

ROAD HOME PROGRAM
ADDITIONAL COMPENSATION
GRANT DOCUMENTATION



PERFORMANCE AUDIT

ISSUED OCTOBER 17, 2007

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STEVE J. THERIOT, CPA
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October 17, 2007

Jerry Luke LeBlanc
Commissioner of Administration
Division of Administration

Dear Commissioner LeBlanc:

This report provides the results of our performance audit on the review of Additional Compensation Grant Determination in the Road Home Program. The audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended.

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

Sincerely,

Steve J. Theriot, CPA
Legislative Auditor

SJT/dl

RHACGD07

Office of Legislative Auditor

Steve J. Theriot, CPA, Legislative Auditor

Road Home Program

Additional Compensation Grant Determination

October 2007



Audit Control # 40070020

Objectives and Overall Results

We conducted a performance audit on ICF's process for determining eligibility for the Additional Compensation Grant (ACG) in the Road Home Program. The ACG is additional funding applicants can receive if they meet certain eligibility requirements. These requirements include whether or not the applicants' household income is equal to or less than 80% of the Area Median Income (AMI) and if they have documentation to support their total household income. Eligible applicants can only receive this grant if there is a gap between their estimated cost of damage and the compensation amount received. The objective of our audit and the corresponding results of our work are summarized below.

Objective 1: Does ICF have an effective process to ensure that only eligible applicants receive ACG?

Results: ICF's process for determining eligibility for the ACG did not always ensure that sufficient documentation was collected to support eligibility prior to the applicants' closing. From a sample of 56 applicants who received the ACG at closings in May, we found that 18 applicants (32%), who received \$687,024.98 in ACG funds, did not provide sufficient eligibility documentation or were not eligible.

According to ICF, ACG problems have decreased. To evaluate this, we conducted another file review of 30 applicants who received the ACG and closed in August 2007. Although we did not find that any applicants were ineligible, we did find that 12 of 30 applicants (40%) did not submit sufficient income documentation to support their eligibility. Therefore, it appears that ACG documentation issues have not improved.

ACG documentation issues persist despite various levels of review. These issues should have been addressed either at the Housing Assistance Centers, during the resolution process, or during the pre-closing review. There are a variety of potential reasons why these issues continue to occur.

According to ICF, it has recouped approximately \$200,000 in ACG overpayments and the post-closing section will review files to ensure that the ACG was awarded correctly. However, because of the time and resources needed to correct such errors after applicants have received their grants, ICF should try to resolve these issues prior to applicants closing.

Scope and Methodology

This audit is the seventh in a series of reports that reviews various processes within the Road Home program. We reviewed the process on how ICF determines the eligibility for the Additional Compensation Grant (ACG) in the Road Home Program. Our scope for this audit included applicants who closed as of May 9, 2007, and those who closed in August 2007.

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

To answer our objective, we performed the following steps:

- Met with ICF and reviewed the current method used to calculate the ACG
- Conducted a file review on 56 applicants that received the ACG and closed in May 2007 to ensure sufficient income documentation was submitted
- Obtained the amount disbursed per applicant from First American Title (FA)
- Conducted a follow-up file review on 30 applicants who closed in August 2007
- Obtained and reviewed ICF's file review of ACG applicants
- Followed up with ICF on all discrepancies found

Appendix A contains a copy of the Office of Community Development's (OCD) response to this report.

