

A Compliance Audit Report on the
NINTH WARD HOUSING
DEVELOPMENT CORPORATION
Issued January 4, 2012



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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 4, 2012

**MR. PAT SANTOS, ACTING DIRECTOR
GOVERNOR'S OFFICE OF HOMELAND
SECURITY AND EMERGENCY PREPAREDNESS**
Baton Rouge, Louisiana

Pursuant to your request and our agreement, we performed a compliance audit of certain transactions of the Ninth Ward Housing Development Corporation (Ninth Ward). Our audit was conducted to determine the propriety of certain financial transactions submitted to the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) in support of reimbursement requests under the Federal Emergency Management Agency Public Assistance program.

Our audit consisted primarily of inquiries and the examination of selected financial transactions, records, and other documentation. The scope of our audit was significantly less than an examination conducted in accordance with *Government Auditing Standards*.

The accompanying report presents our findings and recommendations as well as management's response. This report is intended primarily for the information and use of GOHSEP management and the Louisiana Legislature. This is a public report and copies have been delivered to the appropriate public officials.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KP:JS:JM:dl

NWHDC 2011

Pursuant to GOHSEP management's request and our agreement, we performed a compliance audit of the Ninth Ward Housing Development Corporation (Ninth Ward). We audited certain transactions of the Federal Emergency Management Agency's (FEMA) Public Assistance (PA) program related to hurricanes Katrina and Rita to determine the propriety of those transactions submitted to GOHSEP.

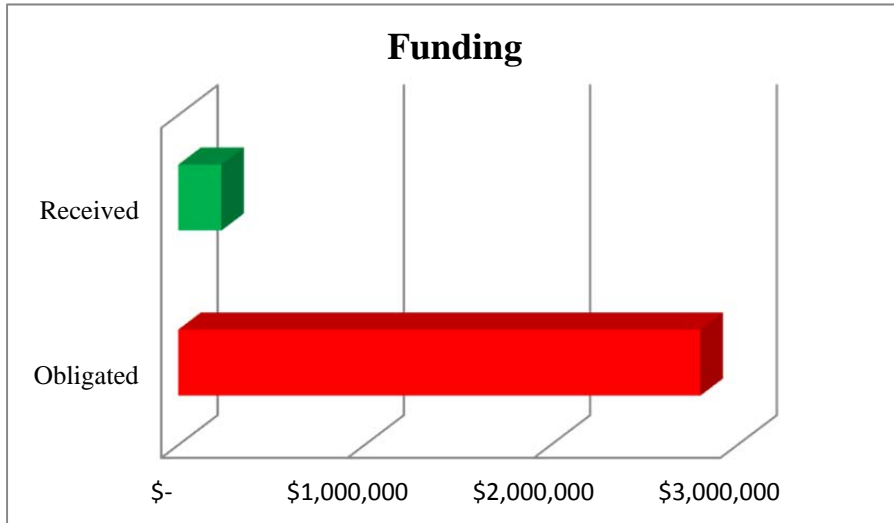
In our work on PA transactions at GOHSEP, we discovered anomalies in the documentation submitted by Ninth Ward. GOHSEP management asked that we conduct an in-depth review of the documentation that Ninth Ward submitted to support the costs it incurred to remediate damage to the Semmes Building. We determined the following:

- Ninth Ward received \$136,949 from GOHSEP for gutting the Semmes Building by submitting proposals and invoices purportedly from a contractor who stated the proposals and invoices are not his and who did not do the work.
- Ninth Ward did not comply with the procurement requirements of 44 CFR 13.36(d) which require competitive proposals (bids) and selection of the lowest qualified bidder.
- In 2009, Ninth Ward received an architectural and engineering advance for repairs to the Semmes Building from GOHSEP totaling \$62,356 and used at least \$56,862 for other purposes in violation of the FEMA Public Assistance Grant Program Guidelines.

Though FEMA has obligated \$2,803,037 in funding through 12 different project worksheets, Ninth Ward has only requested and received \$236,755 (\$231,732 for project-related costs and \$5,023 for administrative costs¹) for four projects as follows:

- \$29,872 (\$29,002 without administrative fees) on September 1, 2006, from project worksheet 10798 for removing mold from a group home
- \$3,185 (\$3,082 without administrative fees) on October 14, 2006, and \$343 on December 10, 2007, from project worksheet 13560 for vehicle repairs
- \$140,036 (\$136,949 without administrative fees) during the period August 8, 2007, through May 16, 2008, from project worksheet 12655 for gutting the Semmes Building
- \$63,319 (\$62,356 without administrative fees) on March 11, 2009, from project worksheet 13802 in advance for architectural fees for repairs to the Semmes Building

¹ We did not question the use of administrative fees.



