

**STATEMENT OF SUSAN ELKINS,
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STATE OF LOUISIANA
BEFORE
THE AD HOC SUBCOMMITTEE ON DISASTER RECOVERY
OF
THE SENATE COMMITTEE ON HOMELAND SECURITY & GOVERNMENTAL
AFFAIRS
“THE ROAD HOME? AN EXAMINATION OF THE GOALS, COSTS, MANAGEMENT,
AND IMPEDIMENTS FACING LOUISIANA’S ROAD HOME PROGRAM”
MAY 24, 2007**

Good afternoon, Chairman Landrieu, Senator Stevens and Members of the Ad Hoc Subcommittee on Disaster Recovery. I am Susan Elkins, and I am here today representing the State of Louisiana, Division of Administration, Office of Community Development (OCD), Disaster Recovery Unit (DRU). The Disaster Recovery Unit is the fiscal agent responsible for administering, auditing, monitoring, maintaining internal controls, managing contracts and reporting for Community Development Block Grant (CDBG) and other funds appropriated by the Congress for recovery from hurricanes Rita and Katrina. We work closely with our colleagues at the Louisiana Recovery Authority (LRA), the policy-setting body created by Governor Blanco, and with staff of the Governor’s Office of Homeland Security and Emergency Preparedness (GOHSEP) as well as other agencies. Our job is to bridge the policies and programs developed by the State with the rules and regulations attached to the federal programs. Today, I am here to speak specifically about the Road Home Program, one of some 25 disaster recovery programs that we are administering.

Since 1982 the Office of Community Development has administered the State's Community Development Block Grant Program as well as other federal programs, including the disaster recovery program implemented after Hurricane Andrew. Most of the key staff members in OCD have over twenty years' experience working with the CDBG program. The State has never received an audit or monitoring finding by the Department of Housing and Urban Development (HUD), the Office of Inspector General (OIG), or the Legislative Auditor on the State's CDBG program or any other federal program that it administers.

In the wake of Hurricanes Katrina and Rita the OCD has augmented its staff with persons from all over the country, individuals who have tremendous experience in implementing federal housing programs, and who also have experience in the CDBG program. These individuals come from as far away as North Dakota, Pennsylvania, New York and Kentucky. They have moved their families to Louisiana to become part of a dedicated staff to play a role in the recovery of Louisiana. These comments about staff are made so that you are aware that we have a dedicated group of individuals who have much experience in implementing federal programs with an established and well known record of integrity.

Given the enormity of the recovery effort, the State realized that, in addition to adding to its own staff, we needed even more help. OCD staff with the assistance of the LRA and others developed a Solicitation for Offers (SFO) for housing management services. The solicitation was crafted very carefully to ensure that the competition was open and free to all firms that could meet the minimum standards required in the SFO. Because of the enormity of the housing services sought for the Road Home program, our office worked closely with staff in HUD's Headquarters to find qualified reviewers for the SFO. With HUD's assistance we identified outside reviewers with national perspectives and significant experience with the "nuts and bolts" of implementing housing and community development programs. Along with the national community development experts,

six representatives from the state were selected to participate on the team based on their very specific, unique qualifications.

Six proposals were submitted to manage the Louisiana program, two of which were eliminated because they did not meet the minimum standards. The reviewers scored each of the remaining proposals based on the evaluation criteria cited in the SFO. The maximum possible score was 450 points. The evaluation team met a total of six times to discuss and review the offers received in response to the SFO. Each reviewer rated the four proposals based on the agreed upon scoring criteria. The three top firms were asked to provide oral presentations to the evaluation team. The team met immediately following these presentations to discuss and debrief on their reactions to the presentations. Based on that three hour meeting, ICF International, Fairfax, VA was selected as the front runner. The team also developed follow-up questions that were sent to each of the presentors, and the team also required that each of them submit any perceived conflict of interest issues to the Board of Ethics for review. On May 23rd, another conference call took place to discuss the responses to the follow-up questions. By the end of the discussion the consensus of the evaluation team was that ICF had indeed submitted the best proposal and should be selected as the top bidder, echoing the sentiments expressed in the meeting held on May 12th after the oral presentations, and based on the scores received from each reviewer.

