

DIVISION OF ADMINISTRATION
OFFICE OF COMMUNITY DEVELOPMENT
ROAD HOME HOMEOWNER PROGRAM



RECOVERY SERVICES AUDIT
ISSUED APRIL 23, 2008

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

April 23, 2008

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 in accordance with program policy. 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 OCD management. 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 68 awards selected from the 20,756 homeowner grant closings that occurred during the period May 10, 2007, through June 30, 2007; 67 awards from the 6,714 homeowner grant closings that occurred during the period July 1, 2007, through July 31, 2007; 67 awards from the 6,279 homeowner grant closings that occurred during the period August 1, 2007, through August 31, 2007; and 67 awards from the 8,094 homeowner grant closings that occurred during the period September 1, 2007, through September 30, 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 according to program policy.

Current program policy directs the use of data warehouse¹ information as the primary source for determining eligibility and for some values used in the award calculations. Program policy, however, does not require documentation to support the values stored in the data warehouse. The reliability and accuracy of the data warehouse information is questionable because the data warehouse values contain inaccuracies because of information sources not providing the information requested and data transfer problems. In addition, applicant provided information in some instances conflicts with the information in the data warehouse.

To help verify the reliability and accuracy of the data warehouse, we contacted third-party information providers,² some of which also provide information to the data warehouse. In many instances, we were able to obtain information from the third-party source indicating the information in the data warehouse may not be accurate or reliable.

The findings related to these procedures begin on page 7 and the recommendations are listed on pages 10 and 17-18.

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

JWB:SDP:JLM:sr

OCD08

¹ 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 eGrants system.

² Because of a pending civil lawsuit filed by the Louisiana Attorney General's Office, several insurance providers, most notably State Farm and Allstate, did not provide documentation or verification of insurance proceeds.

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BACKGROUND

We sampled 269 awards out of 41,843 homeowner grants that closed during the period May 10, 2007, through September 30, 2007, to determine whether:

- (1) recipients of Road Home program (RHP) funds were eligible according to program policy, and
- (2) recipients received the correct award amount according to program policy.

Our sample of 269 awards is composed of four separate random samples for the periods May 10, 2007, through June 30, 2007; July 1, 2007, through July 31, 2007; August 1, 2007, through August 31, 2007; and September 1, 2007, through September 30, 2007. The following table summarizes our sampling information.

Summary of Sample Information					
Description	Period Sampled				
	May/June	July	August	September	Total
Population of closed files	20,756	6,714	6,279	8,094	41,843
Sample Size ³	68	67	67	67	269
Source: Prepared by legislative auditor's staff.					

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 that OCD hired to administer the Road Home program. In the following report, we summarize our procedures and corresponding results. The results are based on available information at the time of our review and do not reflect subsequent updates to eGrants,⁴ WorlTrac,⁵ the data warehouse, or other program data sources including insurance and utility companies.

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:* We found that 255 of the 269 recipients were owners according to program policy. However, four recipients lacked proof of ownership that is compliant with program policy, but we were able to locate information indicating ownership. An additional nine recipients' proof of ownership was based on homestead exemption information in the data warehouse, but we could not verify 2005 homestead exemption with the Louisiana Tax Commission (LTC) and one recipient was not an owner.

³ Sample size based on 90% confidence, 10% sampling error, and 50% expected rate of error.

⁴ eGrants 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.

⁵ WorlTrac is the computer system ICF and OCD use to document home evaluation information.

Occupancy: We found that 211 of the 269 recipients were determined to be occupants according to program policy. However, 32 recipients lacked proof of occupancy that is compliant with program policy, but we were able to locate information that indicated occupancy. An additional 22 recipients' proof of occupancy was based on homestead exemption information in the data warehouse, but we could not verify 2005 homestead exemption with the LTC and four recipients lacked proof of occupancy that complied with program policy. For those four, we were unable to verify occupancy by any other means.

*Structure Type:*⁶ All recipients appeared to reside in structures that are eligible for funding under the RHP.

(See pages 7-10 for details and recommendations.)

Procedure: Determine whether recipients of RHP funds received the correct award amount according to program policy.

Results: We found that 261 of the 269 sampled awards were calculated in accordance with program policy. However, although policy was followed by the RHP, we obtained information indicating that 74 awards may require adjustments in the post-closing/award-adjustment process. During our review, the post-closing/grant recovery process identified some of the same findings.

The following table summarizes our sample results for award calculations and disbursements.

Summary of Award Adjustments				
Result	Number of Applicants	Lowest Dollar Adjustment	Highest Dollar Adjustment	Total Dollar Adjustments
Potentially Overpaid	38	\$406	\$110,727	\$508,911
Potentially Underpaid	36	\$374	\$45,000	\$187,378
Source: Prepared by legislative auditor's staff.				

(See pages 10-18 for details and recommendations.)

⁶Allowable structure types include single family units, townhomes, duplexes where the owner is also an occupant, manufactured homes, and condominiums.

ELIGIBILITY

Eligibility for the program is based on ownership and occupancy of the damaged residence before the respective storm and the type of structure. Applicants must meet all requirements to be eligible for the program.

