

ROAD HOME PROGRAM
HOME EVALUATIONS



PERFORMANCE AUDIT

ISSUED DECEMBER 5, 2007

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December 5, 2007

Jerry Luke LeBlanc
Commissioner of Administration
Division of Administration

Dear Commissioner LeBlanc:

This report provides the results of our performance audit on the home evaluation process 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 our recommendations. I hope this report will benefit you in your decision-making process.

Sincerely,

Steve J. Theriot, CPA
Legislative Auditor

SJT/dl

RHHE07

Office of Legislative Auditor

Steve J. Theriot, CPA, Legislative Auditor



Road Home Program

Home Evaluations

December 2007

Audit Control # 07602209

Objectives and Overall Results

We conducted a performance audit on the home evaluation process within the Road Home program. ICF contracts with five subcontractors to conduct home evaluations of all Road Home applicants to determine the amount of damage and the cost to repair or rebuild their property. Throughout the audit, the ICF home evaluation team was cooperative and accommodated our requests for information and in many cases, ICF implemented verbal suggestions we made. The objectives of our audit and the corresponding results of our work are summarized as follows:

Objective 1: Does ICF's QA/QC process ensure that only reviewed and approved home evaluations are used to calculate homeowner award amounts?

Results: ICF's QA/QC process generally ensures that only reviewed and approved home evaluations are used to calculate homeowner award amounts. However, we did identify the following exceptions:

- A few home evaluation estimates were not approved at the time of our review but were used to calculate homeowner award amounts.
- Some evaluations that failed the automated quality control review were approved because reviewers can override the automated quality control check. Although overrides occurred in less than 1% of all home evaluations in our sample, the fact that overrides can occur at all is a control risk.
- ICF did not always make adjustments resulting from quality assurance evaluations.

Objective 2: Did ICF use the most up-to-date home evaluation estimate in the calculation of homeowner award amounts?

Results: In most cases, ICF used the most up-to-date home evaluation estimate in homeowner award amounts. However, we did find a few exceptions. We identified 812 of 48,430 applicants (2%) who had an estimated cost of damage that was used in their award amount that differed from the updated estimated cost of damage in Worltrac.¹

¹ Worltrac is the system ICF uses to store the home evaluation estimate and all related documents. Worltrac also performs an automated quality control check on home evaluations and logs all changes to it.

A total of 678 of the 812 applicants (83%) had closed.² We examined 28 of these cases in detail and found that if ICF used the updated Worltrac cost of damage, these individuals would have received \$672,158³ less than what they received at closing.

According to the ICF home evaluation team, the estimated cost of damage values in Worltrac do not match the data warehouse⁴ because the data in the warehouse at the time of closing was “frozen” to expedite awards to homeowners even when better or more updated data was in Worltrac. Worltrac data may be updated due to additional quality control reviews or the results of reevaluations or quality assurance evaluations.

This is in contrast with ICF management’s position which asserts that updated Worltrac data is not necessarily better than what was used at closing. Therefore, ICF said that it will review all home evaluation estimates that were used to support homeowners’ awards at closing. If ICF determines that the home evaluation estimate that was closed upon contains an “egregious” error then the post-closing department will be notified and necessary action (i.e., a second closing) will be taken to rectify any underpayment or overpayment.

Objective 3: Does ICF have an effective process to resolve homeowner issues with home evaluations?

Results: ICF’s system for resolving homeowner issues with home evaluations needs improvement. ICF currently uses three data systems (JIRA, Bugtracker, and Worltrac) to track and document external (i.e., homeowner) and internal (i.e., policy) issues. We found that these systems often contain inconsistent and insufficient information on issues and their resolution.

In addition, ICF did not always document reasons why it conducted reevaluations and whether the reevaluation replaced the original evaluation because ICF did not have policies or procedures on when reevaluations should be conducted and how they should be reviewed. Therefore, we were unable to tell whether reevaluations should have been conducted. Without criteria for when reevaluations should be conducted, there is a risk that ICF could do more evaluations than actually needed and pass these costs to the state.

² 235 of the 678 (35%) used the home evaluation estimate in the award amount since it was less than the pre-storm value. In addition, 179 of 443 that used the pre-storm value were eligible for the additional compensation grant (ACG) which also uses the home evaluation estimate in the award calculation.

³ Because this sample was not statistically valid, this amount cannot be projected to the rest of the population.

⁴ The data warehouse consists of multiple tables from various sources. The data in these tables is used to calculate award amounts. One of the tables is a home evaluation table.

Scope and Methodology

This audit is the ninth in a series of reports that reviews various processes within the Road Home program. We conducted this audit in cooperation with the Office of Community Development (OCD) staff. The scope of our audit was from November 2006 to September 2007.

To obtain information on the home evaluation process and answer our three objectives, we performed the following steps:

- Reviewed and obtained ICF and subcontractor policies and procedures on how they conduct quality assurance and quality control (QA/QC) and other reviews on home evaluations
- Reviewed the results of QA/QC and other review processes
- Interviewed the Home Evaluation Team at ICF
- Attended home evaluation training and accompanied an evaluator on three evaluations
- Reviewed internal reports and analyses on home evaluation data and potential errors
- Reviewed Deltha Corporation's and KPMG's work (see Appendix B for a description of their roles)
- Reviewed Worltrac and data warehouse data as of May 7 (Objectives 1 and 2)
- Reviewed disbursement data as of May 22 (Objectives 1 and 2)
- Reviewed JIRA and Bugtracker data from July and August (Objective 3)

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.