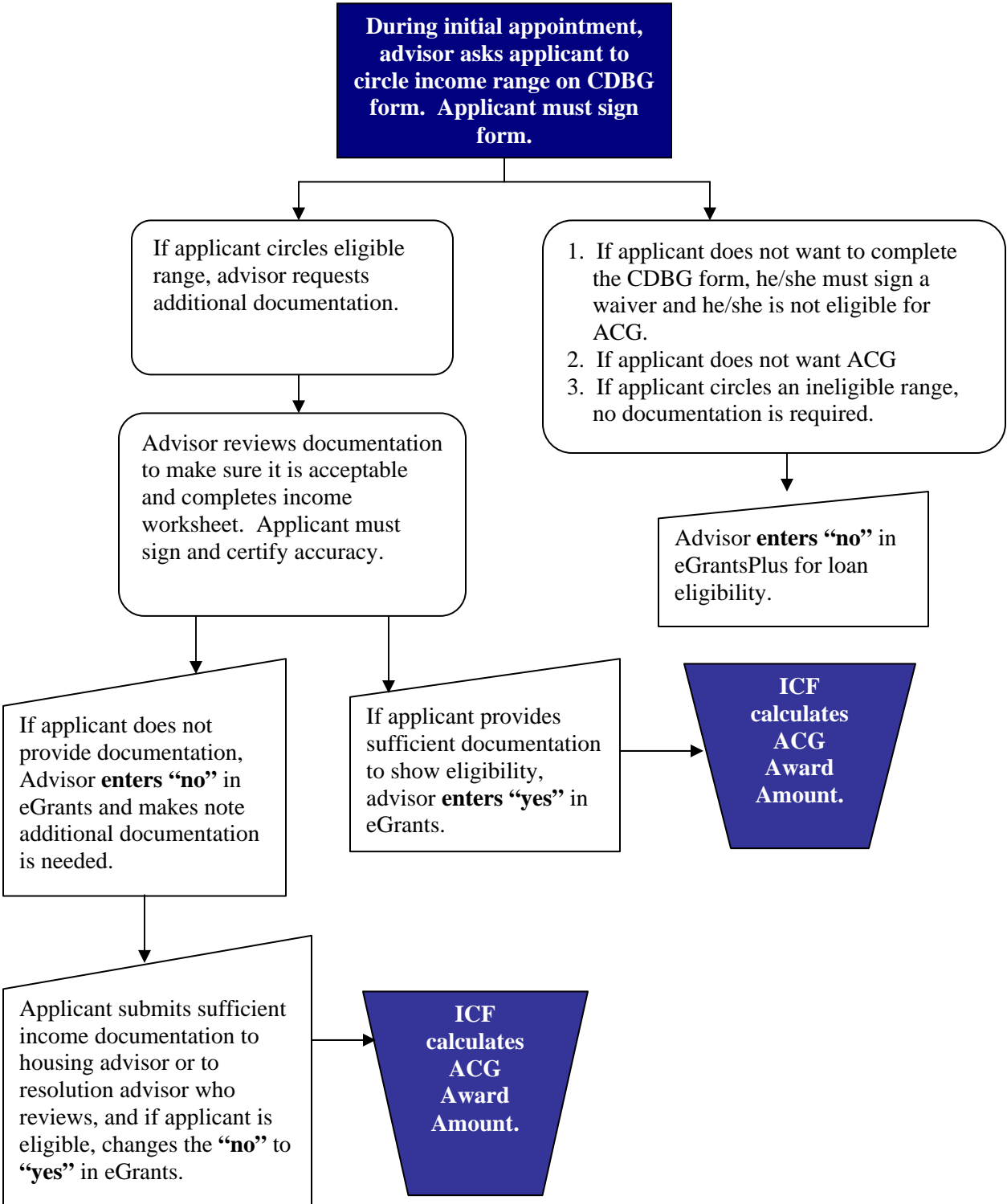
Background

The Additional Compensation Grant (ACG) is additional funding of up to \$50,000 that applicants can receive if there is a gap between their estimated cost of damage and their calculated compensation amount. ACG is offered to applicants whose household income is equal to or less than 80% of the Area Median Income (AMI). As of August 25, 2007, OCD has expended \$637,456,766.00 out of \$3,176,810,002.10 (20.1%) of the total Road Home funds for ACG.

The Road Home policies currently require that applicants eligible for the ACG submit specific income documentation such as pay stubs, income tax returns, and other documents as proof of income. The sources of income can be earned household income, retirement and pension income, alimony, social security, unemployment, net income from self-employment of business, temporary assistance for needy families (TANF), and other public assistance income. There are specific documentation requirements for each of these sources. There have been three different policies requiring different income documentation since the beginning of this program. Appendix B outlines the income documentation requirements and how they have changed since the beginning of the program.

