EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

MANAGEMENT LETTER
ISSUED SEPTEMBER 24, 2008

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of $18.30. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.la.gov. When contacting the office, you may refer to Agency ID No. 3533 or Report ID No. 07901685 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.

LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

July 31, 2008

THE HONORABLE BOBBY JINDAL, GOVERNOR
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2007, we considered the Executive Department's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Reports of the Executive Department are not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Executive Department for the year ended June 30, 2006, we reported findings related to internal controls over the Temporary Assistance to Needy Families (TANF) program and an ineffective internal audit function. The finding related to the TANF program has been resolved by management. The finding related to the internal audit function is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2007.

Ineffective Internal Audit Function

For the sixteenth consecutive year, the Executive Department does not have an effective internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that are necessary to maintain adequate controls. Act 17 of the 2006 Regular Session of the Louisiana Legislature requires agencies with budgets in excess of $30 million to use its existing table of organization to establish an internal auditor position. The Division of Administration has funded the internal audit function and has hired two auditors for this department. Since they were hired, the auditors' duties have been limited to assisting the Office of Community Development's Disaster Recovery Unit by serving in an advisory capacity. They have not prepared an audit plan or performed a risk assessment, nor have they issued any internal audit reports.

Considering the size of the department's reported assets ($1,023,574,868) and revenues ($3,853,765,990), an effective internal audit function is important to ensure the department's assets are safeguarded and the department's policies and procedures are uniformly applied.

The Executive Department should ensure that the scope of the internal audit function is not limited and should take the necessary steps to ensure that the internal audit function is operating in an effective manner to provide assurance that assets are safeguarded and that management's policies and procedures are applied in accordance with management's intentions. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Controls Over the Road Home Homeowner Assistance Program

For the fiscal year ended June 30, 2007, the Louisiana Office of Community Development (OCD) had not yet implemented adequate controls over the administration of the Road Home Homeowner Assistance Program of the Community Development Block Grant (CDBG - CFDA 14.228). OCD focused on making payments to disaster victims as quickly as possible because the State of Louisiana made a decision to accept additional risks associated with expedited payments with the understanding that any ineligible or unallowable payments would be detected and corrected in post-close reviews. This decision was beyond the control of OCD and inherently caused challenges to the timely planning, design, and implementation of adequate control procedures. Furthermore, this expedited payment process did not ensure that the program regulations, approved action plans, and the federal compliance requirements applicable to the program were followed by the contracted program manager, ICF Emergency Management Services (ICF) in accordance with state law and the Office of Management and Budget Circular A-133.

In recognition of this increased risk and in an effort to improve controls and address the significant errors being found in post-close reviews, OCD implemented a pre-closing process in July 2007 and has continued to modify its monitoring procedures to address additional risks and program changes. However, before July 2007, OCD's practice of monitoring on a post-close basis only allows for the detection of ineligible or unallowable payments after the disbursement of funds to recipients has been made, thereby decreasing the chances of recovery. Absent approval by the federal government to hold the state harmless for repayment of these expedited ineligible or unallowable payments, the state could be liable to the federal government for those amounts. Furthermore, disbursing funds to ineligible recipients limits the availability of those funds for eligible recipients in need of assistance. In addition, OCD advanced $750,000 of CDBG funds to the Road Home Corporation (Louisiana Land Trust), a subrecipient, without a valid subrecipient agreement in place.

ICF, as the state's contracted program manager, is responsible for awarding funds to recipients in accordance with the program regulations and action plans. OCD, as the state's designated recipient and administrator of the CDBG funds, is responsible for ensuring ICF's compliance with program regulations. The Code of Federal Regulations (24 CFR 570.501) provides that "The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility."

Good internal controls over program compliance should include adequate monitoring of a contracted program manager to ensure disbursements are made to eligible recipients and award calculations are made correctly based on accurate data. Adequate monitoring involves the consideration of certain risk factors such as the program complexity, experience of the entity with the program, the dollar amount of the award, and the percentage of the program passed through or administered by the subrecipient and/or contractor. When relying on information in a data warehouse, adequate controls should include sufficient testing to ensure the accuracy and reliability of that data. Furthermore, adequate monitoring should include an appropriate response to indications of noncompliance or possible fraudulent activities. In addition, 24 CFR 570.503 requires that before disbursing CDBG funds to a subrecipient, "the recipient shall sign a written agreement with the subrecipient," to cover the entire period of time that the subrecipient controls the use of CDBG funds. These regulations specify the minimum requirements for such an agreement.

