Commission, the auditors were able to confirm that all 80 sampled award recipients were occupants at the time of the storm.

OCD Response: Based on the joint ICF/OCD review, we agree that source documentation to support occupancy is available for all 80 sampled recipients. The joint ICF/OCD review found that a Homestead Exemption match was found in the MIS system for four of the nineteen recipients, and 15 were verified through contact with the utility company. The utility source documentation is uploaded into eGrants.

Audit Recommendations Pertaining to Eligibility

1. OCD should develop policies and procedures to ensure all owners are identified prior to closing. **OCD required a study be completed to review the accuracy of a Homestead Exemption and to determine the measure of risk to the State of Louisiana of not having multiple homeowners sign closing documents .The study justified the use of Homestead exemption and showed a relatively low risk of multiple homeowners. Because of the low risk and the need to expedite recovery, the policy will remain in place.**

2. In addition to homestead exemptions, other proof of occupancy to include electric bills should be gathered. **CP 125 provides for the use of the Homestead Exemption and utility bills as evidence of ownership and occupancy. According to State Law, to qualify for homestead exemption a person must be the owner and occupant of a bona fide homestead.**

3. Ensure documentation supporting ownership and occupancy is stored in eGrants. **As of July 1, 2007, OCD is able to review ownership and occupancy data during our pre-closing monitoring. A random sample of files is pulled to verify ownership and occupancy. Those files that do not contain the appropriate information are rejected.**

Mr. Steve Theriot
August 22, 2007

OCD also monitors to assure all documents are uploaded in eGrants during our post-closing monitoring.

Estimated Cost of Damage

The audit report indicates a total 39 files (16 where estimated costs of damage data in eGrants differs from the data warehouse; 21 instances where information in eGrants and the data warehouse are the same but differed from WorlTrac and 2 instances where the type of evaluation may have been affected) with questions related to the estimated cost of damages used to calculate the awards.

OCD Response: Based on the joint ICF/OCD review, we agree with the OLA that there were 39 awards where different data information was available for the estimated cost of damage. OCD disagrees with the OLA conclusions that over or underpayments may have been made. OCD has confirmed the original source of the estimated cost of damages for all 39 awards. The real issue here is the difference in values between the data warehouse and WorlTrac. Prior to WorlTrac and eGrants, the contractors performing the evaluations maintained their data on spreadsheets. When WorlTrac became available, the data from the spreadsheets was entered into WorlTrac. However, WorlTrac was established based on current policies and when the spreadsheet data was entered, calculations changed to reflect the new policies. The spreadsheet values that were used in the benefits calculations, were correct values based on the policy that was in place at the time of the award.

FEMA

The audit report identifies 11 instances in which the data warehouse indicated that the applicant had not received any FEMA funding but the applicant provided information that indicated a FEMA benefit had been received. According to policy, the data warehouse value is to be used in the calculation unless the applicant provides documentation that indicates that the data warehouse value is incorrect.

OCD Response: Based on the joint ICF/OCD review, we agree with OLA conclusion that the data warehouse was used to determine duplication of benefits even when the homeowner may have provided other information. Based on several meetings with the anti-fraud groups, it was determined that data being supplied directly from the agencies should be used because the data would be from a third party source. This would be true especially in times where the homeowner supplied data is weeks or months prior to a closing. The Stafford Act requires the State of Louisiana to verify duplication of benefits. HUD has just recently approved, and a CP has been created, that requires the State to monitor duplication of benefits from 6 months after August 29, 2007 or 6 months after the final closing date, whichever is later. If there is an outstanding insurance lawsuit, the State will verify duplication of benefits for a longer period of time. To complete this monitoring task, it is required that the data feeds from FEMA and insurance companies be updated on a regular basis. There will be occasions where an update happens afterclosing and the post-closing team will be required to work with the homeowner to recapture any additional funds they may have received. OCD found that one recipient did receive an overpayment of approximately $5,200. This resulted because an update was made to the data warehouse after the closing occurred. The other ten applicants may have provided information about a benefit being received, but the policy for using the data warehouse value was correctly applied. As noted by the auditors, the applicant supplied information is only used when an applicant is disputing the value used in the calculation. The audit suggests that the information from the applicant should have been considered in all cases. This is not in accordance to the current policy that was designed to prevent delays in closing. The State will consult with the LRA to determine if a new policy should be created in regards of the OLA report. The post-closing department will handle these cases for possible revisions in award amounts.

Homeowner's and Flood Insurance

The audit report identifies 16 instances where information from the applicant on his or her proceeds for homeowner's and/or flood insurance does not agree with eGrants or the data warehouse, that could have resulted in over or underpayments. Also identified are six instances where the homeowner insurance amount used in the calculation does not match the data warehouse and cannot be supported using applicant supplied information. The report also suggests that the program should include recoverable depreciation as insurance proceeds as part of the award calculation.