ICF is supposed to determine eligibility for the ACG at an applicant's initial appointment. However, many applicants do not bring sufficient income documentation and must submit documentation after the initial appointment. Exhibit 1 provides an overview of the process ICF uses to determine eligibility for ACG.

**Exhibit 1
Overview of How ICF Determines ACG Eligibility**



Source: Prepared by legislative auditor’s staff using ICF policies and interviews with ICF staff.

ADDITIONAL COMPENSATION GRANT DETERMINATION

Applicants eligible for the ACG receive a higher overall compensation amount than non-eligible applicants in the following two ways:

1. Eligible applicants receive additional compensation up to \$50,000 if there is a gap between their compensation grant and their estimated cost of damage and thus are more able to repair or rebuild their homes. Ineligible applicants do not receive additional funds to repair or rebuild if their pre-storm value is less than their cost to repair to rebuild.
2. Eligible applicants who did not have the required insurance are penalized 30%, but the amount deducted for the penalty may be made up with the ACG because ACG is calculated after the penalty is deducted.

Objective: Does ICF have an effective process to ensure that only eligible applicants receive ACG?

ICF's process does not always ensure that only eligible applicants or applicants that had all required documentation received the ACG. We reviewed a sample of 56 applicants that had closed in May 2007 and received the ACG and found that four applicants (9.5%) who submitted sufficient income documentation were not eligible for the ACG and 14 (25%) applicants did not submit sufficient income documentation to support their eligibility. According to Road Home income policy, applicants who are considered eligible for the ACG must have a signed CDBG reporting form and a signed income verification and certification worksheet on file.

To determine if ICF had improved in determining ACG eligibility,¹ we then reviewed a sample of 30 applicants who closed in August 2007. Although we found that all applicants who submitted sufficient income documentation were eligible for ACG, 40% of the applicants did not have sufficient documentation to support their eligibility. Exhibit 1 summarizes the results of these two reviews.

¹ We issued a report on the pre-closing process in July and made recommendations for improvement. Because pre-closing advisors review ACG eligibility, we anticipated improvements in this area.

Exhibit 1
Summary of File Review Results

Finding	May 2007 Review (56 applicants)	August 2007 Review (30 applicants)
Applicant was ineligible based on income documentation submitted.	4 of 42 ² (9.5%)	0
Applicant did not submit acceptable form of income documentation.	1 of 56 (1.8%)	1 of 30 (3.3%)
Applicant did not sign the income verification and certification worksheet, or worksheet did not match documentation provided.	8 of 56 (14.3%)	7 of 30 (23.3%)
Applicant did not complete the CDBG form which is required for the purposes of determining LMI for the program or did not circle the correct range on the form.	5 of 56 (8.9%)	4 of 30 (13.3%)
Total Issues	18 (32%)	12 (40%)
Total Amount of ACG funds to these applicants	\$687,025	\$558,487
Source: Prepared by legislative auditor's staff using applicant files.		

Issues with ACG occur despite being reviewed initially by the housing advisor, possibly by a resolution advisor, and again by a pre-closing advisor prior to closing. However, ICF's external quality assurance and quality control reviewer (Deltha Corporation) has also found ACG errors in each of these processes as summarized below:

- At the Housing Assistance Centers, Deltha found that 13% of the files in its sample of 75 files had ACG documentation and/or calculation issues.
- In the resolution process, Deltha found that 6% of the applicants in its sample of 186 files were ineligible for the ACG or had documentation issues.
- In the pre-closing process, Deltha found that 7% of the files in its sample of 153 had ACG documentation issues and/or calculation issues.

Potential reasons for the continuation of errors with ACG include the following:

- Income policies have changed frequently in the program (see Appendix B for income policies) resulting in confusion for both advisors and applicants regarding what constitutes sufficient income documentation.
- We found in our own review that some income documentation submitted by applicants is difficult to understand. Therefore, advisors may not have received detailed training on how to review and calculate income. This is especially important since housing advisors, resolution advisors, and pre-closing advisors may all need to calculate income.