Negotiations began shortly thereafter. It should be made clear that the negotiation process was transparently open. The State Attorney General's Office, the Louisiana Legislative Auditor's Office, OCD, the Louisiana Recovery Authority (LRA) and attorneys representing the LRA and OCD directly participated in these negotiations. Calls were made to check the references of ICF through the Louisiana Legislative Auditor's Office. The GSA schedule was checked to confirm that the proposed rates were within the schedule. A copy of the proposed rates were sent to HUD to ensure there were no problems with the rates and that they compared favorably to the rates that were being charged by ICF in their existing HUD contracts. No problems were found.

The contract with ICF contains over seven hundred deliverables for the homeownership program as well as programs focused on rental housing, housing for the homeless and supportive housing. The contract contains a list of the deliverables with very specific timeframes for completion. The only items we were unable to specify at the time of contract initiation were benchmarks for option letters sent to homeowners, and for closings completed, due to the fact that there were no precedents available with which they could be compared. We spoke with several housing experts to determine what we could use as an appropriate timeframe for closings. Because Mississippi's programs contained similar tasks as Louisiana's program, such as subordinations, title searches, verification, closings, etc., we thought it might benefit us to analyze their data. At the time we were negotiating and developing the contract, however, there were no closings in Mississippi, so we could not find appropriate data for comparison purposes. Therefore, language was added into the contract which stated that performance measures would be developed by the end of March 2007. It was felt that by this time the pilot program would be complete and we would have a better feel for what the appropriate benchmarks should be.

The contract was signed on June 30, 2006, the same day that the State's pilot program began. Louisiana is now into the 11th month of this contract. As of May 2007, over 137,000 applications have been received; over 114,000 appointments have been held which have resulted in over 60,000 benefit options letters being sent to homeowners. Based on those 60,000 options letters, 40,000 homeowners have selected their options and sent selection letters to the State. Over 18,000 homeowners have closed and received their compensation. We will close 10,000 cases this month, and will continue to increase closings as the throughput allows.

The only appropriate comparison that can be used to determine how fast or slow the Louisiana program is working is to measure the number of applications, closings, etc., in Louisiana against the same numbers that were accomplished in Mississippi after the same amount of program time. Mississippi began their program in January 2006 and Louisiana started June 2006,

approximately 6 months later due to the need for the additional disaster dollars that were appropriated by Congress in June. Mississippi has done an outstanding job there. I have known members of their staff for many years, know that they are a very dedicated staff, and know that officials in both states now share the awesome responsibility that has been placed upon us. We take our jobs very seriously.

In your materials you will find a chart that compares activities common to both Mississippi's and Louisiana's programs starting from the time that each selected its management contractor and tracking progress thereafter on a month-to-month basis. The activities compared include applications received, letters sent, closings held, etc. The chart shows that Louisiana and Mississippi achieved very similar accomplishments in the same elapsed time from program initiation. For example, nine months after contracts were signed, Mississippi topped out at 17,639 applications received, while Louisiana had over 90,000, or six times, more applications than Mississippi. Hundreds of applications are still being returned daily in Louisiana. In the same timeframe, Louisiana had sent out over 30,000 more option letters than Mississippi and did 11 times the amount of closings as Mississippi. Based on this comparable data, as well as the data from the Road Home pilot program, OCD amended the ICF contract to add performance measures, with appropriate penalties for failure to accomplish them, for each of the desired outcomes.

We take compliance with the contract requirements and performance measure very seriously. Oversight of the Road Home contract is multi-faceted, encompassing activities that include daily, weekly, and bi-weekly meetings; review of approximately 750 contract deliverables; monitoring by staff from the Disaster Recovery Unit; joint monitoring with the Office of Legislative Auditor; independent auditing by the Office of Legislative Auditor; and the review and implementation of dozens of policy changes since the program started last June. In addition, the contract includes quarterly performance measures that are monitored on a monthly basis. The

performance measures encompass timely appointments; number of options letters sent; number of closings scheduled; and response times to resolution issues.