OCD Response: Based on the joint ICF/OCD review, we agree with the OLA that the files contain different amounts according to the data warehouse and applicant supplied information. Even though OCD agrees with the OLA concerns, we disagree with the overall assumption concerning over and underpayments. OCD found that one award resulted in an overpayment of approximately $4,300 and three resulted in underpayments of approximately $4,200. Even though this occurred, the calculations were performed correctly according the CP 47, which permits a file to go to closing without having third-party verification or reconciled insurance information. The policy provides for the recipient to sign an affidavit at closing and for any discrepancies to be handled in post-closing. Recoverable depreciation is not included in the calculation of an award, because this may or may not be paid to the owner. If it is not paid, it would still become a post-closing issue. The State will consult with the LRA to determine if a new policy should be created in regards of the OLA report. The post-closing department does handle these cases for possible revisions in award amounts.

Penalties

The audit report identifies 1 award that did not include documentation to support the homeowner having the requisite insurance to avoid the 30 percent penalty.

OCD Response: Based on the joint ICF/OCD review, we agree with this concern. We found that one award resulted in an overpayment of $5,700, which will be handled through the post-closing process.

Additional Compensation Grant

The audit report identifies two applicants who received and Additional Compensation Grant that did not appear to be eligible.

OCD Response: Based on the joint ICF/OCD review, we agree that one recipient was ineligible resulting in an overpayment of $50,000. The homeowner has been contacted by the Post-Closing team and recovery of the funds is proceeding. The other applicant's income was verified through a letter provided by the applicant's employer. According to income policy, an employer provided letter is valid proof of income. However, due to discrepancies in the income file and that this letter was not obtained until after closing, the post-closing team has contacted the homeowner for additional income documentation.

Disbursements

The audit report identifies that one recipient's award calculation is less than the amount indicated on the disbursement statement, indicating a possible overpayment.

OCD Response: Based on the joint ICF/OCD review, we agree that an overpayment of $15,700 was made. This overpayment will be addressed through the post-closing process.

Audit Recommendations

1. Ensure the procedures ICF has in place to verify the accuracy of documentation across all computer systems are functioning properly. **We agree with this recommendation, as there are continual efforts being made to ensure that this is occurring.**

2. When data warehouse information and applicant supplied information differ, further examination should be considered and documented to determine the value that should be used in calculating the award amount. **We believe that adequate measures are in place through policies that are designed to prevent delays in making awards and to process**

differences post closing. The State will review with the LRA if a new policy should be created in regards of the OLA report.

3. Ensure documentation supporting the amount used in the calculation is stored in eGrants, WorlTrac, or the data warehouse. **At the time of closing, all documentation is in a Management Information System (MIS). As communicated with the OLA, an award cannot be calculated without the supporting documentation. The issue is that after a file is "frozen" and sent to closing, new information may enter the system. In order to prevent delays in awarding funds, the closing occurs with the best available documentation that a homeowner has accepted.**

4. Review method of calculating insurance proceeds and consider adjusting the option 1 calculation to include recoverable depreciation. **We disagree with this recommendation as previously noted because a homeowner may or may not receive the recoverable depreciation. If it is included in the award calculation and then never received, it will be a post-closing issue to resolve.**

5. Require that if no other insurance documentation is available, a certification letter from the applicant's insurance company be obtained prior to calculating an award instead of relying on applicant self certification at closing. **We disagree with this recommendation. CP 47 and CP 33A were created because of problems encountered in obtaining insurance information from insurance companies in a timely manner and because of homeowners still pursuing legal action against their insurance company. We believe that the policy addresses the issue, prevents delays in closing, and provides for an appropriate post-closing process to resolve differences.**

6. Ensure penalties are applied uniformly and correctly. **We agree with this recommendation and it is part of the OCD pre-closing and post-closing sample review of files.**

If you have further questions or want to discuss these issues further, please do not hesitate to call me.

Sincerely,

Susan Elkins

Susan Elkins, Director
Office of Community Development/DRU

SE/MS

August 22, 2007

Response by ICF International
Legislative Auditor Report on Closings

Background

ICF is pleased to have this opportunity to comment on the report by the Office of Legislative Auditor (OLA) on its review of closings under *The Road Home* Program during our early and initial ramp-up period. It is important that the audit report not only be factually correct, but that the OLA's findings are presented so as to minimize or avoid any misinterpretations. Together, we want to avoid any unintended consequences if a possible misinterpretation by a user of the report led to a decision that could undermine the Program and, in particular, our applicants.