Before June 30, 2007, monitoring performed by OCD, which was done on a post-closing basis, used a sample of 5% of federal draws. Furthermore, reviews by OCD noted significant concerns such as incomplete supporting documentation, inaccurate grant calculations, and lack of ownership verification. Despite significant errors being noted in its reviews, OCD did not suspend payments, perform pre-close reviews, or increase the level of review above 5% during the fiscal year. In addition, the monitoring by OCD relied upon the accuracy of information in a data warehouse being maintained by ICF. The reliability and accuracy of the data in the data warehouse, including insurance benefit data, is questionable.

At the request of OCD, the Recovery Assistance Division (RAD) of the Louisiana Legislative Auditor performed agreed-upon procedures on the Road Home Homeowner's Program and issued a report dated September 5, 2007. The procedures were performed to assist OCD in evaluating whether homeowner grant recipients were eligible for the Road Home program and whether they received the correct award amount. The results of those procedures indicated that "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." The RAD report cites that 19 of the 80 homeowners sampled received a total of $166,871 more than they should have received. Furthermore, 11 of the 80 homeowners sampled received $29,103 less than they should have received. The report further stated that ". . . 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 . . ."

The Performance Audit Division of the Louisiana Legislative Auditor conducted a performance audit on the additional compensation grant (ACG) eligibility determinations. The ACG is additional funding applicants can receive if there is a gap between their estimated cost of damage and the initial homeowner grant amount received. In this performance audit, a sample of applicants receiving the ACG at closings in May 2007 were tested. This report, issued October 17, 2007, states that 18 of the 56 applicants tested (32%) "did not provide sufficient eligibility documentation or were not eligible." These applicants had received $687,025 in ACG funds.

Additional audits and reviews have been performed on the Road Home program by the Louisiana Legislative Auditor that cite other control weaknesses and/or deficiencies in the program and include management's responses, as appropriate. These reports can be accessed on the Internet at www.lla.la.gov:

- Road Home Housing Assistance Centers Performance Audit, issued March 28, 2007
- Road Home Program ICF Contract and Deliverables Performance Audit, issued May 30, 2007
- Road Home Program Analysis of Road Home Program Fiscal Shortfall, issued May 31, 2007
- Road Home Program Review of Policy Change Approval Process Performance Audit, issued June 13, 2007
- Road Home Program Pre-Closing Process Performance Audit, issued July 5, 2007
- Road Home Program Resolution Process Performance Audit, issued July 25, 2007

Subsequent to July 2007, additional audit reports have been issued on the program which cite certain improvements in controls but also disclose continued noncompliance with program requirements. These reports, which can also be accessed on the Internet at www.lla.la.gov will be considered in conjunction with our fiscal year 2008 audit of the program:

- Road Home Program Review of LMI Determinations Performance Audit, issued September 12, 2007

- Road Home Program Pipeline Reliability Performance Audit, issued October 31, 2007

- Road Home Program Home Evaluations Performance Audit, issued December 5, 2007

- Road Home Program Resolution Process Follow-Up Performance Audit, issued February 6, 2008

- Division of Administration, Office of Community Development, Road Home Homeowner Program Recovery Services Audit, issued April 23, 2008

As mentioned previously, we recognize that the decision to expedite payments under the Road Home Homeowner Assistance Program was beyond the control of OCD, the program administrator. We also recognize that the administrative controls over the program were still in a developmental stage at June 30, 2007, as OCD was implementing policy and procedure modifications in reaction to program changes and errors noted in internal monitoring and external reviews. OCD has continued to modify and improve program controls subsequent to year-end including the implementation of pre-close reviews which provide a more timely detection of noncompliance than the post-close reviews which were in effect during fiscal year 2007.

Under the post-close process, significant ineligible payments or unallowable costs would not be detected until well after the end of the fiscal year. Accordingly, because of OCD's review of program payments on a post-close rather than a pre-close basis, the limited amount of post-close reviews performed, the decision by the state to expedite program payments, the lack of reliable information in ICF's data warehouse, and the exceptions disclosed in OCD's internal monitoring and external review reports, we are unable to determine whether program disbursements as of June 30, 2007, were in substantial compliance with program regulations. In addition, the lack of a complete and valid subrecipient agreement with the Road Home Corporation further increases the risk of noncompliance with program requirements and could result in the misuse of federal funds and disallowed costs.

Management of OCD should continue working to establish adequate controls over the Road Home Homeowner Assistance Program, including holding ICF accountable for complying with contract terms to ensure that program funds are spent in accordance with the applicable requirements. Management should also review previously disbursed awards to identify program funds which were not disbursed in accordance with the applicable program regulations and should actively pursue the recoupment of overpayments, as well as ensuring that underpaid recipients are fully compensated. In addition, management should ensure that complete and valid subrecipient agreements are in place before disbursing funds to a subrecipient. OCD does not concur with the finding and contends that it did adequately monitor the program and that its controls over the program were adequate (see Appendix A, pages 2-7).