Since there are issues about the use of the FEMA funding that Ninth Ward has already received, GOHSEP's practice is to not reimburse additional costs until the issues are resolved. Therefore, Ninth Ward cannot take advantage of the approximate \$2.8 million FEMA has obligated. Expeditious resolution of the issues in question will prevent further delay in the work Ninth Ward has to accomplish in recovering from Hurricane Katrina.

Ninth Ward Bank Statement Analysis

An analysis of the bank statements revealed Ninth Ward deposited all reimbursements and advances into the same account. Ninth Ward provided us the bank statements for that account for the period January 2007 through September 2009 except for the December 2007 and August 2009 statements.

The beginning bank balance in January 2007 was \$9,824. After deposits of \$332,026 (\$128,328 from non-PA sources and \$203,698 from PA reimbursements) total funds available in the account equaled \$341,850. Ninth Ward provided bank statements that indicate 140 checks were written and cleared the account. Ninth Ward provided copies of 87 of those checks but did not initially provide the other 53 cancelled checks though numerous requests were made. The balance of the account as of September 28, 2009, was \$484.

Not included in the above analysis is the \$33,057 Ninth Ward received for two small projects² before January 2007 though the beginning balance may be a result of those deposits.

Questionable Documentation (project worksheet 12655)

Ninth Ward received \$136,949 from GOHSEP for gutting the Semmes Building by submitting proposals and invoices from a contractor who stated the proposals and invoices are not his and who did not do the work.

The Semmes Building is a historic three-story building located in the New Orleans' Lower Ninth Ward that is owned by Ninth Ward. The first floor of the building was completely inundated by water while the second and third floors sustained damage due to roof failure and excessive incoming water. Gutting of the facility is now complete.

In May 2007, Ninth Ward submitted three signed proposals with accompanying invoices to GOHSEP for reimbursement. The \$136,949 Myers and Sons Enterprises, LLC (Myers) proposals and invoices were purportedly for work done at the Semmes Building. All three proposals were labeled "Proposal/Contract" and appeared to be signed by Mr. Earl Myers, owner of Myers, and Mr. Jon Johnson, executive manager of Ninth Ward. Mr. Myers stated the proposals submitted, although they appeared to contain his signature, were not his.

GOHSEP reimbursed Ninth Ward \$136,949 based on the Myers invoices. We searched the cancelled checks provided with the Ninth Ward bank statements and discovered that only two of them totaling \$7,700 (one was for \$3,000 and the other was for \$4,700) were written to Myers. When asked about the \$3,000 and \$4,700 checks, Mr. Myers stated they were for prior consulting and other work unrelated to the Semmes Building that he had performed for Ninth Ward.

² Small projects are those estimated to cost \$55,500 or less for Hurricane Katrina. These projects are paid to sub-grantees based on FEMA's estimated costs upon obligation and invoices are not required. At project close-out, the sub-grantee is responsible for demonstrating the scope of work indicated in the project worksheet is complete.

After showing Mr. Myers the invoices Ninth Ward submitted to GOHSEP, Mr. Myers stated that they were not his invoices and that he did not do the work they represented. We also showed Mr. Myers the proposals/contracts Ninth Ward submitted. According to Mr. Myers, those documents were meant to be proposals only.

In a written response to our inquiry, Mr. Roy Lewis, Ninth Ward property manager, stated that Mr. Myers played an advisory role and assisted with proper procedures for billing but that other individuals were paid by Ninth Ward for performing work on the Semmes Building.

A note posted by the GOHSEP Disaster Recovery Specialist to the project worksheet in LouisianaPA.com references a contract between Ninth Ward and the Daniel Lopes Company for gutting the Semmes Building. We later discovered that Mr. Lopes' company is DDL Construction, Inc. We again searched the cancelled checks provided with the Ninth Ward bank statements and discovered that during the period May 29, 2007, through May 12, 2009, 13 checks totaling \$38,600 were written to a Mr. Daniel Lopes.