We share a common goal with the auditors, as well as with the State's Office of Community Development (OCD), the Division of Administration, the Louisiana Recovery Authority, and the many other stakeholders within Louisiana, to implement *The Road Home* Program as accurately as possible and in compliance both with the Program's policies and procedures as well as with the terms and conditions of our contract. As the State develops and promulgates policies and procedures that can result in changes in the scope, processes, documentation, and speed of this unprecedented Program, it is possible that the pace of change may adversely impact our performance. Responding to such changes, while at the same time continuing to operate the Program and, in particular, conduct closings, is akin to trying to change a tire while also driving the car.

Accordingly, we have indicated to the State that overpayments or underpayments at closings are more likely to result from expedited implementation of processes based on programmatic changes. Such overpayments or underpayments are to be expected and their occurrence does not imply that we performed at an inappropriate standard of care. To date, for example, there have been 99 important changes to the Homeowner Assistance Program as documented through the Change Control Board process, many of which impact closings – the subject of this audit. We are not questioning the appropriateness of these changes; rather, we are noting that Program stability is essential to the establishment of procedures, including QA/QC and the ability to train staff. Only recently has the Program matured to the point that it is beginning to achieve that desired level of stability.

Some Program changes directly impact our award calculations and the associated source documentation that supports closings, as reviewed by the auditors. Again, we are not challenging nor questioning these changes, merely pointing out that our ability to develop, implement, train for, and quality control our processes depends upon Program stability. Possible overpayments and underpayments are an expected consequence of a constantly changing Program for which speed is top priority.

For example, in late March of this year we were directed to replace disbursement accounts with lump-sum payments. In April, we completely revamped the closing portion of our process – creating new documents, training staff, and developing communications and outreach materials – at the same time as we distributed monies to all of the homeowners who had previously closed with funds in the earlier disbursement accounts. Implementing this change (and others) also coincided with the State's mandate that ICF quickly ramp up and schedule closings on 8,000 applications in April (and 10,000 applications in each of the next two months), a much faster pace than had earlier been contemplated in the State's solicitation and in our contract. The accelerated closings in April more than doubled what had been accomplished in any previous month. In the auditor's sample of 80 closings, the largest number of closings, in fact, were held in the month of April (with three in January, 23 in February, 19 in March, and 35 in April).

Overall, the rate of Program change, as documented through the Change Control Board process, has been an average of nearly two per week for us to address, with implications spanning our information systems, production and resolution processes, training of team members, documentation, communication/outreach, etc. The only constant in the Program, in fact, has been change. Of course, we strive to avoid errors in implementing changes, performing the Program, and conducting closings; and from the initial hiring and training of *Road Home* staff through our various quality control reviews of final applicant files, we aim for accuracy in all of our work.

In our view, we have an acceptable level of quality and accuracy in our closings, given the risks associated with our implementation of Program changes to ramp up and accelerate closings that coincided with the time period of the audit sample. We are mindful of the sense of urgency associated with the Program, compared to what was initially planned by the State, and also of the important need to balance that urgency with care in the implementation of Program revisions. We have consistently endeavored to be responsive to the requests of our many stakeholders to speed up awards and adapt to the evolution of the Program, and we address the resulting challenges in the context of these constraints.

The goals of the OLA analysis were to determine whether:

1. recipients of Road Home program funds met the eligibility requirements as specified in program policies, and
2. recipients received the correct award amount.

Essentially, based on the applicant files sampled by the OLA, and the follow-up analysis described in this response, our conclusions can be stated to be:

- With respect to the first goal, all 80 applicants sampled have been verified and proven to be eligible for the Program, so that those homeowners that got a *Road Home* award at closing deserved an award

- With respect to the second goal, our analysis indicates that just 1.6 percent ($85,000) of the disbursements sampled ($5.4 million) were either overpayments or underpayments -- just 1.5 percent ($81,000) of the total amount disbursed in the auditor's sample of 80 awards ($5.4 million in grants) were an overpayment and less than 0.1 percent ($4,000) were an underpayment -- based on the values that should have been used in award calculations and closings)

- Just eight of the awards, or 10 percent of the auditor's sample, had overpayments or underpayments, not 30 awards or 37 percent of the sample as cited by the auditors

- The overpayments and underpayments are an understood byproduct of the combined outside forces of our being tasked with accelerating closings and implementing many changes to the Program to benefit applicants, as stipulated by the State and compared to the State's (and ICF's) initial plan

- We concur with the State's mandate to us that it is better for *all* homeowners to receive their funds much faster than initially planned, with the attendant risk of overpayments or underpayments for *some* (to be remedied), than to delay *all* homeowners their funds simply to avoid initial mistakes for *some*

- We were able to identify in our systems and files (and have provided to the OLA) the vast majority of source documentation that the auditors have sought, and we believe that our records are complete. Further, we disagree that missing documentation constitutes an "error" at the same time as we fully appreciate the need and embrace the goal of comprehensive documentation.