Appendix A contains a copy of OCD's response.

Background

Home evaluations are used to estimate the cost to repair or rebuild homes to a modest standard for Louisiana homeowners. ICF has subcontracts with The Shaw Group, Inc., Providence Engineering and Environmental Group LLC, Dewberry, The Worley Companies, and HGI Catastrophe Services, LLC to conduct these evaluations. Evaluations range in cost depending on the type of evaluation. Exhibit 1 details the types and costs of evaluations.

**Exhibit 1
Home Evaluation Types and Costs**

Evaluation Type	Description	Cost ICF Charges to State
Type 1	Evaluation conducted on homes that are a total loss (considered 51% damaged and over)	\$350.00
Type 2	Evaluation conducted on homes that are partially damaged, have work in progress, or have completed repairs (considered less than 51% damaged)	\$550.00
Quality Assurance	Independent reevaluation conducted by different subcontractor	\$550.00
Appeal and Reevaluation	Reevaluation of original evaluation based on homeowner disputing amount or other problems	\$625.00

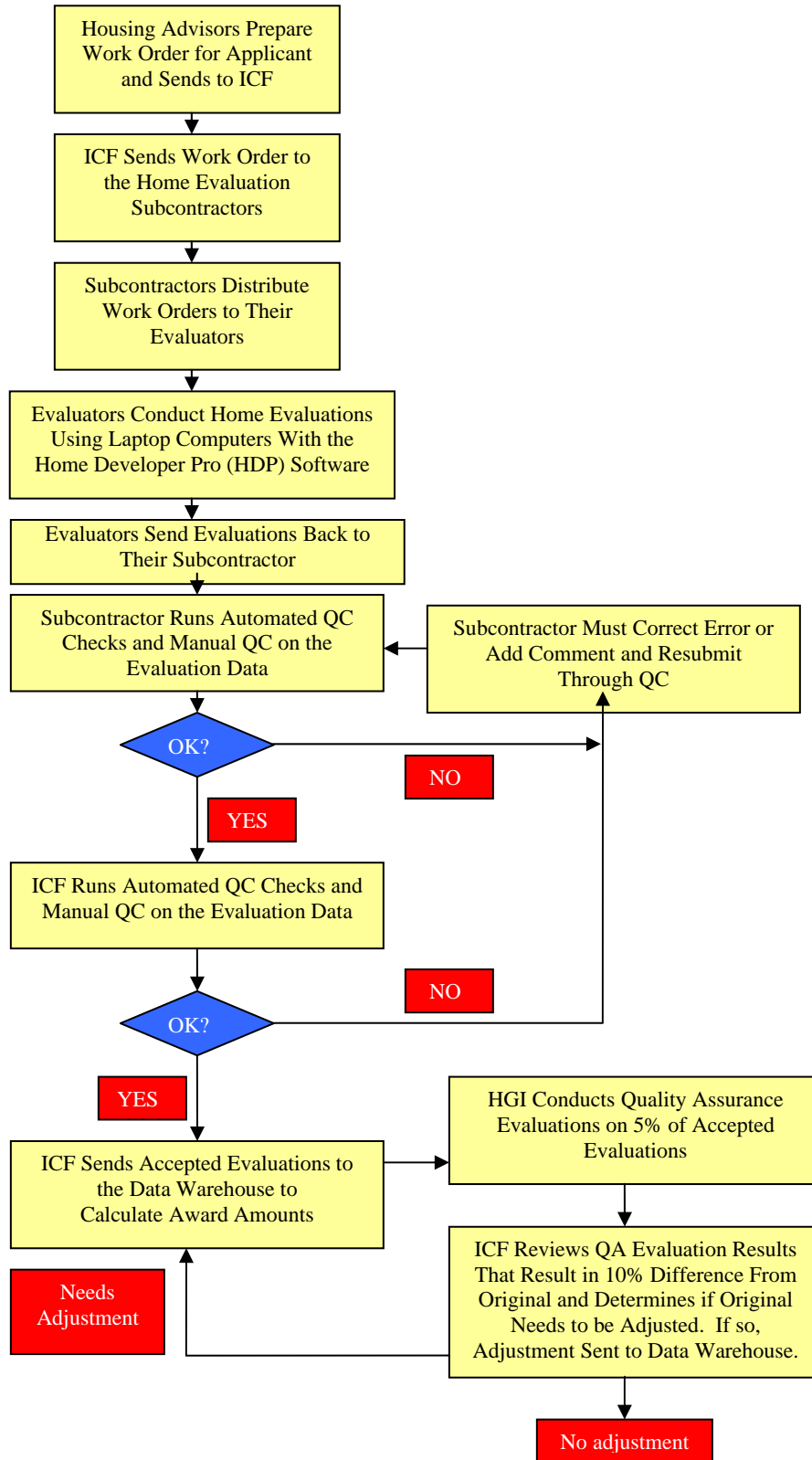
Source: Prepared by legislative auditor’s staff using data from ICF.

All subcontractors use laptop computers with Housing Developer Pro software to develop the Compensation Allowance Document that details the home evaluation estimate. Subcontractors and ICF both review the home evaluation estimates until the estimates are accepted (i.e., reviewed and approved).