When we spoke with Mr. Lopes, he stated he was hired by Mr. Jon Johnson, executive manager for Ninth Ward, to gut the Semmes Building and several other buildings. Mr. Lopes was not familiar with Mr. Lewis though Mr. Lewis stated he supervised the work at the Semmes Building on a daily basis. Mr. Lopes further stated that he was paid hourly, not by a specific location. Mr. Lopes could not tell us how much he received for the work he performed at the Semmes Building but did recall that he was paid approximately \$30,000 to \$40,000 for the work he performed for Ninth Ward. As mentioned previously, the Semmes Building has been gutted.

After completing our field work, Mr. Johnson provided us more checks (see the Additional Information section of this report for discussion of these checks). One of those checks was to Richard's Disposal in the amount of \$4,375. Representatives of Richard's Disposal informed us that this check represented payment of four invoices, three invoices totaling \$3,425 were related to work done at the Semmes building and the other \$950 invoice was for work related to another building.

Therefore, it appears that Ninth Ward used \$94,924 of the grant for other purposes in violation of the FEMA Public Assistance Grant Guidelines.³

³ 44 CFR 13.22(a) limits the use of PA grant funds to the allowable costs of grantees and sub-grantees. Allowable costs are defined in Appendix A of 2 CFR 230 (Cost Principles for Non-Profit Organizations) as those that are reasonable for the performance of the award and are adequately documented.

**Improper Procurement
(project worksheet 12655)**

Ninth Ward did not comply with the procurement requirements of 44 CFR 13.36(d)(3),⁴ which require public solicitation from an adequate number of qualified sources and awarding a contract to the lowest responsible bidder.

Ninth Ward did not advertise for proposals for the work conducted on the Semmes Building. According to Mr. Lewis, Ninth Ward contacted Myers because it had a pre-Katrina working relationship with that company. However, as discussed previously, Myers did not perform the work. Also, we could not find any evidence to support that Ninth Ward employed a competitive process to select and hire DDL Construction. We did find a proposal from JP Dickerson that was dated three days after Mr. Johnson signed the third proposal/contract from Myers rendering the JP Dickerson proposal null and void.

**Unsupported Advance and Use of Funds
(project worksheet 13802)**

At Ninth's Wards request, GOHSEP approved an architectural and engineering services advance for repairs to the Semmes Building based on a signed contract from Terry G. Schellhaas, Architect, LLC (Schellhaas) dated December 15, 2008. On March 11, 2009, Ninth Ward received a \$62,356 advance from GOHSEP.

Mr. Lewis provided us with three invoices from Schellhaas dated April 15, 2009; May 15, 2009; and May 31, 2009, that purportedly represented the expenditure of the advanced funds. The invoices totaled \$35,700 (\$5,000; \$20,250; and \$10,450, respectively). None of these invoices have been submitted to GOHSEP as support for the \$62,356 advance.

The third invoice reflected payment of the initial invoice but not the second invoice, so we contacted Mr. Schellhaas. Mr. Schellhaas provided us with a copy of his initial invoice dated April 15, 2009 (\$5,000 invoice) and the one dated May 31, 2009 (\$10,450 invoice). When questioned about the invoice dated May 15, 2009, Mr. Schellhaas stated that he created it at Ninth Ward's request along with the contract dated December 15, 2008. Mr. Schellhaas further explained that Ninth Ward wanted an estimate based on a percentage of the construction costs and these documents were part of that estimate. According to Mr. Schellhaas, Ninth Ward rejected the percentage of construction cost contract and invoicing so he never submitted them for payment and resumed billing on an hourly basis.

⁴ 44 CFR 13.36(d)(3) states, procurement by competitive proposals is conducted with more than one source submitting an offer, and either a fixed price or cost reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply: (i) requests for proposals will be publicized and identify all evaluation factors and their relative importance; (ii) proposals will be solicited from an adequate number of qualified sources; (iii) grantees and sub-grantees will have a method for conducting technical evaluations for the proposals received and for selecting awardees; (iv) awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and (v) grantees and sub-grantees may use competitive proposal procedures for qualification-based procurement of architectural/engineering professional services.

We found three cancelled checks to Schellhaas in the bank statements Ninth Ward provided. According to Mr. Schellhaas, the two \$8,000 checks were for pre-Katrina work, but the \$5,000 check was payment for his April 15, 2009, invoice. Mr. Schellhaas has not received payment on the \$10,450 invoice dated May 31, 2009.