² There were 42 files with sufficient documentation to determine eligibility.

ADDITIONAL COMPENSATION GRANT DETERMINATION ---

- As noted in previous audit reports, both housing advisors and pre-closing advisors had performance goals which were often impossible to meet without sacrificing the quality of the resulting work.
- As noted in previous audit reports, housing advisors initially did not have a consistent quality control process to ensure documentation was sufficient, signed, and/or correct. Resolution advisors still do not have a QA/QC process to ensure that their work is correct.

To correct ACG errors, ICF said it will contact applicants to obtain missing documentation or additional income documentation. If necessary, some applicants may have to pay back the ACG portion of their total award. Because of the time and resources needed to correct such issues, as well as the difficulty in trying to recoup overpayments, ICF should try to prevent these errors from occurring before applicants close.

Recommendation 1: OCD should continue to ensure that ICF provides the ACG to only eligible applicants. To do this, OCD should require that ICF ensure the following prior to closing:

- That the applicant provide sufficient income documentation per Road Home income policies
- That the advisor calculates the income correctly based on the documentation submitted
- That the income amount is correctly included on the income verification and certification worksheet and updated if additional income documentation is obtained
- That the advisor circles the correct income range on the CDBG form
- That both the CDBG and income verification worksheets are signed

Summary of Management's Response: OCD agrees with this recommendation and noted that in July they began reviewing applicant files for eligibility prior to their transmittal to the closing companies.

Recommendation 2: OCD should require that ICF update eGrants when any ACG information is updated or changes. Specifically, ICF should ensure that the "yes" field in eGrants is accurately populated when there are changes in eligibility.

Summary of Management's Response: OCD agrees with this recommendation.

Recommendation 3: OCD should ensure that ICF require housing advisors, pre-closing advisors, and relevant QA personnel exercise due diligence in their review of ACG eligibility.

Summary of Management's Response: OCD agrees with this recommendation.

Legislative Auditor's Additional Comments: Although OCD agreed with our recommendations, they disagreed with some issues in the audit report. The first issue they disagreed with was our statement that many applicants did not have the required documentation that supported their eligibility. OCD stated that just because CDBG forms or income worksheets were not signed does not mean they were not eligible. However, according to Road Home income policy, applicants must have all completed forms on file to be eligible.

The second issue they had was with the results of our file review. OCD re-reviewed our 86 files and found that some forms had been signed or were attached in eGrants. However, because we conducted our first file review in May and gave all of our results to ICF to correct, it is possible that some of the errors have been corrected. Therefore, since OCD's review was conducted five months later, it is likely that their results would have been different.

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APPENDIX A: MANAGEMENT'S RESPONSE

ADDITIONAL COMPENSATION GRANT DETERMINATION _____



State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF COMMUNITY DEVELOPMENT
DISASTER RECOVERY UNIT

CATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

October 5, 2007

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

RE: Audit Control #40070020 Additional Compensation Grant Determination

Dear Mr. Theriot:

The purpose of this letter is to respond to the report prepared by your office on the review of Additional Compensation Grants (ACG). We appreciate the work that the LLA has completed and have taken their recommendation under review.

The objective of the audit report was to determine whether: ICF has an effective process to ensure that only eligible applicants receive ACG

To determine this purpose, fifty-six applicants (56%) that received ACG awards from May were selected for the review. In addition, thirty applicants (40%) that received ACG awards in August were selected for the review.

LLA found that eighteen out of the fifty-six applicants sampled from May did not provide sufficient eligibility documentation or were not eligible. LLA found that twelve out of the thirty applicants sampled from August did not submit sufficient income documentation to support their eligibility.

The OCD review from the May sample of fifty-six files reveals that three applicants (5.3%) who submitted sufficient income documentation were not eligible for the ACG and twelve applicants (21.4%) had incomplete income documentation but were eligible. In addition, the OCD review reveals fifty-three (94.7%) of the sampled applicants who received an ACG qualified for the ACG. In the following paragraphs, OCD addresses each LLA finding in detail.