Additional Comment: Controls and monitoring procedures over a federal program should provide reasonable assurance that the program is being administered in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Because of the evidence described previously, we do not have assurance that the expedited payments made to recipients during fiscal year ending June 30, 2007, were made in accordance with the requirements of the program. We believe that adequate controls and monitoring procedures should be established to ensure that a recipient is eligible and an accurate payment amount is calculated before payment is made to a recipient.

Inadequate Controls Over Capital Outlay Transactions

The Office of Facility Planning and Control (OFPC) did not maintain adequate controls to ensure that capital outlay projects were properly advertised in accordance with state and federal laws and regulations and properly approved to commence work. In addition, OFPC did not maintain adequate controls to ensure that capital outlay transactions were accurately coded and adequately supported. Good internal control requires that procedures be in place to ensure compliance with laws and regulations and to ensure that transactions are properly approved, accurately coded, and adequately supported.

Tests of capital outlay transactions revealed the following deficiencies:

- Three contracts with original contract amounts totaling $12,249,898 were not publicly advertised in accordance with Louisiana Revised Statute (R.S.) 38:2212(D) (1) (c), which requires that OFPC publicly advertise projects to repair damage caused by hurricanes Katrina and Rita. This occurred because of untimely implementation of Act 102 of the 2006 Regular Session, which was effective May 31, 2006. These three contracts were funded with Disaster Grants - Public Assistance (CFDA 97.036) funds. Title 44 of the Code of Federal Regulations (CFR), Part 13, Section 36, requires that "When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds." Because the procurement of these three contracts did not adhere to state law, the amounts paid may be questioned costs, but the known amounts are currently undeterminable.

- Fifteen of 57 projects (26.3%) commenced work before issuing a formal Notice to Proceed. Fourteen of these were for projects funded with Disaster Grants - Public Assistance (CFDA 97.036) funds. R.S. 38:2215 requires that a notice to proceed be issued to the contractor within 30 days of the contract execution. In addition, good internal control requires that OFPC issue a notice to proceed before the commencement of work by the contractor. This occurred because of the rush to get hurricane-related work started and because management did not place sufficient emphasis on ensuring the notice to proceed was issued before the commencement of work. Failure to collect the necessary vendor information to allow the issuance of a notice to proceed before work commencement could result in an increased risk of liability to the state.

- Four of 42 expenditure transactions (9.5%) reviewed indicate that the related contract retainage was not properly recorded in the state's Integrated Statewide Information System (ISIS). In addition, six of nine retainage payable entries reviewed were determined to have been improperly reversed.

- Four of 50 transactions (8%) reviewed were incorrectly coded and posted in ISIS. These four errors resulted in overstatements of both revenues and expenditures requiring an audit adjustment totaling $9,395,767.

- Two payments totaling $9,784,455 included $3,036,066 in expenditures that were not adequately supported.

These errors occurred because of an increase in activity at OFPC for hurricane-related projects and because management did not place sufficient emphasis on ensuring that established controls were being followed. Failure to carry out established control procedures increases the risk of noncompliance with state and federal laws and regulations, inaccurate financial reporting, and fraud.

OFPC management should ensure that adequate internal controls over operations are established and operating as prescribed to ensure compliance with state and federal laws and regulations and to ensure the proper review, approval, and recording of capital outlay transactions. OFPC concurs with all issues except for bullet one regarding publicly advertising contracts and bullet five on inadequate support for expenditures. OFPC contends that the requests for proposal for the contracts discussed in bullet one did not have to be bid. OFPC responded to bullet five indicating that the detailed supporting documentation for these transactions was available in New Orleans at the Louisiana Stadium and Exposition District (LSED) and therefore was unnecessary to be kept at OFPC. The transactions consisted of payments to the LSED for FEMA ineligible costs for work on the Superdome to be covered by general obligation bonds (see Appendix A, pages 8-15).

Additional Comments: Our issue in bullet one was that the procurement of three contracts did not adhere to state law. OFPC contends that the requests for proposal did not have to be bid. We agree that OFPC could enter into negotiated contracts after the issuance of the emergency declarations; however, the authority granted to OFPC under the declarations appears to have terminated on May 31, 2006, the effective date of the new exception. Therefore, OFPC was required to follow the expedited bid process provided in R.S. 38:2212 D (1) (c) for contracts that were entered into after May 31, 2006. Because OFPC did not issue the bids in accord with the new exception, the contracts appear to be in violation of the Public Bid Law and may be null and void.