A general premise of the PA program is that funds will be used for their intended purpose.⁵ In addition, advanced funds are to be disbursed by the sub-grantee in a timely fashion.⁶ Since there is only \$484 left in the account where the funds were deposited and the contractor has not been paid the amount of the advance, it appears that Ninth Ward used \$56,872 from the advance for other purposes in violation of the PA program guidelines.

Additional Information

Ninth Ward, through its attorney, responded to our report on October 3, 2011. The response, which is included in this report, included 47 of the 53 checks and many bank statements that were not initially provided. We analyzed the checks and bank statements and found one (mentioned previously in the report) that we could tie back to work done at the Semmes building.

Of the 47 additional checks Ninth Ward provided:

- (1) one check was to Richard's Disposal that we were able to tie, in part, back to work done at the Semmes building;
- (2) thirteen checks were to companies whose operations do not appear to be related to the scope of work for gutting the Semmes building;
- (3) eleven checks were to individuals we could not locate;
- (4) fifteen checks were to companies whose operations do not appear to be related to the scope of work for gutting the Semmes building;
- (5) six checks were to Mr. Johnson's sister, but as of the date of this report, she has not provided an explanation or documentation to support the clean-up work she claims to have done; and
- (6) one check was to an individual who claimed to have removed damaged property from the Semmes building and pick up debris outside the building but could not recall when he worked or who supervised his work.

Ninth Ward's response also requested an extension until November 30, 2011, to allow time for an accounting firm to audit the records and address the concerns contained in this report. As of the issue date of this report, the legislative auditor has not received a supplemental response or a copy of the audit report for the audit conducted to address the concerns in this report.

⁵ 44 CFR 13.22(a) - See footnote 3.

⁶ 44 CFR 13.21(b) states, methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or sub-grantee, in accordance with Treasury regulations at 31 CFR part 205.

On December 28, 2011, GOHSEP provided us with Ninth Ward's initial request for reimbursement. That request was signed by Mr. Roy Lewis and Mr. Jon Johnson and contained three contracts and subsequent invoices totaling \$136,948.91. Each of the contracts is purportedly between Ninth Ward and Mr. Daniel Lopes. On December 29, 2011, Mr. Lopes informed us that the contracts are not his although the signature "Daniel Lopes" was similar to his. Mr. Lopes also stated that the invoices are not his since they are typed and he always hand writes his invoices and the company name is wrong. Mr. Lopes stated that his company has had two names, Lopes Painting and DDL. When these invoices were prepared, the name of his company was Lopes Painting, but the invoice indicates Daniel Lopes Co. Mr. Lopes also reconfirmed his previous statements that he was only paid between \$30,000 and \$40,000 not \$136,948.91 as the invoices and contracts indicate.

When GOHSEP management became aware of the procurement and invoicing issues, they took action to minimize the state's risk to include requesting that we conduct a detailed review of all Ninth Ward's reimbursements and expenditures related to the PA program.

To minimize the state's risk in the future, GOHSEP management should:

- (1) provide PA program training to potential private nonprofit sub-grantees with a focus on program regulations and procurement;
- (2) monitor sub-grantees more closely;
- (3) adopt procedures to more closely monitor advanced funds to sub-grantees and the subsequent use of those funds; and
- (4) seek reimbursement of the questionable grant funds provided to Ninth Ward.

Since there are issues about the use of the FEMA funding that Ninth Ward has already received, GOHSEP's practice is to not reimburse additional costs until the issues are resolved. Therefore, Ninth Ward cannot take advantage of the approximate \$2.8 million FEMA has obligated. Expedient resolution of the issues in question will prevent further delay in the work Ninth Ward has to accomplish in recovering from Hurricane Katrina.

The federal government makes disaster relief funding available to state, local, and Indian tribal governments under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act). The Stafford Act authorizes the PA program that is administered by FEMA. The rules and regulations that govern the PA program are codified in Title 44 of the CFR.

Under the PA program, GOHSEP is the grantee for the State of Louisiana. All program funding flows through GOHSEP to eligible sub-grantees. PA guidelines define eligible sub-grantees as state agencies, local governmental entities, qualifying nonprofit entities and Indian Tribes. These entities submit requests for reimbursement for disaster-related expenses to GOHSEP. GOHSEP personnel review the supporting documentation submitted by sub-grantees and release payments.