- The audit results are not representative of our current processes as the closings sampled were more than three months ago, and since then we have continued to take many steps to enhance these processes (also facilitating future audits).

Organization

Our response in support of these conclusions is provided below and in accompanying documents. Generally, our response is organized to correspond to the discussion in the audit report, as follows:

- Sample Results – First, we comment on the OLA's summary of sample results, in terms of apparent overpayments and underpayments, projections made, and documentation

- Eligibility – Then, we address the OLA's discussion of ownership and occupancy verification for eligibility purposes

- Award Calculations – Next, we comment on the findings related to each of the elements reviewed by the OLA on award calculations, including estimated cost of damages, FEMA payments, insurance payments, penalties, additional compensation grants, and disbursement statements

- Additional Steps – Last, we present a number of additional steps that we have taken with eGrants, and that we plan to take, to ensure that our closings are as accurate as possible and may be readily audited for accuracy and completeness.

We have supplemented our response by providing to OCD and the auditors detailed spreadsheets with follow-up information on each of the 80 applicant closings sampled (each closing is a line-item row on the spreadsheets). As indicated in these comments, we are able to document that closings largely were performed accurately vis-à-vis the established policies at the time, including availability of the requisite source documentation in our systems. To facilitate the OLA's validation of this performance, we also have provided complete hard-copy binders of the 80 closings sampled, with the inclusion of any back-up documents that may have been overlooked or otherwise apparently unavailable during the audit. With these binders, the OLA can verify our comments (on the spreadsheets).

We have not provided comments on the recommendations in the audit report, as they tend to be policy related and addressed to OCD. We would be happy to support OCD in terms of providing information about the operational implications of implementing any of the recommendations.

Summary Results

In this section of our response, we provide comments on the summary of sample results by the auditors, addressing in turn, the amount of overpayments and underpayments, projections made from the sample to the population, and the status of our documentation in eGrants.

Overpayments and Underpayments

In the audit report, on page two, the OLA indicates that 19 of the applicant closings sampled appear to have been overpaid and 11 appear to have been underpaid, based on values that "could have been used" at the time of award calculation (referred to as "other values" or a "different value"). For purposes of this response, we are interpreting this phrasing of the auditors to mean that an overpayment or underpayment may result from calculating awards based on such "other values" that instead *should have been used* in the award calculation. Together, it is reported that these 30 closings represent 37 percent of the 80 closings sampled. The corresponding dollar amounts of the estimated overpayments and underpayments also are indicated.

Based on our analysis discussed below and in the spreadsheets provided to the auditors, our view is that the correct number of applicants overpaid in this sample is *five, not 19,* and for underpayments, the number is *three, not 11.* Two of the three underpayments are only in the hundreds of dollars, not exceeding $1,000. So, we believe that in total there were *eight, as opposed to 30* instances cited by the auditors, where an applicant received either an overpayment or underpayment based on the values that should have been used at the time of award calculation (and, in turn, closing).

These summary results are shown in the table below that generally corresponds to the format of the OLA's results table from the audit report.

Summary of Sample Results

Result	Number of Applicants	Percent of Applicants	Total Adjustments	Percent of Disbursements
Overpaid	5	6%	$81,000	1.5%
Underpaid	3	4%	$4,000	0.1%

The dollar amount of the estimated overpayments ($81,000), that is expected to be recovered pursuant to our established post-closing process, represents 1.5 percent of the total amount disbursed in the closings sampled by the auditors ($5.4 million in grants). Most of this overpayment is attributable to one additional compensation grant of $50,000, where we relied on self-certified, and, as it turns out, incorrect homeowner-provided information. Subsequent to this award calculation and closing, and during the time of this audit, we received supplemental information indicating that the applicant's household income exceeded the eligibility requirements. Accordingly, we have addressed this needed repayment with the applicant, who has indicated that he will return the funds. The dollar amount of the underpayments ($4,000), also to be addressed with homeowners, represents less than 0.1 percent of the total disbursements in the sample.

Our difference with the auditors on overpayments largely is related to their findings on additional compensation grants, insurance proceeds verification, and penalties, as discussed further in the sections that follow. Our difference with the auditors on underpayments also relates to insurance proceeds verification; essentially, the process and values used in award calculations, also discussed below. In addition, we differ with the auditors on what represents an overpayment or underpayment, based on their apparent definition of it being based on the values we used, compared to the "different" or "other" values also available in our systems that "could have been used" for the award calculation. The presence of "other" or "different" data does not necessarily constitute an error although we understand the need to create an audit trail that explains the rationale for data used.