The level of review and oversight is unprecedented in that we currently have three (3) different sections of the Office of the Legislative Auditor performing multiple kinds of reviews or audits of the disaster recovery funds. The HUD Office of the Inspector General has had personnel auditing on-site for months. DRU has contracted with Postlethwaite & Netterville, Baton Rouge, LA, an independent Certified Public Accounting firm, to review and verify contractor indirect costs and labor rates. We have also, under a separate request for proposals, contracted with Postlethwaite & Netterville to perform a complete Statement of Auditing Standards (SAS)-70 review of our contractor's controls and systems.

As part of our administrative oversight and efforts to prevent and deter fraud, KPMG is under contract to review the Road Home policies and procedures to ensure anti-fraud efforts and to analyze applicant data to help identify and prevent fraud. DRU participates in the Anti-Fraud Task Force which includes the U.S. Attorneys for all three (3) districts of Louisiana, the Louisiana Attorney General's Office, the Office of the Legislative Auditor, the FBI, the Louisiana Inspector General, the HUD Office of the Inspector General (audit and investigative) and the Louisiana Recovery Authority.

On a daily, weekly, and bi-weekly basis, DRU management reviews statistics and analyses of applicant and financial information. The LRA and DRU receive weekly pipeline reports as well as a weekly financial dashboard report that are reviewed at weekly meetings. The purpose of our meetings and review of various reports is to identify problem areas and to determine actions that must be taken by the contractor to create efficiencies in the delivery of the programs. These meetings often result in the clarification of guidance documents or the revamping of procedures to expedite delivery of benefits to applicants. This is a continuous process that is complicated by the sheer magnitude of the program.

The DRU has created a monitoring section that will consist of nine personnel to monitor both federal compliance requirements and performance of the contractor in a variety of functions. This staff works jointly with the Office of Legislative Auditor to conduct performance reviews on such operations as the Housing Assistance Centers, pre-closing activities, and resolutions. The staff also coordinates on a weekly basis with Deltha Corporation, the Road Home's quality control subcontractor, to receive weekly reports on their review of functional areas. The DRU monitoring staff is responsible for following up on all recommendations adopted by the DRU from the Office of Legislative Auditor reports and the weekly quality control reports that are communicated to the contractor for implementation, and will continue to review these and other functional areas over the life of the contract.

In addition to the above, the monitoring staff is responsible for tracking the receipt of all contract deliverables and for assuring appropriate staff review the deliverables. On a weekly basis, the staff also reviews a sample of the homeowner files that have closed, to assure that eligibility is documented, duplicate benefits have been calculated, and award calculations are correct. Plans are being implemented to begin a process for early review of files designated for closing for accuracy and completeness. The staff is also overseeing the development by the contractor of the short and long term compliance monitoring plans for the all of the Homeowner Assistance and Small Rental programs.

Financial monitoring is done on all requests presented to the state. The most common type of financial monitoring is on-site. Staff reviews journals, ledgers, monthly and quarterly report, receipts, invoices, purchase work orders, statements, change memos, fee slips and other individual financial transactions of the recipient. The monitoring process will verify the accuracy of the request as well as the validity of the information given in the request. Once monitoring has been completed, reports are written detailing the findings of the monitoring session. The findings are followed up until the corrective action has been taken.

The State has also entered into an agreement with the Office of the Legislative Auditor for an independent third party review of contractor invoices. The Office of the Legislative Auditor is also under agreement to review the award and payments to Louisiana homeowners who have applied to the Road Home.

Now let me turn to some observations we have made as we have used Federal funds for recovery. For future disasters, there are critical issues that impact the effective implementation of federal funds that need to be addressed. These are issues that I urge you and your colleagues in the executive branch to address before the next disaster.