Ninth Ward is a nonprofit corporation located in the lower ninth ward in New Orleans. Ninth Ward’s executive manager is Mr. Jon Johnson. The daily operations are conducted by Mr. Roy Lewis, property manager. FEMA determined that Ninth Ward was eligible for disaster-relief funding for damages caused by Hurricane Katrina. Based on its eligibility, FEMA made \$2,803,037 in funding available to Ninth Ward through 12 project worksheets. Ninth Ward has only requested and received \$231,732 from four of the 12 projects (see following table).

PW Number	Scope of Work	Obligated Amount
10798*	5640 St. Claude Ave. (Group Home) - mold remediation	\$29,001.64
11105	1801 Lamanche (Group Home) - building repairs	262,700.46
11661	5640 St. Claude Ave. (Group Home) - building repairs	322,163.00
11823	1726 Alabo St. (Group Home) - building repairs	283,173.00
12655*	Thomas J. Semmes Building - gutting	136,948.91
13560*	1008 Jourdan Ave - vehicle replacement	3,425.00
13802*	Thomas J. Semmes Building - building repairs	743,634.46
17244	5432 Tonti Street (Low Income Housing Unit) - building replacement	218,658.23
17247	5424 N. Miro Street (Low Income Housing Unit) - building replacement	237,353.59
17287	2204-2206 Deslonde Street (Low Income Housing Unit) - building replacement	120,240.40
17291	2208-2210 Deslonde Street (Low Income Housing Unit) - building replacement	272,798.79
17293	1826 Tupelo Street (Low Income Housing Unit) - building repairs	172,939.57
Total		\$2,803,037.05

* Projects Ninth Ward has requested and received funding from.

These project worksheets estimate the cost of repairing storm-related damages and will be revised to reflect actual cost once known.

Management's Response



BOBBY JINDAL
GOVERNOR

State of Louisiana
Governor's Office of Homeland Security
and
Emergency Preparedness

PAT SANTOS
INTERIM DIRECTOR

RECEIVED
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September 12, 2011

Mr. Daryl G. Pupera, CPA, CFE
Legislative Auditor
Office of Legislative Auditor
1600 North Third Street
Post Office Box 94937
Baton Rouge, LA 70804-9397

Dear Mr. Pupera:

At the request of The Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) your office recently completed a compliance audit of certain financial transactions for one of our Federal Emergency Management Agency (FEMA) Public Assistance (PA) program sub-grantees, Ninth Ward Housing Development Corporation (Ninth Ward). It is our intent to take the recommendations provided in this report and use them to better assist us in our processes to monitor the recipients of FEMA PA funding.

The engagement was largely focused on payments awarded by GOHSEP to Ninth Ward for large project worksheets (PW) 12655 and 13802 to remediate damages to the Semmes Building caused by Hurricane Katrina. Although the Ninth Ward has twelve obligated PW's valued at \$2,544,440.13, they have received payments from GOHSEP on only four of their PW's. The total payments awarded are valued at less than 10% of the Ninth Ward's total obligated funds for damages sustained in Hurricane Katrina. Small projects are programmatically reimbursed without submission of backup documentation in the PA program and, consequently, were not considered during this compliance audit.

The following recommendations were made to minimize the state's risk in the future:

- GOHSEP management should provide PA program training to potential private nonprofit (PNP) sub-grantees with a focus on program regulations and procurement.

Response: A procurement guide has been created by GOHSEP to better educate all sub-grantees on the Federal procurement requirements applied when purchasing goods and services with funds awarded by the FEMA PA program. The GOHSEP internal staff also attended procurement training to assist in providing education on the requirements for the PA program. GOHSEP applicants have access to State Applicant Liaisons (SAL) and Contract staff which provides technical assistance and programmatic guidance. GOHSEP has not previously focused specifically on targeting private nonprofit sub-grantees for education and training, but we agree with your recommendation that training developed for a target audience of PNPs would be beneficial and worthwhile and intend to concentrate our outreach efforts towards that end result.

September 12, 2011

- GOHSEP management should monitor sub-grantees more closely.