Our understanding is that use of the "different" or "other" values for the award calculation is what, in turn, may lead to a closing being characterized by the auditors as an overpayment or underpayment. As discussed further below, there are many reasons why values may be expected to differ, change, and be updated in our systems and files; for example, to allow homeowners to supply their own information for us to verify, as an alternative to a default, third-party verification. In addition, pursuant to a number of Program policies, such other values may be reconciled post-closing with the applicant, so as not to delay closings. Such subsequent adjustments may indeed result in an additional payment to a homeowner or, alternatively, the need to return some of the grant funding provided. This process does not mean, however, that for purposes of our award calculation and closing we should have used an "other" value, that "a different amount could have been awarded," and, in turn, that there was an overpayment or underpayment at that particular time.

We are committed to addressing any overpayments and underpayments, and in May began establishing our Post-Closing Department in part to resolve such matters with homeowners. So far, in every interaction we have had with applicants on overpayments (and underpayments), the homeowner has agreed to repay the funds (and in fact is legally required to do so pursuant to his or her signed Grant Recipient Affidavit at closing). In our view, and as discussed earlier, such overpayments and underpayments are an understood byproduct of the combined, outside forces of our being tasked with accelerating closings and addressing many Program changes to benefit applicants, as stipulated by the State.

Indeed, it was recognized by the State (and we concurred) that it would be far better for *all* eligible homeowners to receive their *Road Home* funds much faster than initially planned, with the attendant risk of initial mistakes for *some* homeowners, than to delay *all* eligible homeowners their receipt of *Road Home* funds simply to avoid such initial mistakes for *some*. This conscious tradeoff by the State – essentially choosing faster closings with some resulting overpayments or underpayments instead of slower closings with few, if any, overpayments or underpayments – is an important causal factor responsible for the conditions identified in the audit report. In our view, it is an oversight for the auditors not to acknowledge this context and it appears inconsistent with following government auditing standards, which indicate: "In describing shortcomings in performance, auditors should put findings in context. For example, the audited entity may have faced unusual difficulties or circumstances." (GAO-03-673G, Section 8.46.)

It is not realistic for the auditors to expect no overpayments or underpayments, unless perhaps we revert back to the State's initial plan that we responded to in being awarded *The Road Home* contract and first planned to implement. Cutting the timeframe for closings essentially in half compared to that plan, as well as processing a much larger population of applicants in a reduced timeframe, necessarily means initial overpayments or underpayments (to be remedied) for at least some. In fact, the State created an approach of second disbursements in response to the directive to move homeowners to closing prior to coming to resolution on certain issues. This change to the original Program – where all information was planned to be verified and finalized prior to sending out a benefits options letter, let alone a closing – provides the process for addressing overpayments and underpayments.

Projections

Based on its sample results, the OLA makes projections of the estimated number of applicants in the larger population of 10,372 closings that could have received an overpayment or underpayment. We have not extrapolated from these sample results to the larger population, as we do not believe it to be statistically valid to make such projections from a simple random sampling approach, given the sample size. In simple random sampling, each of the 80 closings sampled is chosen by chance and, thus, each award out of the larger, target population of 10,372 closings has an equal chance of being included in the sample.

There are some factors, however, that divide up this larger population of closings into some subgroups (or "strata"), and we may expect the closing process, source documentation, award calculations, and/or other material reviewed by the auditors possibly to vary among these subgroups. Any resulting projections of the number of potential overpayments or underpayments, similarly may vary depending on the subgroups representation in the population. Such subgroups have to be carefully taken into account when selecting a sample from the population of 10,372 closings to obtain one that is representative for purposes of drawing any valid inferences about that population. This is achieved by "stratified" sampling, essentially taking samples from each subgroup and requiring that the proportion of each subgroup in the sample is the same as the proportion in the overall population.

A stratified sampling technique is helpful because of certain changes made to the Program during the period sampled, that may have directly or indirectly affected our source documentation or award calculations and, in turn, closings during that period. Of the 99 changes made to the Homeowner Assistance Program cited earlier, 46 were made during the period selected for review (from Program inception through May 9, 2007). To the extent that a change may have affected the source documentation or award calculations, for example, we would need to know the subgroup of closings held prior to the change, and the subgroup subsequent to the change.

If, for example, 30 percent of the closings in the population of 10,372 closings were held prior to a relevant change, and 70 percent after, then the OLA's total sample of 80 would need to include 24 closings prior to the change (30 percent) and 56 closings after the change (70 percent). With a relatively small, random sample that is not stratified to make sure it is balanced for subgroups that may be important, as appears to be the case with this audit, it is not possible to draw representative conclusions about the larger population of closings. (A simple random sample does not necessarily yield wrong answers, we just need a larger sample size – to ensure capturing all of the various subgroups – to provide the same level of confidence in the results as would be needed with a stratified sample.)