To determine if the eligibility requirements of the program were met, we:

- (1) searched the data warehouse and eGrants for 2005 homestead exemption information;
- (2) obtained 2005 homestead exemption data from LTC;
- (3) compared LTC data for homestead exemptions with the data warehouse;
- (4) examined title search and other ownership documentation in eGrants;
- (5) searched eGrants for documentation supporting occupancy;
- (6) reviewed insurance documentation for contents coverage;
- (7) requested service confirmation from electricity service providers; and
- (8) reviewed applicant data reports, home evaluations, available photographs, and appraisal documents.

To verify eligibility for ownership and occupancy, RHP collects homestead exemption information from parish tax assessor databases and from homestead exemption data collected by First American Title, an ICF subcontractor. The homestead exemption data is stored in the data warehouse.

For those applicants opting to repair or rebuild their property, the RHP verifies homestead exemption by performing a name and address match against the homestead exemption records in the data warehouse. If homestead information matches the application information, RHP accepts the applicant's ownership and occupancy. If there is more than one homeowner listed on the application, one of the homeowners' information must match the homestead information to be accepted by the RHP as a match. If there is no homestead match, the RHP completes an abbreviated title search to determine ownership. For those selecting to sell their homes, the RHP completes a title search to verify ownership.

Homeowners may also establish occupancy with 2005 tax records that indicate a homestead exemption for the property, with a utility bill matching the name and address on the application, or with a letter from the utility company. Applicants are also required to certify, at closing, that they were the owner/occupant of the damaged property as of and before the date of the respective storm.

During our review, we encountered several common factors that contributed to our findings including:

- (1) program data sources that lacked sufficient proof to support ownership/occupancy before closing;
- (2) proof of ownership/occupancy was based on homestead information in the data warehouse that could not be verified with 2005 homestead exemption data from the LTC;
- (3) conflicting homestead exemption information in the data warehouse;
- (4) inability to view documents in eGrants that are damaged or are otherwise unavailable; and
- (5) a policy change that allows homeowners' insurance for personal contents to serve as proof of occupancy during post-closing reviews.

Ownership

The following table summarizes our ownership findings for each sample period.

Summary of Findings for Ownership				
Description	Sample Period			
	May/June	July	August	September
Population of closed files	20,756	6,714	6,279	8,094
Number of closed files sampled	68	67	67	67
Verified ownership per policy using program data sources	62	64	65	64
Proof of ownership did not comply with program policy but other documentation indicates ownership.	3	0	0	1
Sampled recipients that could be verified as owners	65	64	65	65
Proof of ownership based on homestead exemption in the data warehouse but could not be verified using LTC data.	2	3	2	2
Recipient was not an owner.	1	0	0	0
Number of sampled recipients that could not be verified as owners	3	3	2	2
Source: Prepared by legislative auditor's staff.				

We found that 255 of the 269 recipients in our samples were owners according to program policy. We found four that lacked proof of ownership that is compliant with program policy. However, we were able to obtain information that indicated ownership.

Nine recipients' proof of ownership was based on a homestead exemption match with the data warehouse, but we were unable to verify that information with 2005 homestead exemption data from LTC. The last recipient does not appear to be an owner even though the data warehouse indicated a homestead exemption. In this instance, we were unable to verify the data warehouse

homestead exemption information with 2005 homestead exemption information from LTC. Furthermore, a title search performed before closing revealed that the recipient was not the property owner at the time of the storm because a legal succession had not been performed.

After presenting this information to OCD and ICF representatives, they acknowledged that while data warehouse information may not be confirmed with LTC data, the program determined homestead information in accordance with policy. They also indicated that additional supporting documentation would be uploaded where needed and that the award to the recipient who was not an owner would be corrected.

Occupancy

The following table summarizes our occupancy findings for each sample period.

Summary of Findings for Occupancy				
Description	Sample Period			
	May/June	July	August	September
Population of closed files	20,756	6,714	6,279	8,094
Number of closed files sampled	68	67	67	67
Verified occupancy per policy using program data sources	51	53	59	48
Proof of occupancy did not comply with program policy or was otherwise unavailable but verifiable using the LTC or utility service provider data.	7	1	1	7
Proof of occupancy did not comply with policy or could not be verified but is not questionable based on retroactive application of contents insurance policy.	2	2	2	10
Number of sampled recipients that could be verified as occupants	60	56	62	65
Proof of occupancy based on homestead exemption in the data warehouse that could not be verified using the LTC data.	5	11	5	1
Proof of occupancy did not comply with policy or was otherwise unavailable and not verifiable using the LTC or utility service provider data.	3	0	0	1
Recipient was not an occupant.	0	0	0	0
Number of sampled recipients whose occupancy could not be verified	8	11	5	2
Source: Prepared by legislative auditor's staff.				

We found that 211 of the 269 recipients were occupants according to program policy. We found that 16 recipients lacked proof of occupancy which is compliant with program policy. For those 16 recipients, we obtained information from other sources that indicated occupancy.