Response: GOHSEP takes their fiduciary responsibility very seriously. It should be noted that the only documentation questioned in the report submitted by the applicant to GOHSEP for review were the three invoices from Meyer and Sons Enterprises. All other questioned documents were never submitted to GOHSEP for review or approval. As part of our review process we make every effort to ensure that all payments are properly supported by the documentation submitted. In addition GOHSEP does have a project inspection team to monitor progress of projects, a compliance team who based on risk assessments or GOHSEP management direction may initiate site visits, and additionally the services of the LLA to investigate when applicant concerns are noted as was the case with Ninth Ward.

- GOHSEP management should adopt procedures to more closely monitor advance funds to sub-grantees and the subsequent use of those funds.

Response: GOHSEP agrees with your recommendation that procedures should be developed to more closely monitor advance funds to sub-grantees and the subsequent use of those funds. Prior to this engagement GOHSEP recognized the same need and has awarded a technical contract to develop, among other things, a sanctions program as we recognized that better internal controls are needed in those circumstances where advances are authorized.

- GOHSEP should seek reimbursement of the questionable grant funds provided to the Ninth Ward.

Response: GOHSEP is taking immediate steps to recoup all funds disbursed to this applicant that are in question.

GOHSEP anticipated some of the concerns raised by the report. As noted above, GOHSEP engaged your office to conduct a detailed review of Ninth Ward's transactions once we became aware of procurement and invoicing issues. We will continue to use the recommendations in your report to make further management decisions in our efforts to minimize the risk to the state.

Sincerely,



Mark DeBosier
Deputy Director
Disaster Recovery

MD:sw:pw

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October 3, 2011

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RE: Ninth Ward Housing Development Corporation
Our file #: 0927-11-3370

Dear Mr. Purpra:

As you will recall, our firm has been retained by the Ninth Ward Housing Development Corporation (hereinafter referred to as "Ninth Ward"), a non-profit community based organization, assisting and providing for the needs of residents of the Lower 9th Ward in New Orleans, Louisiana. Ninth Ward owned several buildings destroyed by Hurricane Katrina. Ninth Ward properties were uninsured with no source of funds. There were substantial damages exceeding over \$4,000,000.00. The following is a request for additional time to be able to prepare a full and proper response.

Ninth Ward's response to the Louisiana Legislative Auditor is due on October 5, 2011. Ninth Ward seeks an extension until November 30, 2011 to respond to the audit. If this request is denied, then this will serve as a partial and incomplete response of Ninth Ward to the Compliance Audit Report of the Ninth Ward Housing Development Corporation conducted by the Louisiana Legislative Auditor. At all times relevant, Mr. Jon Johnson was an unpaid volunteer for Ninth Ward.

Initially, Ninth Ward requested a 90 day extension to the Legislative Auditor's report. Ninth Ward submits there are several inaccuracies and mistakes in the audit. Therefore, on August 31, 2011, Ninth Ward requested an extension until November 30, 2011. As you know, Mr. Jon Johnson's wife, Dr. Angela Barthe died on September 11, 2011 after suffering from terminal cancer.

Daryl G. Purpera, CPA, CFE
Legislative Auditor
Page Two
October 3, 2011

Please note on September 8, 2011, Mr. Johnson and myself met with you and your staff to discuss his personal situation. Ninth Ward is in the process of preparing to conduct a comprehensive audit by the accounting firm of Postlethwaite & Netterville to highlight the errors in the Legislative Audit. Unfortunately, Ninth Ward will need additional time to complete the audit and respond to the conclusions of the Legislative Auditor since Mr. Johnson has been fulfilling his obligation as father (of his 7 year old daughter) and to his family in connection with caring for his terminally ill wife and the aftermath of her death. Mr. Johnson would be neglectful toward his family to direct his attention to any other issues besides caring for his family. Therefore, Ninth Ward has not been able to address the issues raised in the inquiry of Ninth Ward by the Louisiana Legislative Auditor. Please note, it has taken a team of auditors from the Louisiana Legislative Auditor's Office an extended period of time to conduct its audit. It is patently unfair to require Ninth Ward to respond in such a short time period given Mr. Johnson's personal situation.