Some examples of Program changes that potentially impact our source documentation or award calculations, such that there may be expected to be differences in our closings prior to and subsequent to the change, include the following:

- Elderly exemption (CCB Form 16 A)
- Market adjustment of appraisals to establish pre-storm values (CCB Form 21)
- Home evaluation methodology (CCB Form 23)
- Calculator policies (CCB Form 24)
- Assignments (CCB Form 25 C)
- Replacing appraisal value of replacement home with pre-storm value of storm damaged residence (CCB Form 30 B)
- Signed statements for verification (CCB Form 33A)
- Award amounts to include Additional Compensation Loans (CCB Form 44)
- Closing with homeowner's self-certified insurance data (CCB Form 47)
- Pre-storm value determination policies (CCB Form 49 E)
- Protocols for home evaluations (CCB Form 74 B)
- Trumping of homeowner provided FEMA and insurance data (CCB Form 86 A)
- Determination of condominium replacement costs (CCB Form 123 A)
- Owner occupancy verification methodology (CCB Form 125 B).

These CCB Forms are available on *The Road Home* Information Portal, and are reflected in the most recent version of *The Road Home* Homeowner Policies, Version 4.2, dated June 15, 2007, also available on the Portal. We recognize that certain changes may have more of an impact on closings than others.

Documentation

In the audit report, there are a number of references to documentation. Some of the auditor's recommendations also pertain to ensuring that supporting documentation is available. As indicated in our response below, the vast majority of source documents are available in one of our related system components or in hard-copy files, if not yet uploaded and attached to the applicable eGrants file.

We would like to clarify that there is no Federal or State regulatory requirement that such supporting documentation all reside within a single application, such as eGrants. Our contract, in Exhibit A, Statement of Work, also does not require such attachments of source documents to eGrants. In fact, our contract specifies that our Management Information System (MIS) address our workflow processes, which is broader than just eGrants and does incorporate the other system components, such as the data warehouse or WorlTrac, where such documents may reside.

It is a standard practice in MIS architecture to distribute such documentation across related information systems, as modules or components, not necessarily to store all documents, data/inputs, policies, formulas, calculations, etc. in just one system, data base, application, or location. Accordingly, we generally rely on data feeds to eGrants from interrelated systems, such as the data warehouse and WorlTrac noted in the audit report, and effectively considered as modules of eGrants, as well as from our closing agents and advisors. Just because a copy of a source document is not attached to an eGrants file to support a value used in an award calculation does not mean such source document does not exist elsewhere. It has been a conscious decision on our part not to hold up the progress of a file toward closing because a supporting document is not yet in an eGrant file if that document can be subsequently added to the file.

We intend to migrate this supporting documentation to be available through login to the main eGrants application, but there is no technical, legal, or contractual requirement or need to do so. The information already is available in the related modules and components of our broader MIS. Our experience with HUD auditors under this and other CDBG programs is that the required records be kept and made available, not stipulating which systems, files, data bases, locations, or other such details. We are afforded the opportunity to provide the source documents justifying our expenditures to HUD auditors from the related system components and files, including if they may have initially been overlooked during the initial audit and even prior to HUD issuing its final report for full consideration by the auditors.

Eligibility

In this section of our response, we address the OLA's findings related to ownership and occupancy verification for purposes of determining eligibility.

<u>Ownership Verification</u>

We are pleased with the auditor's finding that all of the 80 awards sampled included the requisite ownership documentation in eGrants. However, a statement is made that "...for five awards, where multiple owners were identified, required signatures on documentation were not obtained prior to closing." We take exception with this statement. Such documentation related to other owners is not required by the State prior to closing, pursuant to Change Control Board (CCB) Form 125 B, decided on April 11, 2007 and dated April 17, 2007, and which we are following. This change also is incorporated in Section 1 of *The Road Home Homeowner Policies,* Versions 4.1 and 4.2.

Accordingly, it is important to keep in mind how such Program changes may affect our requisite documentation associated with closings and related findings by the auditors. For example, the OLA indicates in its report that: "RHP policy also provides that where a property has multiple owners, all owners must sign the application, be present at the closing, and sign closing documents unless one owner has been given power of attorney." This citation, as discussed above, does not reflect the current policy, and often revised policies may be applied retroactively, or to closings underway at the time, as well as going forward, depending on the policy. The auditors subsequently acknowledge this change made by the State to allow us to accelerate closings.

Occupancy Verification

In the audit report, the OLA indicates that 19 of the closings sampled did not have documentation related to the match of a Homestead Exemption record or a utility bill to support the applicant's eligibility for the Program. Our analysis indicates that four of these 19 applicants in question are in fact supported by Homestead Exemption records, and we have uploaded this source documentation into eGrants so that the applicant files are complete. We also were able to verify the occupancy of all 15 of the remaining application closings through the utility company. We will ensure that this documentation too is uploaded into eGrants and make it available to the auditors for their review.