OCD Response to Audit Findings

1. LLA stated in their May review of fifty-six files that four applicants received an ACG and were ineligible.

Based on an OCD review, three of the four applicants from the LLA sample that received the ACG were not eligible. One of the four applicants did qualify for the ACG. The applicants stated on their application that two people lived in the household. However, they filled out their income documents stating that three people lived in the household. If three people lived in the household, the applicant qualified for the ACG. The Post-Closing Department has contacted the applicants and they are sending in proof that their grandchild lives with them. The applicant's eligibility for the ACG is being verified upon further documentation provided by the applicants proving that their grandchild lives with them. One applicant was contacted by the Grant Reconciliation Department and he has returned the money to the state. The other two applicants were not eligible according to State policy. The May 1, 2007 Income Policies states that "HUD updated the Income Limits on March 20, 2007. The new income limits went into affect for the *Road Home Program* on April 1, 2007. Applicants whose income determination was completed by the Road Home prior to April 1, 2007 will be processed using HUD's 2006 income limits." These two applicants met the eligibility requirements under HUD's new 2007 Income Limits and closed after April 1, 2007. These two homeowners were deemed ineligible because their income eligibility was determined prior to April 1, 2007. According to Federal HUD regulations, the applicants qualified for the ACG. According to state policy, the applicants did not qualify for the ACG. OCD will review this policy. If the policy is changed, the two applicants did qualify for the ACG. If the policy does not change, OCD will ensure that the applicants are notified and funds are repaid.

2. LLA stated in their May review of fifty-six files that one applicant did not submit acceptable forms of income documentation.

There was one applicant that did not provide sufficient income documentation. The applicant provided proof of social security benefits, but documentation did not show the gross amount awarded. However, the applicant was eligible for the ACG. The applicant will be contacted to provide documentation showing the gross amount of social security benefits.

3. LLA stated in their May review of fifty-six files that five applicants did not complete the Income Verification and Certification Worksheet.

Two of the five applicants signed their Income Verification and Certification Worksheet at closing. The other three applicants did not sign their Income Verification Certification Worksheet before they closed. However, all five of the applicants did supply sufficient income documentation verifying that they were eligible to receive the ACG. The Post-Closing department has received an Income Verification Certification Worksheet from two of the three aforementioned applicants and has contacted the other applicant to complete the form.

4. LLA stated in their May review of fifty-six files that five applicants did not complete the CDBG Income form.

Five applicants did not correctly complete their CDBG Income forms. However, all five of the applicants did supply sufficient income documentation verifying that they were eligible to receive the ACG. OCD will ensure that the applicants are contacted to complete the CDBG form.

5. LLA stated in their May review of fifty-six files that three applicants provided inconsistent information throughout the application process.

One of three applicants submitted income documents stating that three people lived in the household. At the time of closing, the applicant circled on her CDBG Income form that one person lived in the household. Regardless of how many people were in the household, the applicant qualified for the ACG. OCD will ensure that the applicant is contacted to determine how many people live in the household. LLA stated that the other two applicants sent in their income documentation after the Income Verification and Certification Worksheet had been completed and the income documents do not reflect the amounts on the worksheet. Both applicants submitted sufficient income documents proving that they were eligible. The Income Verification and Certification Worksheet does not reflect the amounts of the applicant provided income documents. OCD will ensure that the applicants are contacted to complete the correct Income Verification and Certification Worksheet.

LLA conducted an additional file review from August 2007 of 30 applicants receiving an ACG award. One (3.3%) applicant did not provide sufficient income documentation. The applicant completed a Certification of Undocumented Income Form instead of a Certification of No Income Form. OCD will ensure that ICF contacts the applicant and obtains the appropriate form. Ten applicants (33.3%) did not correctly complete their CDBG Income forms or their Income Worksheet. However, the applicants did supply sufficient income documentation verifying that they were eligible to receive the ACG. OCD will ensure that the applicants are contacted to complete the CDBG Income form and the Income Worksheet. One-hundred percent of all applicants sampled from August who received an ACG were eligible for the ACG. This clearly shows that ICF has improved ACG verification process since May.