Mr. Jon Johnson has volunteered his time to Ninth Ward from 2005-2009. Mr. Johnson, in capacity as a private citizen, had great emotional investment and time in the 9th Ward in New Orleans as per serving as former State Senator for the 9th Ward. Mr. Johnson's primary motivation as per his involvement in the Ninth Ward Housing Development Corporation was to assist in providing essential services to this area. In the aftermath of Hurricane Katrina, Mr. Jon Johnson volunteered approximately 30 hours a week to Ninth Ward in an attempt to provide basic services to the 9th Ward residents after the total devastation of Hurricane Katrina. Mr. Johnson provided time and money to stand up Ninth Ward Housing Development Corporation in an effort to serve the devastated residents of the 9th Ward. Mr. Johnson did not receive any pay for his time. Accordingly, Mr. Johnson did not profit in any form or fashion from his involvement of Ninth Ward. Conversely, many devastated residents of the 9th Ward greatly benefitted from the services of the Ninth Ward and the attempt to stand up the entity and a health care clinic in the aftermath of Hurricane Katrina.

In the aftermath of Hurricane Katrina, Ninth Ward has submitted claims to the State of Louisiana for payment of damage to its structures owned and/or maintained by Ninth Ward. Throughout the entire process herein, Ninth Ward followed the instructions of Mr. Philip Parent and Ms. Marliss Sanders, liaisons of the State of Louisiana and representatives of FEMA, in processing the claims in connection with damages caused by Hurricane Katrina. From late 2005 – 2009, the personnel and requirements for processing the claims herein were dynamic, differing and changing throughout the entire claims process. Further, there were multiple personnel giving conflicting and differing instructions on how to process the claim once all the information was provided to the liaisons. However, no protocol or procedures were ever put in writing to Ninth Ward.

Initially, your office indicated that Ninth Ward did not comply with the alleged request to provide copies of checks of the Ninth Ward checking account.

Daryl G. Purpera, CPA, CFE
Legislative Auditor
Page Three
October 3, 2011

Based on the information presently available, it appears Ninth Ward has complied with the Legislative Auditor's request to provide the checks related to the repair of the Thomas J. Semmes Building. Enclosed please find additional checks from the Ninth Ward Checking Account for the Legislative Auditor for the period in question.

Throughout the entire claims process involving Ninth Ward and the State of Louisiana, there was never any type of consistent parameters, instructions or requirements prescribed by the claims processors and/or liaisons on behalf of the State of Louisiana. Further, Ninth Ward was advised that once the State of Louisiana reviewed and accepted the completed work as per the Project Worksheet (PW) and payment was tendered by the State of Louisiana, then said payment was able to be utilized for the general purposes of Ninth Ward. Therefore, Ninth Ward acted on the representation of the claims processors that any payments could be utilized for said purposes without reservation. Further, the state claims processors and/or liaisons acknowledged that it did not know the rules or protocols for administering the claims and grants at issue. Ninth Ward relied on the affirmative representations of the liaisons in that the funds could be utilized for general purposes of a non-profit. Moreover, neither the claims processors, liaisons nor FEMA provided any instruction governing the processing of the claims herein.

The Thomas J. Semmes Building ("Semmes") was in great state of disrepair. The Semmes Building was formerly a historical elementary school constructed over 100 years ago in need of extensive updating and code upgrades. There was only \$623,567.00 allocated to the renovation of the Semmes Building. In reality, the renovation of said building would cost over \$4,000,000.00. Therefore, this posed a dilemma as how to allocate the payments to the building.

Initially, in addressing the issue regarding the payments for the work performed on the Semmes Building, the state liaisons or claims processors guided and directed Ninth Ward throughout the entire claims process. The liaisons and state contractors specifically told Ninth Ward that it could use its own employees to perform the gutting work. Ninth Ward indicated to the claims processors that the tear out work had been performed by Ninth Ward and Mr. Daniel Lopes, owner of DDC Construction, Inc. who is a licensed sub-contractor and working as a temporary employee of the Ninth Ward. Further, Ninth Ward submitted the invoices of Ninth Ward and Mr. Daniel Lopes in his capacity as an temporary employee of Ninth Ward.