Our issue in bullet five was not that detailed support was needed at OFPC rather that the summary list requesting reimbursement that was used as OFPC's support to make payments included questionable categories that could not be explained by OFPC management. Amounts paid in these questionable categories totaled $3,036,066. We believe that adequate controls should require sufficient documentation of management's understanding of the categories being billed and, thereby, provide adequate support for these costs before payment.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the department and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

CR:BQD:THC:sr

EXEC07

Management's Corrective Action Plans and Responses to the Findings and Recommendations

Bobby Jindal
GOVERNOR

Angele Davis
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of the Commissioner

January 30, 2008

Steve J. Theriot, CPA, Legislative Auditor
Office of Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: Audit Comment – Ineffective Internal Audit Function

Dear Mr. Theriot:

The Executive Department's response to your audit finding follows:

Ineffective Internal Audit Function

We concur with your finding that, as of June 30, 2007, the Executive Department lacked an effective internal audit function. Because of the enormity of the funding (over $5 billion) coming into the Disaster Recovery Unit, we considered it to be a prudent use of those resources to consult with and to assist that critical unit in getting its operations functioning.

However, we have since hired an internal audit administrator to develop and oversee our internal audit function. By conclusion of fiscal year 2008, the Internal Audit Section will have completed the risk assessment process and developed a multi-year audit plan based on the results of that assessment.

Ms. Sharon B. Robinson, CPA, has been hired to oversee this function. She may be contacted at 225-342-7000 with any questions or concerns.

Sincerely,

Angele Davis
Commissioner of Administration

AD:SBR:

Post Office Box 94095 • Baton Rouge, Louisiana 70804-9095 • (225) 342-7000 • Fax (225) 342-1057

BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Office of Community Development
Disaster Recovery Unit

June 23, 2008

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

Dear Mr. Theriot:

As per your letter dated June 18, 2008, the Division of Administration, Office of Community Development (OCD) is providing the Louisiana Legislative Auditor (LLA) with its response to the audit finding of inadequate controls over the Road Home Homeowner Assistance Program.

The OCD does not concur with the finding that it "had not yet implemented adequate controls over the administration of the Road Home Homeowner Assistance Program of the Community Development Block Grant."

The OCD was faced with developing a Homeowner Assistance Program of a magnitude never before done in this country. In addition to developing and designing the Program, OCD needed to procure a contractor to administer the Program as well as hire qualified staff for OCD's operations. OCD recognized it was short staffed and needed to procure outside assistance with an independent, competent and professional entity to augment its own in-house monitoring process. To address this urgent need OCD contracted with the Louisiana Legislative Auditors (LLA), Recovery Assistance Division (RAD) to provide additional resources to review and monitor this Program as well as others being administered by OCD.

OCD contends it did adequately monitor the Road Home Homeowner Assistance Program. Each of the points cited in the A-133 audit finding were known to OCD, except the reliability of insurance data feeds, through its monitoring program. A monitoring program is designed to detect problems within a program and alert management of the problems so it can take corrective action. OCD's monitoring program did exactly this. While no monitoring program will detect

301 Main Street, Suite 600 • Baton Rouge, Louisiana 70801 • (225) 219-9600 • 1-800-272-3587 • Fax (225) 219-9605
An Equal Opportunity Employer

every potential problem, OCD contends that its controls were adequate considering this Program was still being developed and refined as grants were being processed as quickly as possible in order to provide funds to Louisiana residents so they could begin rebuilding their homes and more importantly their lives. Numerous meetings, such as; the bi-weekly ICF status meetings, Road Home QA/QC meetings, ICF contract administration meetings, ICF invoice meetings, outstanding issues of immediate importance meetings, anti-fraud meetings, and ICF external training meetings occurred during fiscal year 2007, many of which are documented by attendance sign-in sheets.

The monitoring performed by OCD during the fiscal year ending June 30, 2007, was done on a post-closing basis, utilizing a sample of 5% of federal draws. The bulk of the monitoring began in March 2007, after the first major push of grant applications through closing in the last week of February 2007; approximately 2,300 applications. That monitoring continued on a weekly basis through the audit period. A 5% sample was selected because it was considered adequate to determine if the pre-closing process was thorough and accurate. As stated in the finding, reviews by OCD noted significant concerns. OCD discovered these concerns through its monitoring process. The finding states that despite significant errors being noted in the reviews OCD did not suspend payments. The suspension of payment to applicants was not an option available to OCD. As stated in the finding, the State of Louisiana made a decision to accept additional risks associated with expedited payments. The OCD knew that by relaxing "up-front" or pre-closing controls that stronger compensating controls at the "back-end" or post-closing would be required.