By way of background, our process for verifying occupancy occurs in two ways. If the automated verification of occupancy occurs through the match of a Homestead Exemption record pursuant to our policies, then the data feed from the data warehouse to eGrants yields a "yes" identification code regarding occupancy. If, instead, there is not a match with a Homestead Exemption, then the data feed to eGrants indicates either a "soft no" or "hard no," depending upon whether a Homestead Exemption simply could not be found (the former case) or a Homestead Exemption was found and the applicant was not identified as the occupant (the latter case).

In the case of a "soft no," provision is made for other means of verifying occupancy, such as with utility bills at the time of the storms. In fact, starting in May, this type of data feed to eGrants would automatically initiate an issue in JIRA (integrated into eGrants) for a Resolution Advisor to, in turn, obtain alternative information on occupancy from the homeowner. (Prior to the May timeframe, an exceptions report was generated by the data warehouse listing such applications and an issue in JIRA was created manually in order to obtain this needed information.) After the Advisor has obtained the alternative information and verified occupancy in accordance with our policies, then the "soft no" data feed may be changed to a yes in eGrants based on the applicant supplied information. With a data feed of a "hard no," the application is identified as ineligible, pending receipt of alternative information from the homeowner that is considered to be acceptable for verifying occupancy under our policies.

Award Calculations

This section of our response addresses the OLA's findings in each of the input areas reviewed by the auditors for our calculating of awards, in the same order as presented in the audit report.

Estimated Cost of Damages

Of the 80 applications sampled by the auditors, 39 were identified as having questions related to the value of the estimated cost of damages used for calculating awards in eGrants. Of these 39 applications questioned, the original source of the estimated cost of damages has been confirmed for 38 of the awards. We are completing our research to confirm the source documentation of the remaining estimated cost of damages and will provide this document to the auditors for their review.

There are no overpayments or underpayments associated with any the 38 closings, as we have confirmed that the grant awards were appropriately calculated based on the estimated cost of damages that was correct and up to date at that time, consistent with our policies. We are ensuring that eGrants includes the source documents that support these estimated cost of damages used for purposes of award calculations and closings and have made the Compensation Allowance Documents (CADs) available to the auditors for their review. In addition, the detailed spreadsheets that have been provided to the auditors include the requisite follow-up information on each of the awards questioned. (The OLA has not included any issues identified with estimated cost of damages in its calculation of overpayments and underpayments presented on page three of the report.)

FEMA Payments

Of the 80 closings sampled, the audit report indicates that for 11 closings the data warehouse indicated no FEMA payments were made but the applicant provided information on receiving FEMA payments, possibly resulting in overpayments for 10 awards. Our supporting analysis for the auditor's review on the accompanying spreadsheet indicates that we have available the requisite FEMA verification. Based on our analysis, one award resulted in an overpayment of approximately $5,200 that we intend to recover through our post-closing process.

Homeowner's and Flood Insurance Payments

Based on the audit report, there are 16 awards identified where information from the applicant on his or her proceeds from homeowner's and/or flood insurance differ from the corresponding amounts shown in the data warehouse or eGrants. There also are six awards reported where the insurance values in eGrants differ from the data warehouse values (no homeowner supplied information). Of these 22 awards questioned by the auditors in their report, it is our view that only four of them resulted in an overpayment or underpayment at the time of award calculation and as indicated on our detailed spreadsheets (an overpayment of approximately $4,300, and underpayments of about $3,100, $900, and $200).

Based on a Program change late last year, CCB Form 47, dated November 17, 2006, we are permitted to proceed to award calculations and closings without having third-party verified or reconciled insurance information. In other words, the types of discrepancies cited by the auditors between our third-party (insurance company) data feeds and homeowner-supplied data may be addressed post award, so as not to delay award calculations and closings. The larger number of overpayments and underpayments cited by the auditors actually were based on awards properly calculated at the time consistent with this policy, and hence should not be construed as a mistaken overpayment or underpayment in the auditor's compilation.

Penalties

The audit report indicates that one award did not include documentation to support the homeowners having the requisite insurance to avoid the 30-percent penalty. Our analysis, as documented on the spreadsheets provided for the OLA's review, also indicates that one award resulted in an incorrect penalty amount, totaling about $5,700 in an overpayment. As with any other overpayments, we have a process for recovering such monies and will proceed accordingly. The other nine awards, in our view, and as indicated in our spreadsheets, are correct.