Exhibit 2 on the following page provides an overview of how home evaluation data flows and how it is reviewed by both ICF and its subcontractors.

An *accepted* home evaluation estimate is one that has been through both a subcontractor QA/QC review and an ICF QA/QC review and is considered approved.

**Exhibit 2
Flowchart of ICF Review of Home Evaluation Data**



Source: Prepared by legislative auditor’s staff using information from ICF.

According to ICF, as of August 2007, the state has been billed a total of \$58,810,880 for home evaluations. Exhibit 3 provides a summary on the number of home evaluations conducted by each of the subcontractors as of August 21.

Exhibit 3
Number of Original Evaluations Conducted by Subcontractors
As of August 21, 2007

Subcontractor	Number of Evaluations	Percent of Total Evaluations
Providence	47,791	34.7%
Worley	23,422	17.0%
Dewberry	31,911	23.2%
Shaw	19,611	14.2%
HGI	14,945	10.9%
Total	137,680	100%
Source: Prepared by legislative auditor's staff using data from ICF.		

In addition to the evaluations outlined above, ICF's subcontractors have also conducted 530 appeals and reevaluations and billed the state \$244,382.

Objective 1: Does ICF's QA/QC process ensure that only reviewed and approved home evaluations are used to calculate homeowner award amounts?

Although ICF's QA/QC process generally ensures that home evaluations are reviewed and approved (i.e., accepted) before they are used to calculate homeowner award amounts, we found some exceptions. Because accepted evaluations mean that ICF has approved the home evaluation estimate, only accepted evaluations should be used to calculate homeowner award amounts. However, we found that some home evaluation estimates were used in award amounts even though the home evaluation had not been accepted in Worltrac or had failed the automated quality control check in Worltrac.

ICF has developed various QA/QC activities to ensure that home evaluations are accurate and consistent. Appendix B provides an overview of these activities. The two main QA/QC activities that ICF performs are the automated quality control tool in Worltrac and associated manual review and the quality assurance evaluations. The two activities are described as follows:

- **Worltrac** has an automated quality control tool (QC tool) that consists of approximately 65 checks on home evaluation data. These checks help ensure that home evaluations are conducted in accordance with the Road Home protocol and that the results are reasonable and accurate. Both subcontractors and ICF have to

run the QC tool on every home evaluation. The evaluation passes through various stages until it is reviewed and approved (accepted).

- **QA Evaluations** are conducted on 5% of all original evaluations. These evaluations are conducted by HGI and involve an independent reassessment of the homeowner's property to determine if evaluations result in similar cost estimates. ICF flags all evaluations that result in a 10% difference and reviews them for why differences exist. ICF then concludes whether changes should be made based on the QA evaluation results.

Although these activities help ensure that home evaluations are conducted in accordance with the Road Home's home evaluation protocol and are accurate and consistent, we identified various issues related to these activities. These issues are summarized below.

Some home evaluations that were not accepted in Worltrac at the time of our review had been sent to the data warehouse and have already closed. We found that 6,583 applicants of 52,945 (12.4%) with home evaluations that have not been accepted have closed as of May 22, 2007. Appendix C details the number and status of these evaluations.

According to Worltrac data as of May 7, 2007, there are 52,945 evaluations out of 108,044 (49%) that have not been accepted. Home evaluations may pass through different statuses depending on where the evaluation is in the quality control review process. However, because the accepted status means that the evaluation has been reviewed and approved, only accepted evaluations should have closed.

According to ICF, most of these evaluations were reviewed before Worltrac was implemented. Before Worltrac was implemented in January 2007, ICF and its subcontractors manually reviewed home evaluations. Therefore, many of these evaluations were considered approved/accepted in the manual review process and then sent to the data warehouse to be used to calculate award amounts. ICF has now taken all the manually reviewed home evaluations and put them in Worltrac to review them using its automated QC tool. Many of these had errors or changes based on the Worltrac review and updated policies or protocols, but they were already sent to the warehouse and the values were "frozen" so that no changes could be made. According to ICF, it is in the process of correcting these evaluations and moving these evaluations to the accepted state.

Recommendation 1: OCD should require ICF to close only on evaluations that have been through the QA/QC process and are accepted.

Summary of Management's Response: OCD agrees with this recommendation and states that they are confident that the processes in place have evolved to address this recommendation.

Recommendation 2: OCD should require ICF to review all files that have closed to ensure that only accepted evaluations were used in homeowner award amounts.

Summary of Management's Response: OCD agrees with this recommendation and states that ICF is currently performing this review.

Some evaluations failed Worltrac’s automated QC check but were accepted. We reran 12 of the total 65 automated QC checks on approximately 55,000 accepted home evaluations as of May 7. These automated checks should have failed⁵ if the evaluations met the criteria in the query. However, we identified 193 evaluations that failed at least one of the checks that we reran but were accepted. Although the fails occurred in less than 1% of all home evaluations, the reviewer’s ability to override automated checks without explanation poses a risk that wrong estimates could be used to calculate award amounts.

According to ICF, an evaluation that fails requires a private note from the subcontractor explaining to ICF why the fail is wrong. The reviewer then may pass or reject the evaluation, depending if the explanation is reasonable or not. However, we reviewed Worltrac to determine if an explanation was provided and found that most of the evaluations (53%) did not have a note explaining why the evaluation was accepted.