The A-133 finding states that OCD did not perform pre-closing reviews. Since the entire grant processing system was still new and going through numerous evaluations and changes, our first objective was to review the system and assess its functionality. As OCD completed its post-closing reviews of applications through the system, along with the findings of KPMG and the LLA, OCD recognized the need to begin a pre-closing review process. The OCD requested the LLA review the pre-closing process. In April 2007, the LLA conducted a joint review with OCD's monitoring staff of the pre-closing process. The pre-closing review was implemented to evaluate if system changes were made to correct the problems found in the post-closing review, and to add another level of monitoring to review grant applications before going to closing. OCD directed ICF to make system enhancements so that OCD staff could conduct pre-closing reviews. The process of developing and testing the enhancements took about two and a half months. The functionality of the enhancements was tested by OCD the last week of June 2007, and pre-closing reviews began on July 2, 2007. An important guiding principle for the Program is that it is better for homeowners to receive their funds much faster than originally planned, by completing certain documentation, compliance, and review activities, as needed, post-closing, not pre-closing. As a result, OCD shifted controls "downstream," after closing, many important but necessarily time-consuming activities that had been planned to be performed "upstream."

The A-133 finding states that OCD did not increase the level of review above 5% during the fiscal year. The sample size of 5% was adequate to identify errors; there was no reason for OCD to increase the sample size to confirm already known conditions. In addition, the errors noted by OCD were confirmed by work performed by the LLA and KPMG.

The A-133 audit finding states that the monitoring of OCD relied upon the accuracy of the information in a data warehouse maintained by ICF, and questioned the reliability and accuracy of this data, including insurance benefit data. OCD concurs. Given that an "entire" system had to be developed, tested, and ramped up to meet public demands for quick disbursement of funds, OCD and ICF relied on third party entities such as FEMA, insurance companies, and others supplying data to provide accurate data from their own data systems. Our focus had to be on output. In fact, no one suspected any issues with the data supplied by reliable third-parties until over 90,000 grants had been processed. When the Louisiana Legislative Auditor's Recovery Assistance Division (RAD) and its Performance Audit Division (PAD) informed OCD that there may be problems with the reliability of data feeds from insurance companies, OCD began to work closely with the LLA to determine if there was a reliability problem and, if so, what impact it may have on the Program. If there is a problem with the reliability of the data, OCD, with input from the LLA, will develop and take corrective action.

To supplement OCD's monitoring process it requested and hired the Recovery Assistance Division (RAD) of the Louisiana Legislative Auditor to perform agreed-upon procedures on the Road Home Homeowner's Program. OCD was very short staffed; the staff it did have was involved in developing a program of unprecedented magnitude and needed the assistance of outside resources to review the Program. The A-133 finding uses the findings of a September 5, 2007 agreed upon procedures report by the RAD to support that OCD did not have an adequate monitoring program. However, the services of RAD were procured by OCD for this very purpose; to provide and augment the monitoring program.

The A-133 finding contains the results of this RAD agreed-upon procedures report dated September 5, 2007, which evaluated whether homeowner grant recipients were eligible for the Road Home Program and whether they received the correct award amount. The A-133 finding cites that the results of those procedures indicated that "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." (Italics added) The A-133 finding further states that the RAD report cites that 19 of the 80 homeowner's sampled received a total of $166,871 more than they should have received and 11 of the 80 homeowner's sampled received $29,103 less than they should have received. What is not included in the finding are the results of a joint review by OCD and ICF of the same 80 homeowner files sampled by the LLA which resulted in much lower figures than those reported by the LLA. Based on this joint review, the results of which are included the OCD's response to the LLA's audit, 5 of the 80 homeowner's sampled received a total of $81,900 more than they should have received and 3 of the 80 homeowner's sampled received $4,200 less than they should have received. At the time of closing, the correct amount was awarded to 72 of the 80 applicants. For homeowner's receiving more than they should have received, efforts to recover the funds are being pursued.

The A-133 finding cites the results of an audit issued October 17, 2007, by the Performance Audit Division (PAD) of the Louisiana Legislative Auditor. The PAD conducted a performance audit on the additional compensation grant (ACG) eligibility determinations. In this audit, a sample of applicants receiving an ACG at closings in May 2007, were tested and the LLA found that 18 of the 56 applicants tested (32%) "did not provide sufficient eligibility documentation or were not eligible." OCD performed its own review of the 56 applicants tested and found that 53 (94.7%) of the sampled applicants qualified for the ACG.

The finding states that OCD advanced $750,000 of CDBG funds to the Road Home Corporation (Louisiana Land Trust), a subrecipient, although there was not a valid subrecipient agreement in place. We concur that there was not a valid subrecipient agreement in place at the time of the advance; however, there was an executed Loan and Regulatory Compliance Agreement in place prior to any Community Development Block Grant (CDBG) funds being advanced. The Loan and Regulatory Compliance Agreement was specific in that the Road Home Corporation was to expend CDBG funds in compliance with HUD regulations. OCD was aware that there was not a valid subrecipient agreement in place with the Road Home Corporation. The reason there was not a valid subrecipient agreement was due to difficulties in negotiating the terms of the contract, not a lack of monitoring by OCD. HUD was made fully aware of this issue by OCD.