Audit Recommendations

1. OCD should continue to ensure that ICF provides the ACG to only eligible applicants.
2. OCD should require that ICF updates eGrants when any ACG information is updated or changes. Specifically, ICF should ensure that the "yes" field in eGrants is accurately populated when there are changes in eligibility.

Mr. Steve Theriot
October 5, 2007
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3. OCD should ensure that ICF requires housing advisors, pre-closing advisors, and relevant QA personnel exercise due diligence in their review of ACG eligibility.

OCD agrees with the LLA on all three recommendations. It should be noted that in July, OCD began reviewing applicant files for eligibility prior to their transmittal to the closing companies. OCD continues to perform a closed file review each month. OCD staff attends Road Home new-hire training to ensure that new employees are properly trained. ICF is constantly upgrading eGrants.

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

Sincerely,



Susan Elkins
Executive Director
Office of Community Development/DRU

SE/MS

c: Ms. GeGe Roulaine
Mr. Mike Spletto
Mr. Michael Taylor
Mr. Richard Gray
Mr. Thomas Brennan
File

APPENDIX B: COMPARISON OF INCOME DOCUMENTATION REQUIREMENTS OCTOBER 2006 TO PRESENT

Income Source	October 25, 2006, to April 1, 2007	April 1, 2007, to May 1, 2007	May 7, 2007, to Present
Earned Income	<ul style="list-style-type: none"> • <i>Three recent pay stubs</i> that show gross income and number of hours • Statement from employer that provides the amount and rate of pay • 2005 income tax statement (if representative of 2006 income) 	<ul style="list-style-type: none"> • <i>Three consecutive pay stubs from within the past 6 months</i> that show gross income for the pay period on the stub • Statement from employer that provides the gross amount and rate of pay • W2 or 1040 income tax statement from 2005 or 2006* 	<ul style="list-style-type: none"> • <i>Two consecutive pay stubs (3 if possible) from within the past 6 months</i> that show gross income for the pay period on the stub • Same as previous
Retirement and Pension Income	Statements from administering entity showing annual amount or periodic payments	<ul style="list-style-type: none"> • Statements from administering entity showing gross annual amount or periodic payments • Retirement or pension check stub showing gross amount • 1040 tax statement from 2005 or 2006* 	<ul style="list-style-type: none"> • Same as previous
Alimony	Documents showing award amount	<ul style="list-style-type: none"> • Documents showing gross award amount • Alimony check stub showing gross amount • 1040 tax statement from 2005 or 2006* 	<ul style="list-style-type: none"> • Same as previous
Social Security (including SSI)	Award letter or other correspondence showing amounts received	<ul style="list-style-type: none"> • Award letter or other correspondence showing gross amounts received • Social Security check stub showing gross amount • 1040 or 1099 tax statement from 2005 or 2006* 	<ul style="list-style-type: none"> • Same as previous
Unemployment		<ul style="list-style-type: none"> • Award letter or other correspondence showing gross amounts received • Unemployment check stub showing gross amount • 1040** tax statement from 2005 or 2006* 	<ul style="list-style-type: none"> • Same as previous

ADDITIONAL COMPENSATION GRANT DETERMINATION _____

Income Source	October 25, 2006, to April 1, 2007	April 1, 2007, to May 1, 2007	May 7, 2007, to Present
Net Income from Self-employment or a Business	Quarterly IRS report, 2005 tax return (if reflective of 2006 income), or Self Certification form	<ul style="list-style-type: none"> • Quarterly IRS report, W9 or 1040 income tax statement from 2005 or 2006* • Self Certification form stating gross income of self-employed individual 	<ul style="list-style-type: none"> • Same as previous
Temporary Assistance for Needy Families (TANF)	Award letter or other correspondence showing amounts received	Award letter or other correspondence showing gross amounts received	<ul style="list-style-type: none"> • Same as previous
Other Public Assistance**			
<p>* If either of these are submitted after June 30, 2007, the applicant is required to supply acceptable documentation that supports the current income.</p>			
<p>** Public assistance received by an adult member of household on behalf of minor is considered a source of income.</p>			