Daryl G. Purpera, CPA, CFE
Legislative Auditor
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Please note, Mr. Jon Johnson paid Mr. Lopes from his personal account several times for work performed on the Semmes Building. Accordingly, the liaison and claims processors obviously knew the initial submission of the reimbursement claim was based on the invoices of Ninth Ward and Daniel Lopes. The claims processors and/or liaisons specifically instructed Ninth Ward to have the work reviewed by a licensed general contractor and the quantification of any claims may be submitted through said general contractor who inspected the work after the fact. The tear out work of the Semmes Building was completed. After submission for reimbursement for the completed work, the liaisons and claims processors indicated that reimbursement for the value of the completed work could be encompassed in a statement from a licensed general contractor inspecting the completed work. Accordingly, the liaisons and/or claims processors indicated Ninth Ward's claim would be processed if the statement of value of the completed work is contained on a general contractor's estimate. In response, Ninth Ward followed the instructions of the liaisons and/or state claims processors and sought a licensed general contractor to quantify the value of the completed work of the Semmes Buildings.

Ninth Ward complied with the specific instructions of the state claims processors and requested Myers and Sons Enterprises, LLC ("Myers") to review Ninth Ward's completed work and provide an estimate of the value of completed services rendered. Ninth Ward followed the instructions of the state claims processors and/or liaisons in processing the claim in said fashion. Myers was requested to determine the value of the tear out services as per the PW. Accordingly, Myers was compensated for its services in substantiating the value of completed work. At all times relevant, the liaisons and state claims processors were aware the underlying work was performed by Ninth Ward. The liaisons and state claims processors were the individuals instructing to quantify the value of completed work by a licensed general contractor after the fact.

The audit alleges that Ninth Ward did not comply with the procurement requirements of 44 CFR .36(d)(3) requiring public solicitation from a adequate number of qualified sources. In reality, Ninth Ward did obtain another estimate from J P Dickerson for \$189,000. The audit report allegedly disqualifies the estimate of J P Dickerson on the basis it was signed three (3) days after the estimate of Myers. Please note, the estimate of \$189,000 was orally provided to Ninth Ward prior to reducing the Myers estimate into writing. The estimate of JP Dickerson was simply reduced to writing on such date notwithstanding it was orally communicated prior to the date of the written estimate. Therefore, Ninth Ward submits that it complied with 44 CFR13 .36(d)(3).

A payment of \$62,356.00 was provided to Ninth Ward for engineers and architectural services. This was an estimate as to an advance for payment to cover services. Ninth Ward provided the anticipated estimates of Mr. Terry G. Schellhaas, architect, based on a percentage of completed construction on the Semmes Building. Please note, Mr. Schellhaas was an architect and not an

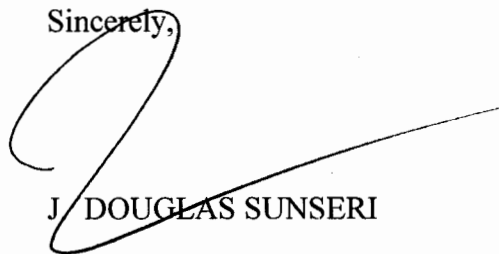
Daryl G. Purpera, CPA, CFE
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engineer. Given, the shortfall, Ninth Ward had to make decision on how to address the priorities for maintenance and/or other core purposes of Ninth Ward given the limited resources and extensive damages. Ninth Ward wanted to maintain its viability and create a permanent revenue stream for the future operation of the entity. At such time, there were pressing priorities such as maintenance, creating a permanent revenue stream and addressing legal issues with the City of New Orleans. Further, Ninth Ward was attempting to establish a health clinic which would provide for a possible permanent revenue stream as well as addressing a great and obvious need in the Lower Ninth Ward. As per the direction and guidance provided by the state claims processors and liaisons, Ninth Ward utilized payments for general purposes in order to maintain its day-to-day viability.

Ninth Ward Housing Development Corporation would be able to fully address the obvious mistakes and inaccuracies of the audit report if allowed the time to complete its internal audit to be performed by Postlethwaite & Netterville. Mr. Johnson has had a horrific year personally. It is submitted the request for an extension to November 30, 2011 is reasonable given the circumstances and the fact the audit by Postlethwaite & Netterville will fully address the concerns of the Legislative Auditor. Accordingly, Ninth Ward Housing Development Corporation respectfully request the November 30, 2011 extension be granted. Otherwise, it is submitted that the Ninth Ward Housing Development Corporation is not being provided a fair and reasonable opportunity to respond to the inquiry of the Louisiana Legislative Auditor.

Thank you for your consideration in this regard.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Douglas Sunseri", written over the printed name below it. The signature is stylized with a large loop at the beginning and a long horizontal stroke extending to the right.

J. DOUGLAS SUNSERI

JDS:pdm
Enclosures