Corrective Action Plan

Michael Spletto, Director of the OCD, Disaster Recovery Unit is the contact person responsible for corrective action.

With regard to the Road Home Assistance Program many changes to the Program have occurred since June 30, 2007. As of May 22, 2008, over 160,000 benefits have been calculated, and awards have been made to 108,997 homeowners. As stated in the HUD – OIG report dated December 19, 2007; OCD has made a number of improvements to its monitoring processes and procedures that include a performance measurement plan with objective and measurable performance parameters, along with corresponding incentives and penalties. The report further says that OCD has:

- Hired additional staff – More than 10 additional monitoring staff persons were hired;
- Drafted policies and procedures – Written monitoring policies and procedures were drafted;
- Designated staff to track deliverables – The designated staff tracks the receipt of deliverables, ensures that deliverables are reviewed and approved within 20 days of receipt, and ensures that ICF responds to rejected deliverables within 20 days;
- Developed a performance plan – The fourth amendment to the contract requires ICF to follow a performance measurement plan on a quarterly basis, including performance credits for noncompliance;
- Designated staff to monitor policy changes – Two administrators were designated to oversee the review of policy changes, coordinate those changes for each program area, and hold weekly meetings related to the policy changes; and
- Developed a process to track policy changes – The new process tracks policy changes by program area and requires ICF to submit all policy changes to OCD for its review and approval. The policy change process also involves a weekly meeting of OCD, the Louisiana Recovery Authority, and ICF to discuss the proposed changes.

OCD has implemented the following improvements to the Program in addition to those cited by the HUD - OIG:

- Instituted a pre-closing monitoring process on July 2, 2007.
- Continues to conduct bi-weekly meetings with ICF on evaluating the aging of files to find ways to move open applications to closing.
- Continues to conduct monthly meetings to review PAL case management activities and to identify issues that need to be resolved to move applications to closing.
- Continues to conduct bi-weekly quality control meetings with ICF to identify potential problem areas that need to be addressed.
- Continues to conduct weekly fraud, waste, and abuse meetings.
- Continues to conduct be-weekly meetings with ICF's long-term monitoring and subcontractor monitoring staff to discuss issues related to covenant and subcontractor programmatic compliance.
- Continues to review state appeals from applicants to ensure that appeals are properly addressed and to evaluate ICF's appeals process and results.
- Is instituting a process to evaluate all active grants that have not gone to closing to determine, through a committee process, what decisions are needed from OCD to move applications to closing. This will involve regular on-site visits to four Housing Assistance Centers to consult with case managers and to ICF's constituent services staff.
- Continues to conduct a weekly review of the Pipeline Report that provides overall Program statistics and accomplishments.

- Has developed a grant recovery policy and process to recapture overpayments.
- Has penalized ICF for failure to correct errors found by OCD and their own staff in the cash draw reviews. This penalty will be added to quarterly performance goals.
- Continues to require ICF to meet quarterly performance goals with penalties attached for failing to achieve the performance goals.

We appreciate the cooperation and diligence of your staff in conducting this audit. If you have questions or require additional information, please let me know.

Sincerely,

Paul Rainwater
Senior Executive Director
Office of Community Development/DRU

PR/SU

c: Ms. Angele Davis
Ms. Sharon Robinson
Ms. Susan Elkins
Mr. Thomas Brennan
Mr. Mike Spletto
Mr. Richard Gray
Mr. Stephen Upton

BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Facility Planning and Control

June 9, 2008

Mr. Steve Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70802

RE: Official Response to Facility Planning and Control Audit Finding

Dear Mr. Theriot:

This is written in response to your draft audit finding dated March 27, 2008 from Beth Q. Davis, CPA to Gene Knecht, Audit Coordinator for the Executive Department regarding the Office of Facility Planning and Control (OFPC).

RE: Audit Findings Number 1
Three contracts with original contract amounts totaling $12,249,898 were not publicly advertised in accordance with Revised Statute 38:2212(D)(1)(c).

OFPC concurs with the finding that three contracts were not publicly advertised in accordance with Louisiana Revised Statute 38:2212(D)(1)(c).