According to ICF, it is conducting follow-up quality control on all the evaluations we identified and are addressing them as needed and will add documentation of case specific changes to Worltrac.

Recommendation 3: OCD should ensure that ICF provides a detailed explanation in Worltrac of why failed QC checks were overridden or were passed.

Summary of Management’s Response: OCD agrees with this recommendation and states that ICF is taking steps to provide more detailed information in Worltrac.

Nearly 40% of all quality assurance evaluations conducted during the time of our review had a cost estimate that differed by 20% from the original evaluation. As mentioned earlier, HGI conducts an independent and random quality assurance evaluation on 5% of evaluations that were conducted by other subcontractors. We analyzed all QA evaluations conducted by HGI as of April 13, 2007, and compared the QA evaluations to the original evaluations and found that 487 of 1,242 (39.2%) had at least a 20% difference in the total cost to repair. Exhibit 5 summarizes the results of this analysis by subcontractor.

**Exhibit 5
HGI’s QA Evaluations With 20% Difference by Subcontractor**

Subcontractor	Total QA Evaluations Reviewed as of 4/13/07	Total Repair Estimate +/- 20%	Percent of QA Evaluations per Subcontractor
Dewberry	136	83	61%
Providence	574	185	32%
Shaw	270	119	44%
Worley	262	100	38%
Total	1,242	487	39.2%
Source: Prepared by legislative auditor’s staff using data from ICF.			

⁵ Called a “hard fail” in Worltrac.

According to ICF, evaluations may differ because of increased deterioration of the home, homeowner insight on damage, and policy changes that may have affected evaluation protocol or the QA evaluations which during this early phase were conducted several months after the original evaluation. More information on the differences is detailed in the section below.

Although ICF noted that 10% of the quality assurance evaluations conducted required some changes to the original evaluation, the reason why these changes were necessary was not documented and there was no evidence that changes were made. As shown in Exhibit 5, HGI conducted 1,242 quality assurance evaluations as of April 13, 2007. Of those 1,242 evaluations, 487 resulted in a 20% difference in cost from the original evaluations. ICF reviewed 411 of these evaluations and compared its results to the original evaluations. ICF found that differences in square footage were the primary reason that the costs differed. However, ICF’s review did not detail why these or other differences occurred. Exhibit 6 outlines reasons why the evaluations differed.

**Exhibit 6
Primary Reasons for Evaluation Differences**

Reason	Number	Percent of Total ICF Reviewed (411)
Differences in square footage	109	26.52%
Differences in certain specifications (paint, drywall, insulation, etc.)	73	17.76%
Difference in evaluation type	50	12.17%
Differences in designating home as needing gutting versus repair	32	7.79%
Differences in multiple specifications	24	5.84%
Differences in the number of windows and doors	22	5.35%
Differences in the type of structure (single family home versus mobile home)	21	5.11%
Other (i.e., differences in number of specifications used, etc.)	80	19.5%
Total	411	
Source: Prepared by legislative auditor’s staff using ICF’s review of QA evaluations.		

ICF’s review also determined whether changes needed to be made to the original evaluation. ICF found the following:

- 225 (54.7%) original evaluations did not need to be considered for alteration.
- 129 (31.4%) evaluations needed to be considered for alteration (or 10% of all QA evaluations).
- 57 (13.9%) evaluations did not have any determination.

Although ICF's review indicated that 31.4% of evaluations it reviewed needed to be considered for alteration, we did not find any evidence that the original evaluation was reconsidered or changed in any way. We reviewed the Worltrac log in a few instances and found no notes detailing whether the original evaluation was reconsidered. In addition, we found that of the 129 evaluations that needed to be considered for alteration, 60 had closed and 44 of the 60 (73.3%) closed with the same amount as the original evaluation. Therefore, it appears that these were either not considered for alteration or did not need alteration after all.

According to ICF, it is currently expediting adjustments to these evaluations and documentation of the differences will be integrated into Worltrac. These evaluations were not necessarily modified because the original intent of the QA evaluation process was to review for patterns and trends to determine if overall program or policy changes were needed. It was not until later in the program that ICF began comparing details in the QA evaluation to the original evaluation.

Recommendation 4: OCD should require that ICF consistently and thoroughly document the results of its review of QA and original evaluations in Worltrac. This documentation should include a clear description of what further action is needed and why the action is needed.

Summary of Management's Response: OCD agrees with this recommendation and states that currently all evaluations have detailed documentation in Worltrac.

Objective 2: Were the most up-to-date home evaluation estimates used in award calculations?

In most cases, ICF used the most up-to-date home evaluation estimate in homeowner award amounts. However, we did find a few exceptions. We identified 812 of 48,430 applicants (2%) who had an estimated cost of damage that was used in their award amount that differed from the updated estimated cost of damage in Worltrac. Worltrac estimates should match the ones in the data warehouse since Worltrac is the production system for home evaluation cost estimates. Of the 812 applicants, 678 (83%) had closed as of May 22, 2007.⁶

We examined 28 of these cases in detail and found that if ICF used Worltrac amounts that had been updated, these individuals would have received \$672,158⁷ less than what they received at closing.

