

STATE OF LOUISIANA

OFFICE OF STATE INSPECTOR GENERAL



LOUISIANA MANUFACTURED HOUSING COMMISSION

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STATE OF LOUISIANA
OFFICE OF
STATE INSPECTOR GENERAL



LOUISIANA MANUFACTURED
HOUSING COMMISSION

Sharon B. Robinson, CPA
State Inspector General

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Approved by:
Governor Kathleen Babineaux Blanco

February 20, 2006

File No. 2-05-0002

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JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

February 20, 2006

Honorable Kathleen Babineaux Blanco
Governor of the State of Louisiana
P.O. Box 94004
Baton Rouge, LA 70804-9004

Re: Case No. 2-05-0002

Dear Governor Blanco:

This report addresses concerns raised about the operations of the Louisiana Manufactured Housing Commission. The report includes 16 recommendations that, if implemented, could help improve the Commission.

We provided a draft of the report to the Commission's chairman. His written response is included as Appendix A.

Respectfully submitted,

A handwritten signature in cursive script that reads "Sharon B. Robinson".

Sharon B. Robinson, CPA
State Inspector General

SBR/GD

Enclosure

Executive Summary

Audit Initiation

On May 5, 2005, the Office of State Inspector General received a complaint alleging Mr. Gary Millet, Sr., a Louisiana Manufactured Housing Commission (LMHC) member, allowed an unlicensed salesman to initiate sales of manufactured homes at his retail lot. On May 13, 2005, the Office of State Inspector General began an investigation of the allegation, but expanded the scope to include an overall review of LMHC operations.

Our audit objectives were to determine if the allegation was valid, if LMHC is complying with statutory provisions, and if LMHC had adequate and effective management controls in place.

Summary of Findings

- LMHC member Mr. Gary Millet, Sr., allowed an unlicensed salesman to initiate sales on his retail lot, America's Best Homes, which violates state law.
- We identified several management control weaknesses in LMHC operations:
 - LMHC has imposed and collected fines based on amounts adopted during commission meetings without amending its rules in accordance with the Louisiana Administrative Procedure Act (LAPA).
 - LMHC has not provided its employees with an adequate policy and procedures manual governing operational and reporting activities.
 - LMHC databases contain incomplete and inaccurate information.
 - LMHC often holds funds it receives for several days before submitting them for deposit.
 - LMHC has not developed adequate written procedures that ensure it has properly accounted for the sale and issuance of installation permits, which could lead to lost revenue.
 - LMHC lacks an effective system to ensure its employees work installation complaints timely. Extended periods elapsed between

- LMHC receiving the complaint, investigating the installation, and issuing fines when necessary.
- LMHC does not ensure past due fines are properly tracked and aggressively collected.
- LMHC lacks uniform reporting requirements to ensure its field investigators accurately report the number of home installation inspections conducted.

Background

Act 718 of the 2001 Regular Legislative Session created LMHC within the Office of the Governor. The legislature created LMHC to regulate the manufactured housing industry to give consumers reasonable assurance that homes are manufactured, sold, and installed to applicable standards. Prior to the creation of LMHC, the Office of the State Fire Marshal was responsible for oversight of manufactured housing.

The LMHC is composed of seven members. The Governor appoints at least one member from each Public Service Commission district.

Powers and duties of the commission include:

- Licensing of manufacturers, retailers, developers, salesman and installers
- Inspecting a reasonable sample of manufactured home installations to insure compliance with state and federal standards
- Holding and conducting hearings on violations and imposition of a civil penalty, fine, suspension, or revocation of such violation
- Issuing cease and desist orders, and subpoenaing individuals and records, as it deems necessary
- Ability to sue

LMHC is responsible for prohibiting individuals deemed undesirable, including those convicted of a felony, from participating in the sale and installation of manufactured homes. LMHC employs investigators responsible for inspecting the installation of homes and reporting installation problems. Uncorrected installation problems result in fines issued by LMHC. Additionally, LMHC is the state entity responsible for receiving and working consumer installation complaints.

LMHC tracks the sale of new homes and installation of new and used homes through monthly reports submitted by manufacturers, retailers, and installers. Manufactured home installations require an installation permit from LMHC. LMHC sells approximately 6,700 installation permits per year.

LMHC operates with funds generated from the sale of installation permits, license fees and fines. LMHC's 2006 fiscal year operating budget is \$450,257. LMHC has seven full-time employees, and is domiciled in Baton Rouge.

Scope and Methodology

We conduct our audits in accordance with *Principles and Standards for Offices of Inspector General* as promulgated by the Association of Inspectors General.

To investigate the allegations against the commission member, we performed the following procedures:

1. Interviewed both the complainant and the commission member;
2. Interviewed agency personnel;
3. Reviewed certain documents related to the allegation;
4. Reviewed commission minutes and tape recordings of commission hearings.

In addition, this audit encompassed evaluation of LMHC operations in the following key areas:

- Cash management
- Installation permits
- Licensing
- Consumer complaints and dispute resolution
- Inspections and enforcement

Our procedures consisted of (1) reviewing state laws and rules and regulations; (2) interviewing agency personnel; (3) evaluating documents, files, reports, procedures and policies, as we considered necessary; and (4) observing operations.