In late September 2007, CCB 198C⁷ amended RHP policy to include the following items as sufficient proof to establish occupancy:

- Copy of a homeowner's insurance policy matching the name and address listed on the Road Home application that covers the contents of the home and indicates the coverage was in effect at the time of the respective storm
- Voter registration records coupled with a driver's license with the same address
- Copy of a credit card bill or bank statement matching the name and address on the Road Home application that was sent to the damaged address in the month preceding the respective storm

Though not specifically stated in CCB 198C, OCD and ICF intend on applying this policy retroactively. Applying CCB 198C retroactively will bring 16 recipients who lacked proof of occupancy before closing into compliance with program policy.

Twenty-two recipients' proof of occupancy was based on homestead exemption information in the data warehouse that we were unable to verify with 2005 homestead exemption from LTC. Four other recipients lacked proof of occupancy that complies with program policy and we were unable to verify occupancy by other means.

After presenting this information to OCD and ICF representatives, they acknowledged that while data warehouse information may not be confirmed with LTC data, the program determined homestead information in accordance with policy. They also indicated that additional supporting documentation would be uploaded where needed.

Recommendations:

We recommend that the RHP:

- Verify proof of eligibility is available in program data sources before closing
- Attempt to recover funds that have been incorrectly awarded to recipients who are not eligible for the program from the recipient or ICF whichever is applicable
- Obtain and upload documentation into eGrants that establishes ownership and occupancy for those files that lack appropriate support or verification
- Obtain additional documentation to confirm homestead exemption in instances where there is conflicting data
- Clarify policy language to better reflect the intent of the program

⁷ Change Control Board (CCB) forms are documents that amend program policy.

AWARD CALCULATION

Total RHP benefit is the sum of the compensation grant, the elevation allowance, and the additional compensation grant calculated in that order.

To verify that the awards were correctly calculated and disbursed, we:

- Examined the grant disbursement statement to determine the amount of award disbursed
- Identified the component values used to calculate the award on the grant disbursement statement
- Searched program data sources to identify support for the component values used in the award calculation
- Verified component values used complied with program policy
- Obtained third-party data to determine the reliability and accuracy of program data sources
- Recalculated awards to determine if adjustments may be required

While 97% (261 sample award recipients) of the grant funds were awarded in accordance with program policy, we found conflicting documentation that suggests 74 awards could have been different or may need to be adjusted. During our review, we encountered several factors that contributed to our findings:

- Ineligible applicants
- Pre-storm value (PSV) issues
- Estimated cost of damage issues
- Conflicting FEMA information
- Conflicting homeowner's insurance information
- Conflicting flood insurance information
- Issues with penalties
- Issues with the additional compensation grant
- Incorrect disbursement amounts

Ineligible Applicants

Of the 269 sampled, one applicant received an award totaling \$110,727 even though a title search ordered by the program indicated the applicant was not the owner. However, the data warehouse indicated that the applicant had homestead exemption for the damaged property though we were unable to verify the existence of homestead exemption using LTC information. In this instance, a mother and daughter were co-occupants of a duplex that the mother and her deceased husband owned. The daughter applied for assistance and received an award, based on data warehouse homestead exemption information, even though she was not the owner on title as evidenced by the title search in her eGrant file. The mother applied and was denied assistance because the daughter had already received an award.

Although not included in our award adjustments, those instances where recipients received awards without sufficient proof of eligibility before closing or the data warehouse information could not be verified could lead to funds that need to be recovered. In addition to the five awards that closed without proof of eligibility that is compliant with program policy, twenty-nine⁸ awards, which were calculated and awarded according to policy, totaling \$1,949,688 may require recovery if the recipients' eligibility cannot be verified.

Pre-Storm Value

Because the award is based on the lower of the pre-storm value (PSV) or estimated cost of damage, it is essential to have reliable data for both values. The program developed the following procedural hierarchy⁹ for determining PSV:

1. Pre-storm appraisal provided by the homeowner and completed by a Louisiana licensed appraiser after January 1, 2000, until the date of the storm
2. Post-storm appraisal of PSV provided by the homeowner and completed by a Louisiana licensed appraiser as long as it does not exceed 120% of the available RHP market analysis or broker's price opinion (BPO)
3. Pre-storm appraisal from a third party obtained from a lender or government agency that was completed after January 1, 2000
4. Market analysis (2055 appraisal) ordered by the RHP from a Louisiana licensed appraiser
5. BPO ordered by the RHP
6. Automated valuation method for applicants who had option letters created before January 12, 2007, and are satisfied

⁸ There are 36 total instances where files lacked sufficient support/verification for ownership and/or occupancy. However, seven files lacked sufficient support/verification for both ownership and occupancy reducing the number of affected awards to 29.

⁹ The program organized the hierarchy in order of reliability from most reliable to least reliable.

We found that 266 of the 269 recipients’ award calculations used the applicable PSV according to policy. One of the three that are not in accordance with program policy is based on a BPO when a valid applicant provided pre-storm appraisal is available. If the applicant provided pre-storm appraisal were used, the award amount may be reduced. The second award is based on an applicant provided pre-storm appraisal, but the appraisal was not adjusted correctly using the HUD price appreciation index. If the applicant provided pre-storm appraisal were adjusted, the award amount may be increased. The third award is based on a BPO when a market analysis is available. In this instance, the award amount would not change because the estimated cost of damage remains the lower value.