According to the ICF home evaluation team, the estimated cost of damage values in Worltrac do not match the data warehouse because the data in the warehouse was "frozen"⁸ at the time of closing and did not include updated information. Updated and/or better data could be obtained through additional quality control reviews, the resolution of homeowner disputes, reevaluations or QA evaluations.

⁶ 235 of the 678 (35%) used the home evaluation estimate in the award amount since it was less than the pre-storm value. In addition, 179 of 443 that used the pre-storm value were eligible for the additional compensation grant (ACG) which also uses the home evaluation estimate in the award calculation.

⁷ Because this sample was not statistically valid, this amount cannot be projected to the rest of the population.

⁸ Frozen is a state in eGrants that prevents any changes to the award amount. According to ICF, this was done to expedite awards to homeowners.

ICF management said that updated Worltrac data is not necessarily better than the data that was used at closing. Therefore, ICF said that it will review all home evaluation estimates that were used to support homeowners' awards at closing. If ICF determines that the home evaluation estimate that was closed upon contains an "egregious" error then the post-closing department will be notified and necessary action (i.e., a second closing) will be taken to rectify any underpayment or overpayment. However, because ICF could not provide us with criteria for what constitutes an egregious error, there is a risk that this review could be subjective and inconsistently applied.

Recommendation 5: OCD should determine how it wants ICF to identify the specific home evaluation estimates that it should review. For example, OCD should decide if it wants ICF to:

1. Review all home evaluation estimates
2. Review only those home evaluation estimates that differed from current Worltrac values at the time of closing
3. Review only those home evaluation estimates where the homeowner disputes the home evaluation estimate after closing

Summary of Management's Response: OCD agrees with this recommendation and states that ICF is now reviewing all home evaluation estimates that are different between closing values and current Worltrac values.

Recommendation 6: OCD should ensure that ICF thoroughly documents its review of home evaluation estimates that differed from current Worltrac amounts and that were used at closing. If ICF determines that errors existed in the home evaluation estimate, then it should clearly specify what the errors are, how errors were corrected, and which evaluation estimate is to be used in its place.

Summary of Management's Response: OCD agrees with this recommendation and states that ICF is currently attaching in eGrants the supporting documentation for the estimated cost of damage that was used at closing and that OCD will work with ICF to determine how to proceed to fully implement this recommendation.

Recommendation 7: OCD should ensure that ICF develops criteria or parameters for what constitutes an egregious error. Having criteria will help ensure that ICF reviews home evaluations consistently.

Summary of Management's Response: OCD agrees with this recommendation and states that they will work with ICF to determine criteria to use that would trigger when a significant error would result in a change for post-closing to handle.

Objective 3: Does ICF have an effective system to resolve homeowner issues with home evaluations?

ICF’s system for resolving homeowner issues needs improvement. We found that ICF documented homeowner issues and the resolution of those issues in three different data systems. However, these systems did not always contain consistent and detailed information which made it difficult to understand what the issue was and how the issue was resolved. In addition, we found that ICF did not have finalized policies or procedures on when to conduct reevaluations. ICF may conduct reevaluations if homeowners dispute their estimated cost of damage. However, ICF did not consistently document whether the reevaluation or the original evaluation was used in a homeowner’s award amount. More detail on these issues is summarized below.

Homeowner issues with home evaluations are documented in three different data systems which often do not contain sufficient detail about the issue and its resolution. ICF uses three different data systems to document and research issues with home evaluations. Exhibit 10 summarizes these systems and the number of issues in each system.

**Exhibit 10
Overview of Data Systems for Homeowner Issues**

System	Purpose	Number of Issues
Issue Tracker (JIRA)	Provides an issue tracking system for the entire Road Home program. Home evaluation is one of the categories of homeowner issues.	As of July 16, 2007, there were 2,543 home evaluation issues ⁹
Mantis Bug Tracker	Provides a central location for all home evaluation issues and is used exclusively by the home evaluation team	As of August 10, 2007, there were 2,018 issues ¹⁰
Worltrac	Provides a database of all electronic work orders, home evaluation documents, pictures, and quality control logs	No numbers for issues because Worltrac is used to research and resolve home evaluation issues but does not track them

Source: Prepared by legislative auditor’s staff using information from ICF.

As shown above, ICF uses three systems to document and research home evaluation issues. We reviewed a sample of 15 reported resolved homeowner resolution issues using the three systems to determine if there was sufficient information on the issue itself and how the issue was resolved. We found that five of the 15 (30%) resolved issues in Bug Tracker either did not have sufficient detail concerning the resolution or were still open according to JIRA.

Because of the number and significance of home evaluation issues, it is important that ICF have a system in place to resolve issues consistently and sufficiently. This system should clearly document the issues and how issues were resolved. However, as noted above, it was

⁹ Because home evaluation issues could also be under other JIRA categories such as constituent services, this number is likely higher. However, we were unable to determine how many home evaluation issues there were in total because of the way data is input into JIRA.

¹⁰ All these issues are not homeowner issues. For example, this number includes 338 issues that involved issues with computer programming and Worltrac.

often difficult for us to tell how and if issues were resolved. In addition, we found that having three systems to research issues was often redundant and time-consuming.

Recommendation 8: ICF should clearly document home evaluation issues and the resolution of those issues in sufficient detail in Worltrac since Worltrac is the system of record for home evaluation information.

Summary of Management's Response: OCD disagrees with this recommendation and states that JIRA is the system in place for handling homeowner issues but does agree that ICF must do a better job at managing issues in JIRA.