> OFPC management agree with the auditor's premise that three contracts were not publicly advertised in accordance with Louisiana Revised Statute 38:2212(D)(1)(c). However for the reasons stated below, OFPC does not agree with the audit conclusion that the procurement did not adhere to state law.
>
> As you are aware, on August 29, 2005, Hurricane Katrina was recorded as the most devastating natural disaster in the history of the United States. There were nearly 2200 state owned buildings damaged by Hurricanes Katrina and Rita representing an estimated $1.7B in damages. This office was tasked by the Governor to serve as the applicant for Public Assistance under the FEMA Public Assistance program for all hurricane damaged state facilities. Due to the urgency of the mandated repairs this office implemented reasonable precautions, given the circumstances of the catastrophic event, to protect the interest of the government and its citizens and to begin repairs in a timely manner.
>
> On September 6, 2005, this office publicly advertised a declaration of emergency for all work related to the recovery from Hurricane Katrina. All three of the projects in question by the audit findings were disaster recovery projects covered by the emergency declaration. It was OFPC's interpretation that the declaration of emergency was valid at the time we received proposals for the three projects and the projects were covered by the emergency declaration.

Post Office Box 94095 • Baton Rouge, Louisiana 70804-9095 • (225) 342-0820 • 1-800-354-9548 • Fax (225) 342-7624

Furthermore absent a requirement of retroactive application, (R.S.) 38:2212(D)(1)(c) did not supersed the previous advertised emergency declaration of this office. The statutory language of 38:2212(D)(1)(c) does not state that the requirements arising under its authority should be provided retroactively, nor does the legislative history clearly indicate that such was meant to be retroactive. To argue otherwise would be contrary to the intent of the new law. As stated in the audit finding, the legislative intent was to create an expedited bid process for the Hurricane Katrina and Rita projects (even for those projects not deemed an "emergency").

Arguably the new law was not a replacement of the emergency exemption procedures. It is foreseeable that a repair, although damaged by Hurricane Katrina or Rita, could pose an immediate danger of imminent threat of destruction or injury to life or property requiring OFPC to invoke the emergency exemption. The new law was an added exemption available to the OFPC.

Additionally, one of the three projects at issue, LSUHCS Construction and Repairs to University Hospital, Project No. K19-610-05-ORM, was advertised separately as an emergency on March 1, 2006 due to its size and prominence. University Hospital was one of two statewide hospitals which suffered extensive damage as a result of the hurricane. These hospitals served as the primary health care safety net for many local residents. The condition of the hospital was a critical factor in determining how quickly the city was reopened to its citizens. The reopening of University Hospital was a public emergency as defined by the Public Bid Law.

In should be noted that during the period in question, it was difficult finding contractors to work the New Orleans area. Although not required under the R.S. 38:2212(D)(1)(a), OFPC made every effort to get as much participation as possible in the award process. The bidders were notified by the design team. The design team sent letters to as many contractors as it could locate who had the required license classification. Any contractor who was licensed in the proper classification of work could submit a bid. After all were submitted, bids were opened and the contractor with the lowest bid was selected to perform the work. Despite the lack of advertisement for bid, OFPC is confident that the award process to the lowest bidder was competitive.

Sincerely,

Jerry W. Jones, Director
Facility Planning & Control

JWJ:cn

BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Facility Planning and Control

June 9, 2008

Mr. Steve Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70802

RE: Official Response to Facility Planning and Control Audit Finding

Dear Mr. Theriot:

This is written in response to your draft audit finding dated March 27, 2008 from Beth Q. Davis, CPA to Gene Knecht, Audit Coordinator for the Executive Department regarding the Office of Facility Planning and Control (OFPC).

RE: Audit Findings Number 2
Fifteen of 57 projects (26.3%) commenced work prior to the issuance of a formal Notice to Proceed.

OFPC concurs with the finding that work on several of the projects had begun prior to the issuance of a notice to proceed.

As stated in your findings, R.S. 38:2215 requires that a notice to proceed be issued to the contractor within 30 days of executing the contract. The primary purpose of the notice to proceed is to begin contract management and the contract time. The time for performance of the contract work begins with the date of the notice to proceed. The notice to proceed gives the contractor lead time to begin construction. This is of particularly importance when time is of the essence and liquidated damages will result from untimely performance.

OFPC agrees that a good internal control mandates the issuance of the notice to proceed, prior to the work commencing. All but one of the six examples that were provided to us was disaster recovery related projects. These were all driven by various examples of urgency related to disaster recovery including returning health care to New Orleans, addressing safety issues and meeting the Superdome opening date. The latter of which became the symbol of recovery of New Orleans with literally hundreds of thousands of people dancing in the streets.

Post Office Box 94095 • Baton Rouge, Louisiana 70804-9095 • (225) 342-0820 • 1-800-354-9548 • Fax (225) 342-7624

While we recognize the need to maintain our standard internal management control practices, even during an emergency, under a difficult circumstances such as a natural disaster, our main focus was getting the necessary facility operational and available for the citizens.