We also found that 55 award calculations used the highest available PSV according to program policy. In 12 of the 55 instances, the highest value awarded was based on the most reliable appraisal method according to the hierarchy. In the remaining 43 instances, the highest value awarded was based on an appraisal method that is considered less reliable according to the hierarchy than the method used to develop the disputed value. In 21 of those instances, the difference between the highest value and the most reliable value available to that applicant is more than 20%. The program’s policy permits the use of the highest value without considering or evaluating the differences between applicable appraisals.

Comparison of Highest Value versus Most Reliable Value				
Description	Sample Period			
	May/June	July	August	September
Highest value = most reliable	3	2	4	3
Highest value is 1-10% greater than the most reliable value	4	4	1	1
Highest value is 10-20% greater than the most reliable value	3	3	5	1
Highest value is more than 20% greater than the most reliable value	7	2	7	5
Total number of highest value given	17	11	17	10
Number of awards that could be affected by change in PSV from highest to “most reliable”	11	7	12	7

Source: Prepared by legislative auditor’s staff.

In addition, we found that for 64 recipients, awards were granted in accordance with program policy with a valid PSV, but a market analysis was ordered. The market analysis may be unnecessary because the applicant did not dispute, a more reliable PSV was available, or the award was granted before the program could consider the market analysis that was ordered.

OCD indicated that program appraisals are generally ordered after the applicant’s first appointment. Numerous applicants received awards based on other valid appraisal methods listed in the hierarchy but now have a market analysis available. In these instances, the applicant closed before the market analysis was considered, the market analysis was not considered because an appraisal method higher on the hierarchy was used, or the market analysis was ordered after the file closed and the applicant did not appeal. Such actions may cause the RHP to incur unnecessary expense by ordering additional appraisals that are not being considered or used in determining award amounts.

Estimated Cost of Damage

“Procedures for QA Comparisons and Discovery of eGrants Errors - Version 4.0, May 29, 2007” was created to address differences between the estimated cost of damage used in the calculation and the estimate contained in the program’s Worltrac system. This document details the process for comparing differences in estimated cost of damage. According to this policy, when a significant error¹⁰ in the original evaluation is discovered, it is reviewed to determine if corrections are needed. The following conditions do not necessitate changes:

- The difference between the original evaluation and the QA evaluation results from changes in evaluation policy or procedural changes.
- The difference is due to the deterioration of the property during the period between original evaluation and the QA evaluation.
- The difference is due to the replacement or planned replacement of undamaged items by the homeowner.
- The difference results from reasonable differences in the home evaluator’s interpretation of the same damage.

In instances where the estimated cost of damage used in the calculation differed from documentation available in Worltrac, we examined the estimated cost of damage information in Worltrac and eGrants to determine if the differences were significant according to policy and if the differences were the result of an error, a policy change, or a difference in interpretation.

We found that for 184 of the 269 awards, the estimated cost of damage used in the calculation matched documentation in Worltrac. Of the remaining 85, 69 differences were \$20 or less and are not included in our sample adjustments. Eight differences were due to mobile home structures being evaluated as if they were stick built homes. However, the estimate of damage for mobile homes required by policy was used in the award calculation. Six differences appeared to be the result of errors in the original evaluation, but changes did not affect the award calculation. We found that two awards may have been overpaid because the damage estimates appear to contain errors.

FEMA

According to RHP policy, “. . . FEMA IA (Individual Assistance) will be determined and verified by *The Road Home* program through the FEMA NEMIS¹¹ 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,

¹⁰ Significant error is defined as a change resulting in a greater than 10% change in the estimate to repair or cost to replace.

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.

The Road Home will use the documentation provided by the homeowner to adjust the FEMA IA payout amount.”

This policy was applied by using the value from the data warehouse in the award calculation unless the applicant disputed it. Using this approach did not take into account information the applicant provided on the application, which may conflict with the value or the blank field indicated in the data warehouse. During our review, we noted that the program is now considering and/or using applicant provided information. In November 2007, after our review period, OCD implemented CCB 197B, which requires resolving discrepancies, before closing, between applicant supplied information and data warehouse information if they are greater than 10%. However, the policy change does not address resolving discrepancies between applicant supplied information and data warehouse information for files that have already closed.

We found that 266 of the 269 awards were calculated using the applicable FEMA amount according to policy. Of the 266 awards, four amounts, though in accordance with RHP policy, have been updated in the data warehouse and the changes reflected in eGrants. All four adjustments result in lower award amounts.

For the remaining three awards, the information provided by the applicant on the application was not considered even though the data warehouse was blank. However, the current values in eGrants have been updated to reflect applicant provided information and result in lower award amounts.

Homeowner’s and Flood Insurance

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 was applied by using the value from the data warehouse in the award calculation unless the applicant disputed it. Using this approach did not take into account information the applicant provided on the application which may conflict with the value or the blank field indicated in the data warehouse. During our review, we noted that the program is now considering and/or using applicant provided data. In November 2007, after our review period, OCD implemented CCB 197B, which requires resolving discrepancies, before closing, between applicant supplied information and data warehouse information if they are greater than 10%. However, the policy change does not address resolving discrepancies between applicant supplied information and data warehouse information for files that have already closed.