For the few reevaluations that were conducted, ICF did not consistently document the reason reevaluations were conducted or whether the reevaluation replaced the original evaluation. One of the methods ICF uses to resolve homeowner issues is to conduct a reevaluation of the homeowner's property. As of August 10, 2007, there were 266 accepted (approved) reevaluations in Worltrac. We reviewed a sample of 10 reevaluations to determine if the reason for the reevaluation was documented and whether the reevaluation replaced the original evaluation. We found the following:

- In three out of 10 (30%) reevaluations, we could not determine the reason for the reevaluation because the reason was not clearly documented in Worltrac or Bug Tracker. In some cases, the reason could be assumed, but the reason should be specific and based on the criteria outlined in reevaluation policies.
- For the remaining seven evaluations that did have a reason documented, we were unable to tell whether this reason was appropriate or sufficient because at the time of our review there were no policies and procedures in place that provided criteria for when reevaluations should be conducted. Objective criteria would help ensure that reevaluations are conducted only when needed.

In five out of 10 (50%) reevaluations, we could not determine using Worltrac or Bug Tracker whether the original or the reevaluation was used to calculate the estimated cost of damage.¹¹ In the remaining five, the reevaluation replaced the original evaluation and was documented in Worltrac.

One reason for the above issues is ICF did not have finalized policies and procedures that detailed what specific circumstances warrant reevaluations. Without criteria for when reevaluations should be conducted, there is a risk that ICF could do more evaluations than actually needed and pass these costs to the state. However, toward the end of our review, ICF had developed some draft procedures for reevaluations and had begun providing more detailed information in Worltrac on reevaluations.

Recommendation 9: ICF should finalize its draft policies and procedures for reevaluations. These policies should include objective and consistent criteria for when reevaluations are

¹¹ We were able to use eGrants to determine which home evaluation estimate was used at closing. However, this information should be included in Worltrac.

ROAD HOME PROGRAM

conducted so that reevaluations are only conducted when needed. The reasons reevaluation are conducted should be clearly explained in Worltrac as well as what reevaluation was used in the award calculation and why it was used.

Summary of Management's Response: OCD agrees with this recommendation and states that new procedures were approved in the August 15, 2007 version of Protocols for Estimating Housing Replacement Costs.

APPENDIX A: MANAGEMENT'S RESPONSE



State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF COMMUNITY DEVELOPMENT
DISASTER RECOVERY UNIT

KATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

November 26, 2007

Mr. Steve Theriot
Office of Louisiana Legislative Auditor
1600 N. Third St.
P.O. Box 9437
Baton Rouge, LA 70804-9397

RE: Audit Control #07602209 Home Evaluations

Dear Mr. Theriot:

The purpose of this letter is to respond to the report prepared by your office on the review of the Home Evaluations process. We appreciate the work that the Louisiana Legislative Auditor (LLA) has undertaken on this activity and have taken the recommendations under consideration.

The LLA report identified three objectives:

- 1) Does ICF's QA/QC process ensure that only reviewed and approved home evaluations are used to calculate homeowner award amounts?
- 2) Did ICF use the most up-to-date home evaluation estimate in the calculation of homeowner amounts?
- 3) Does ICF have an effective process to resolve homeowner issues with home evaluations?

Office of Community Development (OCD)'s Response to Objectives and Recommendations

Objective 1: As noted in the audit report, ICF's QA/QC process generally ensures that only reviewed and approved home evaluations are used to calculate homeowner award amounts. However, the audit report indicates that a review of files revealed that some evaluations were used that were not approved in Worltrac, some failed the automated quality control review but were overridden by reviewers, and some did not have adjustments made resulting from quality assurance evaluations.

Mr. Steve Theriot
November 26, 2007
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With respect to the evaluations that were used that were not approved, the concern reopens the issue of evaluations reviewed prior to Worltrac versus those that were entered directly into Worltrac. Prior to Worltrac, evaluations were reviewed and approved according to standards and policies in effect at the time they were generated. Concerning the ability of reviewers to override the automated quality control check, a situation that according to the audit rarely occurs, ICF considers this an important tool since manual reviews have shown instances where the automated "fails" are explainable due to the structure or damage. Finally, the audit indicates that ICF did not always make adjustments resulting from quality assurance evaluations. These reviews identify the potential for an adjustment, but do not indicate that an adjustment is necessary. In addition, the QA process was going through an expansion at the time of the review and modifications could not have been made prior to the audit or closings in most cases. Modifications have since been documented and are being expedited.

Recommendation 1: OCD should require ICF to close only on evaluations that have been through the QA/QC process and are accepted.

OCD concurs with this recommendation and is confident that the processes in place have evolved to address this recommendation. It must be noted that the audit was performed by evaluating data in Worltrac and suggests that perhaps only evaluations approved through Worltrac should be used, when in fact, Worltrac approval occurred after files were frozen and moved to closing. The evaluations that were used that were not approved in Worltrac still went through a review and approval process that pre-dated Worltrac and were acceptable according to existing procedures at that time. The bottom line is that, as noted in the audit report, ICF is generally ensuring that the correct evaluations are used.

Recommendation 2: OCD should require ICF to review all files that have closed to ensure that only accepted evaluations were used in homeowner award amounts.