Additional Compensation Grants

Regarding the auditor's finding that two applicants that received Additional Compensation Grants did not appear to be eligible, we have confirmed that one of these two applicants was eligible based on a letter from the homeowner's employer. ICF is continuing to follow-up with the homeowner to obtain additional documentation requested by OLA. The other applicant, as correctly indicated by the OLA, was not eligible for the grant, and received a $50,000 overpayment.

At the time of issuing the benefits options letter and, subsequently, calculating the award in eGrants, we relied on the self-certified, household income information from the applicant, which supported the grant. After the award calculation and closing, we obtained supplemental information for verification purposes indicating that the applicant's household income exceeded the eligibility requirements (the applicant mistakenly certified to us *net* income from a government annuity, not *gross* income, as required for the purposes of household income). Accordingly, we have contacted the homeowner to proceed with recovery of the monies and he has indicated that he will return the funds. In addition, we have taken steps both in eGrants and the Review Checklist used in our Pre-Closing Department to ensure that this verification has been completed prior to generating and providing Final Closing Instructions (referred to as "FCIs") to our closing agents.

For the three other applicants identified by the auditors as lacking signed income verification forms, we are awaiting return and processing of the requisite information from two of the applicants through our post-closing process. For the other applicant, we are in contact with the homeowner on other matters (in our Post-Closing Department) and are obtaining the signed income verification worksheet as part of these interactions.

Disbursement Statements

In the draft report, the amount of one of the 80 awards sampled as having been disbursed is higher than the award calculation. We are in agreement with the auditors that this applicant received an overpayment of approximately $15,700. This overpayment apparently was due to First American using earlier figures taken from the initial benefits options letter to the homeowner, as opposed to the final, calculated amounts. We intend to recover this overpayment through our post-closing process. In addition, on March 5, 2007, only about two weeks after this closing (February 23, 2007), we implemented a new process and documentation to prevent this problem from reoccurring, through the generation and use by our closing agents of the FCIs mentioned above that clearly specify the closing amounts and other related information.

Additional Steps Taken and Planned

To ensure the integrity, reliability, and completeness of eGrants to support award calculations and closings (the subject of this audit), we have taken a number of additional steps and have more planned. Some of these steps are indicated below. Our goal through these and other efforts that we have had underway is for OCD and auditors to be able to access eGrants for purposes of verifying that award calculations were accurate based on our policies and information at the time of the award, and that all requisite source documents to support the awards and closings are uploaded and readily available.

Current Steps

We have taken a number of steps to automatically stop an application from proceeding in eGrants towards closing if certain information has not yet been received and processed according to our policies in effect at the time. For example, in eGrants, there is an automated status check between the processes for "Option Selected" and "Final Review" that checks if the requisite title search data feed on the application has been received. If so, and the "Ready to Calculate" check is yes, and there are otherwise no holds on the application proceeding, then it may go to the next "Final Review" process.

Currently, we are expanding this check in eGrants to automatically stop an application from proceeding to Final Review based on having received and appropriately processed certain other information, including items reviewed and of concern by the auditors in their report. This additional, automated checking before an application proceeds includes testing for the owner occupancy requirement (or data feed) being satisfied, an eligible parish, household income verified (for purposes of a potential Additional Compensation Grant), appropriate structure type, and FEMA categorization of damage.

In other words, this functionality will automatically prevent an application from proceeding towards closing in eGrants, if the appropriate source documentation have not been received and processed accordingly (as evidenced through the data feeds to eGrants). _

Steps Planned

Going forward, we are in the process of providing further functionality within eGrants in an audit application. This pending new module of eGrants (thus requiring access and login to eGrants by auditors) is expected to be available by September 30, 2007. The audit application is intended to be a one-stop tool for use by ICF, OCD, the OLA, and other auditors to meet all auditing requirements associated with our closing of grants. In the coming weeks, we would like to meet with OCD, the OLA, and perhaps others, to share our initial specifications for this audit tool and incorporate any comments.

The audit module in eGrants, to be organized into different sections, will contain and/or access data in one consolidated location from eGrants, the data warehouse, WorlTrac, and the JIRA issue tracker – four of our important information systems to support closings. Links will be provided to access source documents as well as a display or chronology of data feeds associated with an individual application through the award process with dates, all values obtained, and what was used.

For example, the audit tool will provide convenient access for auditors to the applicant's picture, thumb print, driver's license, and other identifying documents that may have been obtained and attached to an application. Similarly, the title section will provide title search results for purposes of our verification of ownership and also access to the relevant source documents. The tool also is expected to have a query capability in a second phase, so that ICF will have another mechanism to identify any "exceptions" that may exist on a closed application, such as information that may have inadvertently been mislabeled, misidentified, or not yet uploaded into eGrants. Our Post-Closing Department can then ensure that any missing file information is quickly obtained and uploaded into eGrants.

John D. Thornton

John Thornton
Administrative Officer