We found that 268 of the 269 award calculations used the applicable flood insurance proceeds amount according to policy. However, for five of the 268 awards, we found the following contradictory information that may necessitate additional review by the RHP:

- Three award amounts are based on data warehouse information, but documentation in eGrants for all three indicates lower insurance amounts.
- One award amount is based on applicant provided data, but documentation obtained from the insurance company indicates a higher insurance amount.
- One award amount is based on applicant provided data, but documentation in eGrants indicates the flood insurance amount should have been lower.

The remaining award is based on a flood insurance amount that does not match the data warehouse, the applicant supplied information, or the documentation in eGrants. Furthermore, we were unable to obtain flood insurance information directly from the insurance company for this applicant. If RHP representatives are not successful in locating the support, it appears the award amount will require adjustment.

We also found that 267 of the 269 award calculations used the applicable homeowner's insurance proceeds amount according to policy. However, for 56 of the 267 award, we found contradictory information that may necessitate additional review by the RHP.

In addition, RHP policy excludes recoverable depreciation from the award calculation even though any additional proceeds received for insurance that constitute a duplication of benefit must be paid back. OCD indicated that recoverable depreciation will not be monitored past six months because the amounts may not be significant enough and the cost to recover may exceed the benefit. Based on our review, OCD may want to reconsider the recoverable depreciation issue.

The following table summarizes our findings regarding recoverable depreciation.

Recoverable Depreciation Subtracted From Insurance Proceeds				
Description/Period	May/June	July	August	September
Number of files with recoverable depreciation excluded from insurance proceeds	18	14	15	8
Total amount of recoverable depreciation that could potentially be a duplication of benefit and recoverable by the RHP	\$42,747	\$25,009	\$59,137	\$20,019
Source: Prepared by legislative auditor's staff.				

The Compliance Audit Division of the Legislative Auditor's Office is currently conducting an in-depth review of insurance related matters. This review may expand the insurance findings contained in this report.

Penalties

To fully qualify for RHP benefits, homeowners are required to carry hazard insurance and flood insurance if applicable. If the adequate insurance had not been purchased before the storm, a 30% penalty is supposed to be deducted from the compensation grant amount. However, RHP policy allows applicants to self certify the existence of insurance at closing without having to present proof of adequate insurance. Documentation supporting proof of adequate insurance is then obtained during the post-closing/grant recovery review process.

We found that for 268 of the 269 sampled recipients the penalty was calculated in accordance with policy. Thirteen of the 268 self certified the existence of adequate insurance coverage and should supply appropriate documentation during the post-closing/grant recovery process. The remaining applicant was penalized even though proceeds for both flood and homeowner's insurance were included in the award calculation.

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. Applicants are required to submit appropriate documentation verifying their income qualifications. Also, applicants are required to certify the accuracy of the income information.

Of the 269 sampled, 92 applicants received ACG awards. Of the 92 ACG awards, we found one that appears to be ineligible and nine that did not have the required signed CDBG and income verification forms available for review in the eGrants file.

Disbursements

When an applicant is ready to close, the RHP prepares final closing instructions indicating the award amount to be disbursed. The closing companies prepare closing documents and disbursement statements based on the final closing instructions received from the RHP. Therefore, the documentation supporting the calculation and the final closing instructions in eGrants should support the award amounts indicated on the disbursement statement.

We found that for four awards the documentation supporting the calculated award amount did not match the amount disbursed.

Recommendations

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

- (1) verify that applicants are eligible for the program prior to disbursement;
- (2) revise and/or clarify the resolution policy to require review and consideration of PSV differences before awarding the highest value;

- (3) develop a procedure for ordering program appraisals to prevent unnecessary program expense;
- (4) conduct and document further examination to determine the correct value to use for calculating the award amount when data warehouse information and applicant supplied information differ; and
- (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.

OCD should also initiate procedures to provide additional funding to those recipients who were under paid and attempt to recover funds from either the recipients who were over paid or ICF whichever is applicable.

Additional Information

During the application of these procedures, we were made aware of an applicant whose eligibility was questioned. We reviewed the applicant's file and found that the award was granted in error. The applicant was purchasing a house through a bond for deed agreement whereby the seller of the property would retain ownership until the bond is paid in full. In addition, a title search performed before closing indicates this applicant was not the owner of the property. Tax records confirm the seller listed on the bond for deed had homestead exemption for the damaged property and not the applicant.

A Road Home program investigation report indicates that the program will seek to recover the \$92,626.85 awarded in error.

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 for each period during the third quarter of 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 eGrants 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; and
 - 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 is the sum of the compensation grant, the elevation allowance, and the additional compensation grant calculated in that order. Applicants can choose one of three options.

Option Selected by Sampled Award Recipients				
Period	Option 1¹²	Option 2¹³	Option 3¹⁴	Total
May/June	65	3	0	68
July	66	1	0	67
August	63	3	1	67
September	64	3	0	67
Source: Prepared by legislative auditor's staff.				