OCD concurs with this recommendation and ICF is currently performing such a review. If errors are found, they will address them through the post-closing review. OCD will require ICF to provide a report on the results of their review.

Recommendation 3: OCD should ensure that ICF provide a detailed explanation in Worltrac of why failed QC checks were overridden or were passed.

OCD concurs with this recommendation. ICF is taking steps to provide more detailed information in Worltrac. ICF notes, however, that “soft fails” are designed as a tool to notify QC reviewers when a CAD needs additional review or a value is approaching a level of concern. ICF’s position, and OCD concurs, is that these flags are readily explainable by the data with the evaluation and do not need log notes to explain them. To require detailed notes for these flags could result in additional cost to the state without a commensurate benefit.

Recommendation 4: OCD should require that ICF consistently and thoroughly document the results of their review of QA and original evaluations in Worltrac. This documentation should include a clear description of what further action is needed and why the action is needed.

OCD concurs with this recommendation. ICF began implementing this approach during the audit period for evaluations sent back to evaluators for reconsideration due to the QA evaluation. Currently, all such evaluations have detailed documentation in the Worltrac log notes. The majority of QA evaluation/original evaluation pairs, however, do not exceed the review threshold.

Objective 2: As noted in the audit report, in most cases, ICF used the most up-to-date home evaluation estimate in homeowner award amounts. However, the report indicates that 821 of 48,430 applicants, or **only 2 percent**, had an estimated cost of damage that was used in their award amount that differed from the updated estimated cost of damage in Worltrac. During the audit, 28 of these cases were reviewed, suggesting that had the updated values in Worltrac been used, then perhaps these applicants would have received \$672,158 less. It is important to note that the footnote attached makes it clear that since the 28 files were not statistically selected, a projection to the rest of the population cannot be made. It is also important to note that the suggestion is being made that only the Worltrac number is correct, which is not a truism. Based on program policies in place, the grant awards in question were appropriately calculated and no overpayments were made. These files were closed using the most accurate value available at the time they were closed. Processes have evolved over time to further enhance the program. This doesn’t necessarily mean that values are incorrect because they were estimated using a different process.

Recommendation 5: OCD should determine how it wants ICF to identify the specific home evaluation estimates that it should review. (The audit report contains three suggested approaches.)

OCD concurs and is aware that ICF is now reviewing all home evaluation estimates that are different between closing values and current Worltrac values. This seems to be the most appropriate course of action at this time. OCD will work closely with ICF to determine if this is sufficient or more needs to be done.

Recommendation 6: OCD should ensure that ICF thoroughly documents its review of home evaluation estimates that differed from current Worltrac amounts and that were used at closing. If ICF determines that errors existed in the home evaluation estimates, then it should clearly specify what the errors are, how the errors were corrected, and which evaluation estimate is to be used in its place.

ICF is currently attaching into eGrants the supporting documentation for the estimated cost of damage used at closing. The OCD will work with ICF to determine how to proceed with fully implementing this recommendation. Again, it must be noted that the assumption continues in the audit that only the Worltrac value is the accurate value. If a pre-Worltrac value is found to be accurate according to policies and procedures in place at the time of closing, this does not make it an incorrect value.

Recommendation 7: OCD should ensure that ICF develop criteria or parameters for what constitutes an egregious error. Having criteria will help ensure that ICF reviews home evaluations consistently.

OCD concurs with this recommendation. ICF currently considers the following to be potentially significant errors:

- Errors in data transfer or transcription that caused applicants values to not match between systems in a way that is significant and meaningful to an application or the program.
- Error in computer system management that cause missing, substantially incorrect, or corrupt data to exist in the Road Home systems.

OCD will work with ICF to determine criteria to employ that would trigger when a significant error would result in a change for post-closing to handle. To date, ICF has not considered interpretations or professional judgments used in individual evaluations to be egregious errors pursuant to program policies. The OCD agrees with this approach. In a program of this size, decisions have to be made relative to processes and procedures for circumstances that were not anticipated. Professional staffs are expected to be able to make appropriate decisions within the parameters of the program in such instances. The decision may appear at a later date to have been incorrect or not the most appropriate action, but these decisions cannot be second guessed.

Objective 3: The audit report indicates that this process needs improvement because multiple systems are used; it was not always clear to the auditors what the issue was or how it was resolved, or whether the original evaluation or re-evaluation was used. It should be noted that while this is an issue in the audit, the universe was small. In fact, the statement in the audit under Recommendation 8 begins by stating, "For the few re-evaluations that were conducted..." Specifically, as of the date of the audit, only 266 re-evaluations had been conducted. The audit suggests that more information is needed to explain why a re-evaluation was necessary, and that specific criteria are needed in order to determine the appropriateness or sufficiency of the re-evaluation. The audit further suggests that without detailed policies and procedures, ICF could do more evaluations than actually needed and pass the costs to the state.

Recommendation 8: ICF should clearly document home evaluation issues and the resolution of those issues in sufficient detail in Worltrac since Worltrac is the system of record for home evaluation information.

While Worltrac may be the system of record for home evaluation information, it is not the proper tool used to identify and resolve issues. The system in place for handling issues is JIRA and this is noted in the audit performed on the Resolution process. Worltrac contains log notes, which as previously discussed need to be enhanced, but neither Worltrac nor BugTracker are for the purpose of handling issues needing to be resolved. OCD does concur that ICF must do a better job at managing issues in JIRA, both in terms of clearly describing an issue and in clearly describing how the issue was resolved. This problem is not just with resolving home evaluation issues, it cuts across all aspects of the program, and the OCD will continue its efforts to insure that ICF enhances the description and resolution of all issues in JIRA.