First, there is an issue with **DATA**. No ones data talks to anyone else's. FEMA, HUD, SBA, DOT, HHS all gather information, but there are no standard conventions for the most basic entries like street address and no standing agreements to share information. Too much time and too much money have been wasted because the information needed to make informed decisions was not readily available, reliable, and useable.

Second, there is the issue of **REDUNDANCY**. We have lost count of how many times the same work has been done, but by different agencies. Take just one example: The same properties have been inspected at least five times: first FEMA, then SBA, then the private insurers, then the Road Home, then the lenders. It is time to work on protocols for standard inspection reports and methods for sharing the information to avoid the time and waste of money that comes from doing the same thing 3, 4 or 5 times.

Third is the complex issue of **DUPLICATION OF BENEFITS**. The Stafford Act requires us to find and quantify funds from other sources – including private sources – that are presumed to be duplications. The need to do this has slowed the recovery down – just try getting insurance information from hundreds of companies for tens of thousands of payments with numbers that change daily from an industry that itself is overwhelmed and has no business reasons to provide the information. It is a nightmare. The Stafford Act needs to revisit the duplication of benefits

provision, particularly as it relates to private, as opposed to federal funds, and loans, such as those from the SBA, as opposed to grants.

FEDERAL REGULATIONS inhibit rapid response to disasters. What may make sense in normal times simply impedes response to a disaster. CDBG rules differ from those of FEMA's, and SBA's rules are different from DOT's. The federal environmental, historic preservation, lead based paint, labor and other regulations impede rapid response. What one would assume to be easy – using FEMA funds and CDBG for similar purposes – turns out to be virtually impossible because of conflicting departmental interpretation of regulations. If CDBG funds are used in conjunction with FEMA funds different environmental reviews are required, Davis Bacon becomes applicable for some properties as do other regulations, and six separate federal and state agencies are required to audit and monitor the same project. This defies logic. It appears that conflicting and inflexible rules and regulations get in the way of providing appropriate assistance.

The State's partnership with lenders was also in part a victim of federal regulations. As you know Madame Chairman, the State worked with the lending community to develop a memorandum of understanding that created a partnership for rebuilding that was good for homeowners, good for lenders and good for the state. Homeowners were guaranteed that Road Home funding would not be used to pay arrearages, or to pay down mortgages and the lending institutions agreed to manage disbursement accounts and provide construction management services to the homeowner. Because of inflexible Federal regulations the state had to choose between maintaining the partnership with lenders but administering the program as a housing rehabilitation program or dissolving the partnership. Anyone who has administered a CDBG rehabilitation program knows that this is a lengthy process because of the regulations attached to running a traditional construction programs under federal rules. This is why both Louisiana and Mississippi chose to run "compensation and not construction programs so, the State determined that it could no longer continue the lending partnership and is now disbursing funds directly to homeowners without a partnership with the

lending community. The imposition of federal statutes and regulations that work in normal times but not in times of crisis, contributed to the undoing of a partnership that would have benefited everyone.

The environmental regulations are another example of regulations that are good and work in normal times, but they severely impact construction and repair programs in the disaster recovery process. There are checklists and reviews and inspections and certifications that are impractical to conduct both because of time and resource constraints on tens of thousands of properties. What, for example, should be a simple environmental solution – providing money to elevate a home that is sitting in a flood plain – is a nightmare that requires checklists and reviews that slow down or even stop the award of funds to elevate homes.

Madam Chairman, I respectfully submit that the federal regulations need to be examined for greater consistency and there needs to be broad authority to waive both statute and regulations to expedite recovery.

Implementation has been a challenge with obstacles at every stage of development. While we continue to encounter issues on a daily basis, our focus is on resolving these issues quickly and continuing to find ways to streamline the program while at the same time balancing those measures with efforts to prevent fraud and abuse. Our goal is to ensure that the homeowners and the citizens of Louisiana get the help that they need to rebuild their lives in a timely manner as is possible while at the same time ensuring that the federal restraints are met.

Thank you for allowing me to testify today. On behalf of all my colleagues we look forward to working with you and members of the Congress as we continue the journey on the road to community recovery.