For option 1, the compensation grant amount is the lesser of the homeowners' uncompensated cost of damage or uncompensated loss of value up to the program cap of \$150,000 and calculated as follows:

Compensation Grant Award Calculation	
Lesser of	Pre-Storm Value Estimated Cost of Damage
Less	Other Compensation ¹⁵
Equals	Uncompensated Loss
Lesser of	Uncompensated Loss \$150,000 Cap
Less	30% Penalty (if applicable)
Equals	Compensation Grant Award

For option 2, the compensation grant calculation is modified as follows:

- If the home was less than 51% damaged, the compensation grant amount is the lesser of their uncompensated loss of value or their uncompensated loss of damage up to \$150,000.
- If the home was equal to or greater than 51% damaged, the compensation grant amount is the uncompensated loss of value up to \$150,000.

For option 3, the compensation grant calculation is modified as follows:

- If the home was less than 51% damaged, the compensation grant amount is the lesser of their uncompensated cost of damage or 60% of their uncompensated loss of value up to \$150,000.

¹² Option 1 is the decision to repair or rebuild the damaged property.

¹³ Option 2 is the decision to sell the damaged property to the state and relocate within Louisiana.

¹⁴ Option 3 is the decision to sell the damaged property to the state and relocate outside of Louisiana.

¹⁵ 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.

- If the home was equal to or greater than 51% damaged, the compensation grant amount is 60% of their uncompensated loss of value up to \$150,000.
- If a homeowner was 65 years old or older as of December 31, 2005, the homeowner is exempt from the 40% penalty applied to the uncompensated loss of value.
- If a homeowner was in the military and had been required to move out of state with Permanent Change of Station (PCS) orders are exempt from the 40% penalty applied to the uncompensated loss of value.

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	
Less	Estimated Elevation Cost Other Elevation Compensation
Equals	Uncompensated Elevation Costs
Lesser of	Uncompensated Elevation Cost Available Balance ¹⁶ \$30,000 Elevation Cap
Equals	Elevation Allowance

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, the elevation allowance, and is capped at \$50,000.

Additional Compensation Grant Award Calculation	
Plus	Estimated Cost of Damage 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 ¹⁷ \$50,000 Additional Compensation Grant Cap
Equals	Additional Compensation Grant

Total RHP benefit for option 1¹⁸ is the sum of the compensation grant, the elevation allowance, and the additional compensation grant calculated in that order.

¹⁶ The available balance in this calculation is the difference between the \$150,000 award cap and the compensation grant award.

¹⁷ 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.

¹⁸ All 80 sampled closings were option 1 (repair/stay).

The compensation grant amount is the lesser of the homeowners' 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 ¹⁹
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	
Less	Estimated Elevation Cost Other Elevation Compensation
Equals	Uncompensated Elevation Costs
Lesser of	Uncompensated Elevation Cost Available Balance ²⁰ \$30,000 Elevation Cap
Equals	Elevation Allowance

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	
Plus	Estimated Cost of Damage 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 ²¹ \$50,000 Additional Compensation Grant Cap
Equals	Additional Compensation Grant

¹⁹ 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.

²⁰ The available balance in this calculation is the difference between the \$150,000 award cap and the compensation grant award.

²¹ 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.

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Management's Response

BOBBY JINDAL
GOVERNOR



ANGELE DAVIS
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of Community Development
Disaster Recovery Unit

April 7, 2008

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

Dear Mr. Theriot:

This letter is in response to the report prepared by your office on the review of closed Road Home files. This review was conducted at the request of the Office of Community Development (OCD) in order for us to evaluate whether homeowner grant recipients were eligible for the Road Home Program and whether they received the correct award amount. The report will be used by us to evaluate whether ICF, the contractor hired by OCD to administer this program, is properly applying program policy and procedure; and maintaining adequate, accurate and reliable documentation supporting both applicant eligibility and applicant award amounts. OCD contracted with the Louisiana Legislative Auditor (LLA) to perform this review 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.

According to the report, it 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, the LLA reviewed a statistically valid random sample of 269 awards selected from a universe of 41,843 homeowner grant closings that occurred from May 10, 2007 through September 30, 2007.

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Presented below is OCD's response to each of the LLA audit recommendations. OCD's response is in an order similar to how reported by the LLA; first, Procedures and Results for Eligibility followed by the related recommendations; second, Procedures and Results for Award Calculation followed by the related recommendations.

The following are OCD's responses to LLA's "Procedures and Results" for the Eligibility review area of the audit report:

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

Results: *Ownership:* LLA found that 255 of 269 recipients were determined to be owners according to program policy. Four recipients lacked proof of ownership compliant with program policy, but LLA was able to locate information that indicated ownership. Nine recipients' proof of ownership was based on homestead exemption information in data warehouse, but LLA could not verify 2005 homestead exemption with the Louisiana Tax Commission (LTC). One recipient was not an owner.

Occupancy: LLA found that 211 of the 269 recipients were determined to be occupants according to program policy. Thirty-two recipients lacked proof of occupancy compliant with program policy, but they were able to locate information that indicated occupancy. Twenty-two recipients' proof of occupancy was based on homestead exemption information in data warehouse, but they could not verify 2005 homestead exemption with the Louisiana Tax Commission (LTC). Four recipients lacked proof of occupancy that complied with program policy, and they were unable to verify occupancy by any other means.