Sincerely,

Jerry W. Jones, Director
Facility Planning & Control

JWJ:cn

BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Facility Planning and Control

June 9, 2008

Mr. Steve Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70802

RE: Official Response to Facility Planning and Control Audit Finding

Dear Mr. Theriot:

This is written in response to your draft audit finding dated March 27, 2008 from Beth Q. Davis, CPA to Gene Knecht, Audit Coordinator for the Executive Department regarding the Office of Facility Planning and Control (OFPC).

RE: Audit Findings Number 3
Four of 42 expenditure transaction (9.5%) reviewed indicate the related contract retainage was not properly recorded.

OFPC concurs with the finding that 4 (four) of 42 (forty-two) expenditure transaction (9.5%) reviewed indicate the related contract retainage was not properly recorded

> This problem has been addressed. Effective December 4, 2007 through an email from Marty Milner, Fiscal Officer to OFPC, the accounting staff is required the proper recording of contract retainage payable on all appropriate accounting entries.

Sincerely,

Jerry W. Jones, Director
Facility Planning & Control

JWJ:cn

Post Office Box 94095 • Baton Rouge, Louisiana 70804-9095 • (225) 342-0820 • 1-800-354-9548 • Fax (225) 342-7624
An Equal Opportunity Employer

BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Facility Planning and Control

June 9, 2008

Mr. Steve Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70802

RE: Official Response to Facility Planning and Control Audit Finding

Dear Mr. Theriot:

This is written in response to your draft audit finding dated March 27, 2008 from Beth Q. Davis, CPA to Gene Knecht, Audit Coordinator for the Executive Department regarding the Office of Facility Planning and Control (OFPC).

RE: Audit Findings Number 4
Four of 50 transactions (8%) reviewed were incorrectly coded.

1. OFPC agrees that Four of 50 transactions (8%) reviewed were incorrectly coded.

   OFPC received $9,395,767 of interagency transfer funds from CDBG on the repair of the Superdome as part of the 10% match. Subsequent to the receipt of these funds, President Bush approved a 100% payment of FEMA funds on category E projects. The questioned transaction was the repayment of these funds. The repayment was a one time occurrence and will not be repeated in the future.

   The four transactions were in reality one transaction with four lines (PV 115 PVQ00020195) where OFPC refunded revenue to the Community Development Block Grant program. The payment voucher was incorrectly coded to an expenditure object code instead of a revenue source code. This error was corrected on ISIS transaction J2 115 J2000000628 dated 11/15/2007 reversing the charge to expenditures and debiting revenue.

Sincerely,

Jerry W. Jones, Director
Facility Planning & Control

JWJ:cn

Post Office Box 94095 • Baton Rouge, Louisiana 70804-9095 • (225) 342-0820 • 1-800-354-9548 • Fax (225) 342-7624
An Equal Opportunity Employer

BOBBY JINDAL
GOVERNOR

ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana

Division of Administration
Facility Planning and Control

June 6, 2008

Mr. Steve Theriot, CPA
Legislative Auditor
1600 North Street
Baton Rouge, LA 70802

RE: Official Response to Facility Planning and Control Audit Finding

Dear Mr. Theriot:

This is written in response to your draft audit finding dated March 27, 2008 from Beth Q. Davis, CPA to Gene Knecht, Audit Coordinator for the Executive Department regarding the Office of Facility Planning and Control (OFPC).

RE: Audit Findings Number 5
Two payments totaling $9,784,455.00 were not adequately supported.

Do not concur

OFPC reimbursed The Bank of New York for payments from the Louisiana Stadium and Exposition District (LSED) trustee account for ineligible costs. The repairs to the LSED were made through two separated funds. The revenue bonds were intended for enhancements to the Superdome and the funds received from FEMA were for repairs. The payouts at issue were made in error for FEMA ineligible costs.

Since General Obligation bonds were appropriated to cover FEMA ineligible costs on hurricane repair projects it was necessary, after securing trustee and bond counsel approval, to reimburse the trustee account at The Bank of New York. There were two payments in fiscal year 2007 and one in fiscal year 2008 which will not reoccur in the future.

It was decided that since all detail supporting documentation was available in New Orleans at LSED and available for inspection and audit, it was unnecessary to keep identical records at both LSED and OFPC. Supporting documentation can be located at LSED.

Post Office Box 94095 • Baton Rouge, Louisiana 70804-9095 • (225) 342-0820 • 1-800-354-9548 • Fax (225) 342-7624
An Equal Opportunity Employer

OFPC have detailed spreadsheets supporting the payment, but paper copies of purchase order, invoices, and evidence of payment are stored in New Orleans.

Sincerely,

Jerry W. Jones
Director

JWJ:cn

cc: Sharon Robinson