The audit was primarily limited to LMHC operations from January 1, 2004 through June 28, 2005 (last day of audit tests). We selected January 1, 2004 because licenses issued by LMHC expire annually at calendar year end. Our audit period covers at least one complete licensing cycle (calendar year 2004) and a portion of the subsequent cycle (calendar year 2005).

Commission Member Allows Unlicensed Salesman to Initiate Sales

LMHC member Mr. Gary Millet, Sr., allowed an unlicensed salesman to initiate sales on his retail lot, America's Best Homes, which violates state law.

LMHC and our office received a complaint from an individual who alleged he was paid a partial commission for selling two manufactured homes at America's Best Homes owned by Mr. Gary Millet, Sr., a current member of LMHC. The complainant further stated Mr. Millet refused to pay him his full commission because Mr. Millet told him that he did not complete the sales since delivery and approved financing had not occurred. Mr. Millet terminated the salesman before the sales were finalized.

LSA-R.S. 51:911.24(A) (1) provides that no person shall sell or "offer for sale" in Louisiana any mobile home or manufactured housing unless he has obtained a valid license from the commission. Additionally, LSA-R.S. 51:911.39 provides that anyone found guilty of violating this statute shall be liable for a civil penalty not in excess of \$1,000 for each violation. The statute further provides that each violation shall constitute a separate violation with respect to each manufactured home. The statute does not define the term "offer for sale".

On August 5, 2005, because of its investigation, LMHC imposed fines on both Mr. Millet and the unlicensed salesman totaling \$1,000 and \$400, respectively. The LMHC chairman stated additional fines may be issued to Mr. Millet and the salesman after a determination is made by the Attorney General's Office defining "offer for sale".

Mr. Millet and the salesman appealed the fines issued by LMHC. During its September 20, 2005 meeting, LMHC reduced both fines after hearing a presentation by Mr. Millet and a subsequent discussion by the LMHC involving the definition of "offer for sell" and industry practices. Mr. Millet's fine was reduced from \$1,000 to \$200 and the salesman's fine was reduced from \$400 to \$100.

A tape-recording of the September 20, 2005 meeting also indicates that the fine for Mr. Millet was reduced for several reasons: (1) Mr. Millet's past record as a retailer with no violations; (2) the fact that Mr. Millet's company personally pays the salesman's license fee; and (3) LMHC did not believe that Mr. Millet intentionally violated the law.

We interviewed Mr. Millet and he confirmed that the salesman was allowed to initiate two sales, and took a deposit for one of the homes, but the salesman was terminated before the sales were finalized. Mr. Millet stated he was not aware an application for a salesman license had not been completed at the time of employment and submitted to the LMHC. Mr. Millet stated that upon hiring a salesman for his retail lots, the individual is required to complete an application for employment, tax documents, and a license application. Further, Mr. Millet

stated that the salesman failed to complete the license application and his staff did not catch the omission. However, the complainant alleged that Mr. Millet never told him that he was required to be licensed.

Since LMHC has not defined or obtained a legal definition for the term “offer for sale”, the commission has been inconsistent with imposing fines to retailers and unlicensed salesmen.

Mr. Chris Matchett, LMHC attorney, stated that an official request for an opinion would have to be made to the Attorney General’s Office before a determination of “offer for sale” can be made. As of January 10, 2006, LMHC has not officially requested an Attorney General’s opinion.

Recommendations:

1. LMHC should immediately request an Attorney General’s opinion regarding clarification of the term “offer for sale”. Then, LMHC should seek to amend LSA-R.S. 51:911.24(A) (1) as appropriate.
2. LMHC should adopt, and follow rules that will ensure its fines are imposed consistently.

Review of LMHC Management Controls

In addition to addressing the allegation against the LMHC commission member, we also reviewed certain aspects of the commission's operations to determine whether its management controls were adequate and effective. During that review, we found that the commission's management controls needed improvement in the areas discussed below.

Administrative Rules Not Properly Amended

LMHC has imposed and collected fines based on amounts adopted during commission meetings without amending its rules in accordance with the Louisiana Administrative Procedure Act (LAPA).

From a historical perspective, when the Office of State Fire Marshal regulated the manufactured housing industry, rules governing housing installation were properly promulgated under the LAPA (LSA-R.S. 49:950 *et seq.*) The Office of State Fire Marshal last amended the code in April 1998, approximately three years prior to the creation of the LMHC. These rules are still in effect. Furthermore, pursuant to LSA-R.S. 51:911.26(E), LMHC is required to adopt all rules and regulations in accordance with the provisions of the LAPA.

A state entity must meet certain requirements of the LAPA before adopting, amending, or repealing its rules. These requirements include submitting a fiscal impact statement to the appropriate legislative committees and allowing a period for public comment. LMHC did not take any steps toward meeting these requirements when it adopted new fine amounts. No rule (fine included) adopted by the LMHC is valid unless adopted in substantial compliance with the LAPA. Moreover, no rule (fine) shall be effective, nor may it be enforced, unless certain requirements are met including proper filing with the Office of State Register and reporting to the legislature per LSA-R.S. 49:954.