Structure Type: All recipients appeared to be residing in structures that were eligible for funding under the Road Home Program.

OCD's Response: *Ownership/Occupancy:* As noted by LLA, only 1 of the 269 cases was ownership determined to be in error, and that case was a daughter and mother both applying to the program for a duplex. This case has been referred to the Grant Recovery group, which is pursuing recovery of the funds pursuant to OCD's procedures. LLA found that four recipients lacked proof of ownership prior to closing, but they were able to locate information that indicated ownership. ICF has obtained ownership documentation and uploaded it into eGrants.

LLA found nine cases where they could not independently verify ownership. LLA found that for these nine recipients' proof of ownership was based on a homestead exemption match with information in ICF's data warehouse, but LLA was unable to independently verify that

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information with 2005 homestead exemption data from the Louisiana Tax Commission (LTC). ICF verified ownership for these nine recipients' through a homestead exemption match in the tax tables loaded in the data warehouse. Each of these nine applicants had homestead exemptions in either the primary (LTC data) and/or the secondary (parish data) tax table. Program policy provides for the use of a homestead exemption to verify ownership and occupancy. This data was uploaded into the tax tables in the data warehouse, and each applicant is compared to the information in the tax tables. If a match is found on applicant name and damaged residence, an indicator is set in eGrants to show program eligibility for ownership and occupancy. Two tax tables are used: a primary tax table created by ICF based on 2005 tax data from the LTC, and a secondary tax table created by First American from 2005 tax data obtained directly from the affected parishes.

OCD is concerned that ICF's homestead exemption data in its data warehouse does not agree with the LTC 2005 homestead exemption data obtained by the LLA. OCD will continue to work closely with the LLA to determine and identify the impact of this situation in establishing applicant ownership.

LLA stated that 211 of the 269 recipients were determined to be occupants according to program policy. OCD will ensure that ICF obtain documentation to support occupancy for the four applicants' files that lacked proof of occupancy in compliance with program policy and the LLA could not verify occupancy by other means. LLA found that twenty-two recipients proof of occupancy was based on ICF's homestead exemption information in the data warehouse that they were unable to independently verify with 2005 homestead exemption data from the LTC. As stated in the ownership section above, OCD is concerned that the homestead exemption data in the ICF data warehouse does not agree with LTC homestead exemption data. OCD will continue to work closely with the LLA in resolving this issue. OCD found that occupancy was determined for sixteen cases after closing. ICF has obtained proof of occupancy for these cases and has uploaded the documents into eGrants. For the remaining sixteen cases, OCD feels these were in compliance with policy because CCB-198C was a retroactive policy change.

The following are OCD's Responses to the LLA's "Eligibility" recommendations:

The Legislative Auditors recommend that the Road Home Program:

1. Verify that proof of eligibility is available in program data sources before closing.

Response: OCD agrees and that is the purpose of the ICF pre-closing process; which is to assure that all required documentation is included prior to sending files to OCD for a

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“batching” sample review that is intended to sample files for inclusion of all relevant documents.

2. Attempt to recover funds that have been incorrectly awarded to recipients who are not eligible for the program from the recipient or ICF whichever is applicable.

Response: OCD agrees with this recommendation. Through ICF’s post-closing grant review process, it is attempting to recover funds.

3. Obtain and upload documentation into eGrants that establishes ownership and occupancy for those files that lack appropriate support or verification.

Response: OCD agrees and this is an ongoing process that involves two final checks, one through the pre-closing process in ICF and the other through a sampling process conducted by OCD called “batching”.

4. Obtain additional documentation to confirm homestead exemption in instances where there is conflicting data.

Response: OCD agrees and if during the course of completing a file review it is identified that there may be an issue of conflicting data; steps will be taken to obtain additional verifying documentation before the file is designated to go to closing.

5. Clarify policy language to better reflect the intent of the program.

Response: OCD agrees and as the program identifies policies that need additional clarification, OCD and the LRA will review and reconsider appropriate language. OCD is in the process of sorting all policies and policy changes by like subject matter to review and determine where clarification is need.

The following are OCD’s responses to LLA’s “Procedures and Results” for the Award Calculations review area of the audit report:

Procedure: Determine whether recipients received the correct award amount according to program policy.

Results: LLA found that 261 of the 269 (97%) sampled awards were calculated in accordance with program policy. However, though policy was followed by the Road Home, LLA

obtained information indicating that 74 awards may require adjustments in the post-closing/grant recovery process.

OCD's Response: OCD agrees with six of the eight cases cited by the auditors. ICF has already taken corrective action concerning those six cases. Three of these cases are in Grant Recovery, two are in the appeals process, and one is under review by the insurance team. OCD disagrees with two of the three Pre-Storm Value (PSV) cases cited. These two awards were calculated according to policy. In one instance, a market analysis was uploaded into eGrants after an applicant was sent to closing. In the other instance, an adjustment was not made correctly on a pre-storm appraisal, but the award amount did not change because the compensation was calculated based on the estimated cost of damage.