Recommendation 9: ICF should finalize its draft policies and procedures for re-evaluations. These policies should include objective and consistent criteria for when re-evaluations are conducted so that re-evaluations are only conducted when needed. The reasons re-evaluation are conducted should be clearly explained in Worltrac as well as what re-evaluation was used in the award calculation and why it was used.


OCD concurs with this recommendation. New procedures were approved in the August 15, 2007 version of Protocols for Estimating Replacement Housing Costs v 14.

Home evaluations are critical to compensating homeowners fairly for the cost to repair or rebuild their homes. At the onset of the program, ICF initiated a home evaluation process to immediately obtain the home evaluation estimates needed to generate valid option letters to early applicants. Due largely to the acceleration of the program by the state, the initial home evaluation process had to rely on spreadsheets and manual evaluation approvals in order to meet

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option letter deadlines. This practice continued while changes were being made to the management information system because it could not be suspended due to the large number of applications awaiting processing. Approval methods for home evaluations have evolved as the process and software for managing evaluations became available. When Worltrac was implemented, the pre-Worltrac evaluations were migrated into Worltrac which automates QC checks and includes a more stringent set of QC checks. However, it must be reiterated that these older home evaluations were approved under existing protocols and were valid for use in the homeowner award calculations. Therefore, just because there may be differences in values used in calculations versus Worltrac, this does not mean the wrong value was used. OCD is confident that the new protocols for reviewing and approving home evaluations are working effectively and are minimizing the potential for errors to occur.

Sincerely,

for 
Susan Elkins
Executive Director
Office of Community Development

SE/MS

c: Mr. Michael Spletto
Mr. Richard Gray
Mr. Michael Taylor
Mr. Thomas Brennan
Mr. Frank Abramcheck
Mr. John Thorton
File

APPENDIX B: OVERVIEW OF HOME EVALUATION QA/QC ACTIVITIES

Activity	Purpose/Description	Examples of Problems Activity Identifies
Work Order Review	ICF conducts work order reviews to identify and correct work order errors before being dispatched to the subcontractors.	<ul style="list-style-type: none"> • Incorrect or invalid eGrant numbers • Duplicate records by homeowner name and address • Blank fields and incorrect values in fields
QA Observations	ICF conducted QA observations early in the program to ensure that evaluators are following proper evaluation protocol.	<ul style="list-style-type: none"> • Incorrect or invalid GPS readings • All relevant specifications not included in evaluation • Wrong evaluation type conducted
Worltrac QC Tool	ICF and their subcontractors run all evaluations through Worltrac's automated QC tool to identify and correct potential cost estimate errors or integrity issues.	<ul style="list-style-type: none"> • Incorrect grant ID number, address, zip code or evaluation date • GPS coordinates missing or incomplete • Specification limits exceeded (i.e., more than one kitchen, more than one tree removal, more than certain amount of feet of cabinets, etc.)
Manual QC Reviews	ICF and its subcontractors conduct primary and secondary manual reviews on all evaluations.	<ul style="list-style-type: none"> • Unreasonable specifications and amounts • Adequacy of notes, photographs, and other documents • Compliance with policies and procedures that cannot be programmed into Worltrac
QA Evaluations	ICF's subcontractor (HGI) conducts quality assurance evaluations on 5% of all original evaluations to determine if cost estimates are similar.	<ul style="list-style-type: none"> • Large square footage differences • Large cost estimate differences • Evaluation type incorrect
Deltha	ICF's QA/QC subcontractor (Deltha Corporation) conducted a review of cost estimate files and conducted telephone surveys during the pilot phase of the program.	<ul style="list-style-type: none"> • Incomplete files • Documents not signed or initialed
KPMG	ICF's Anti fraud, Waste and Abuse subcontractor (KPMG) conducts data analysis every week on home evaluation data to identify outliers and integrity issues.	<ul style="list-style-type: none"> • Very high and very low square footages • Invalid Louisiana zip codes and GPS readings • Incomplete and duplicate information

Source: Prepared by legislative auditor's staff using information provided by ICF.

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APPENDIX C: SUMMARY OF UNACCEPTED EVALUATIONS BY STATUS

Status	Description of Status	Count
ICF Data Issues	Evaluations that require further quality control by ICF	6,288
ICF Hold	Evaluation that is being held for some reason	214
Sent	Evaluation that has been through the quality control process and is awaiting approval by ICF	47
ICF Reviewed	Evaluations that have been reviewed by ICF	12
ICF Rejected	Evaluations that have problems are rejected by ICF	10
Erroneous	Evaluation that is not to be moved to the accepted state (duplicates, ineligible, etc.)	4
ICF Erroneous	Evaluations that have been designated as erroneous by ICF	3
Kickback	Evaluation that has been sent back to the subcontractor because of a problem	3
Hold	Evaluation that is being held for some reason	1
ICF QA Accepted	Evaluation that has been accepted by ICF's quality assurance	1
Total Closed		6,583
Source: Prepared by legislative auditor's staff using Worltrac data as of May 7, 2007.		

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