The auditors state that in seventy-four cases, adjustments may be necessary in the post-closing process. All amounts in a grant calculation are frozen when the file is sent to closing. OCD understands that additional insurance or FEMA proceeds can occur after closing. At closing, applicants sign covenants obligating them to repay any future duplication of benefits to OCD. There are policies and procedures in place to address any duplication of benefits after closing.

The following are OCD's responses to the LLA's "Award Calculations" recommendations:

The Legislative Auditors recommendations to OCD regarding the calculation of accurate award amounts are:

1. OCD should verify that applicants are eligible for the program prior to disbursement.

OCD Response: OCD agrees with this recommendation. By contract, ICF is responsible for assuring that each Road Home applicant is eligible to receive compensation under the Homeowner Assistance Program. OCD's responsibility is to verify that ICF is making this determination. To accomplish this, OCD conducts a pre-closing sample review of files designated to be ready to go to closing. This process is referred to as "batching". Batching began on July 2, 2007, with an update to eGrants that enables ICF to send files to OCD for review before they are forwarded to the closing agents. The number of files sampled by OCD is determined based on the size of the batch. If it is under 500 files, the sample is 10 percent. If it is 500 or more, the sample is 5 percent up to a maximum of 75 files. If the error rate from the sample exceeds 5 percent, the batch is rejected and sent back to ICF for further review. Batching is a very thorough look at all aspects of a file, not just eligibility. Since this is a sample process some files may be incorrect but go to closing. OCD, however, feels that the process of batching has significantly lowered eligibility errors, as well as other errors. This is

evident by the results of the ownership and occupancy tables included in the audit as of September 2007.

2. OCD should revise and/or clarify the resolution policy to require review and consideration of PSV differences before awarding the highest value.

OCD Response: OCD disagrees because it believes that the processes in place accomplish this without requiring further clarification. The change policies (CP) relating to the determination of what PSV to use (CP 49E and 188H) are based on the concept of providing the homeowner with the best value for their home. The only caveat is with the post-storm PSV submitted by the homeowner. To assure that this appraisal meets the federal requirement of “reasonable and necessary”, a review is performed to determine if it is within 120 percent of any other appraisal ordered by ICF. In the end, the goal is to provide each homeowner with the best value for their home as determined by a licensed Louisiana appraiser.

3. OCD should develop a procedure for ordering program appraisals to prevent unnecessary program expense.

OCD Response: OCD does not agree with this recommendation. When the Homeowner Assistance Program began, the program relied on the use of a Broker Price Opinion (BPO) or an Automated Valuation Method (AVM), along with a pre-storm value submitted by a homeowner, to determine the PSV. The AVM was eventually dropped, and the program was directed to order for each homeowner a market analysis prepared by a licensed Louisiana appraiser. If a homeowner is not satisfied with any of these values, ICF is required to order a full appraisal. With the development of CP 188H, a homeowner is offered the highest value of any appraisal on file, or they may request a full appraisal, with the understanding that it will be the final appraisal, and if the appraisal comes in lower than other PSV values, they will be required to return funds to the program. These policies and directives have all been crafted to get the best value for the homeowner, and while they may appear to be unnecessary from an expense point of view, they were very necessary to benefit each homeowner. This issue in the audit is the fact that some homeowners closed on a BPO when there was also a market analysis in the file that came in after the closing. This is not an issue because the program was directed to order a market analysis (see CP 49E for reference to procedures to be developed to order a market analysis), but the homeowner was satisfied with the BPO value and elected to go to closing.

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4. When data warehouse information and applicant supplied information differ, further examination should be conducted and documented to determine the correct value to use for calculating the award amount.

OCD Response: OCD partially agrees because it believes that CP 197B and Procedural Clarification Memorandum Number 6 more than adequately provides for the mechanism to determine the correct value to use for calculating the award amount. This issue pertains to FEMA and insurance data. The CP 197B supplemented by Memorandum Number 6 specifically states that if there is a ten percent or more difference between the homeowner provided data and the data in the data warehouse the post closing team will review and determine the correct value.

5. OCD should required that if no 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.

OCD Response: OCD disagrees because CP 47 dealing with self-certification explains clearly the justification and procedures permitting the use of a self-certification pertaining to insurance. As noted in the CP, follow-up is a post-closing function, which is occurring. OCD and ICF are following established policy.

6. OCD should also initiate procedures to provide additional funding to those recipients who were under paid and attempt to recover funds from either the recipients who were over paid or ICF whichever is applicable.

OCD Response: OCD agrees and this function is occurring in Post-Closing. The results of recovery efforts will need to be analyzed at a later date to determine how to handle situations in which the recovery of funds could not be accomplished.

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

Sincerely,



Paul Rainwater, Executive Director
Office of Community Development/DRU

PR/SU

Mr. Steve Theriot, CPA

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c: Ms. Angele Davis
Ms. Sharon Robinson
Mr. John Morehead
Ms. Suzan Elkins
Mr. Thomas Brennan
Mr. Michael Taylor
Mr. Mike Spletto
Mr. Steven Green
Mr. Stephen Upton