Mr. William Bryan, former LMHC attorney, stated that LMHC has worked on promulgating rules in compliance with the LAPA, but time and cost constraints have prevented completion.

Recommendation:

3. LMHC should seek assistance from the Office of State Register to promulgate rules for its new fine amounts in compliance with the LAPA.

Lack of Policy and Procedures Manual

LMHC has not provided its employees with an adequate policy and procedures manual governing operational and reporting activities. Prudent business practice dictates that employees fulfill their assigned responsibilities as defined in a formal policies and procedures manual. Written policies and procedures also assist in the continuity of operations and for staff cross training.

An effective policy and procedures manual should convey the following:

- The objectives of the agency
- The activities and functions of the agency
- The interrelationships of individuals working on the same activity and function
- The responsibilities of individuals working on agency activities
- The internal control environment and guidelines that control the actions of personnel

LMHC adopted a Policy and Procedure Manual during its December 11, 2001 meeting. Despite being entitled “Policy and Procedure”, the manual is in effect a personnel manual dealing with such issues as “Code of Conduct and Ethics” and “Outside Employment”. The manual does not provide the steps employees must follow in carrying out assigned duties.

LMHC relies on an employee’s individual job knowledge and experience to achieve the activities and functions of the office. The lack of formal, written policy and procedures has created problems in the following areas discussed later in this report:

- Information contained in LMHC databases
- Cash management procedures
- Accounting for individual installation permits
- Processing of installation complaints
- Tracking and collecting fines
- Reporting of installation inspections by field employees

Recommendation:

4. The executive director should develop a detailed policy and procedures manual governing all LMHC's' internal operations, to include the various recommendations noted within this report related to policy and procedures, subject to review and approval by the LMHC. This manual should be kept updated and include expected timelines for completing various tasks and procedures for cross-training employees.

LMHC Databases Not Properly Maintained

LMHC databases contain incomplete and inaccurate information. LMHC maintains individual databases recording information received from numerous operations such as sales of installation permits, licenses issued, installation complaints, et cetera. We compared database entries for the audit period with associated source documents and noted the following:

- Invalid fields in its licensing database such as years of birth such as 1998, 2001, 2022, 2026, and 2029 (salespersons are either too young to possess a license or not even born yet). In addition, the database contained some social security numbers with seven digits instead of the required nine digits.
- Incomplete information as evidenced by blank fields in some databases.
- The permit sales database contained permit numbers out of sequence, missing permit numbers and incorrect revenue amounts for various transactions.

These deficiencies are due to a lack of written input validation procedures and a lack of system edit checks within the databases to prevent the input of inaccurate and incomplete information.

LMHC databases contain vital information used by employees and management for daily decision-making. Therefore, it is imperative that information contained in the databases is accurate and complete.

Recommendations:

5. LMHC should develop written input validation procedures to guide its employees in proper data entry and verification.
6. LMHC should ensure its database systems contain proper system edit checks to prevent invalid data entries.

Cash Management Procedures Need Improvement

LMHC has not implemented formal cash management procedures. As a result, LMHC risks loss of funds and potential interest earnings.

LMHC often holds funds it receives for several days before submitting them for deposit. Prudent business practices require LMHC to deposit immediately all funds upon receipt. LMHC receives funds by check or money order from various sources including license fees, fines, and sales of installation permits. Subsequently, LMHC remits these funds to the Division of Administration, Office of Finance and Support Services, for deposit into the state treasury.

We reviewed 46 deposits totaling \$108,700 for the period January 1, 2005, through May 15, 2005, and noted that LMHC held 21 deposits totaling \$48,131 from two to 15 working days.

An LMHC employee stated the former executive director and herself were the only employees authorized to handle and prepare funds for submission to the Division of Administration. She further stated that when she is on leave or out of the office, LMHC holds funds for deposit.

Recommendation:

7. LMHC should develop written cash management procedures that ensure timely submission of funds to the Division of Administration for deposit into the state treasury.

Weaknesses in Accounting for Installation Permits

LMHC has not developed adequate written procedures that ensure it has properly accounted for the sale and issuance of installation permits, which could lead to lost revenue.

LSA-R.S. 51:912.27 requires the installer of a manufactured home be either the homeowner or a licensed installer. The person installing the home is required to obtain an installation permit from LMHC and affix the sticker to the home within 30 days of delivery, unless there are extenuating circumstances. LMHC also licenses the installers.

LMHC sells installation permits for \$20 each to either the homeowner or licensed installer. The sale of installation permits traditionally accounts for approximately 40% of LMHC's annual income.

Installation permits consist of a card and detachable sticker. Both the card and the sticker are pre-numbered. The card requires the installer to provide specific information such as the installer's name, installer's license number, homeowner's name and address, and directions to the home. The installer affixes the corresponding sticker to the manufactured home.

Homeowners or licensed installers must submit a completed application to purchase an installation permit. The application requires the name of the purchaser, installer, license number, address, telephone number, number of permits purchased and total dollar amount of the transaction.

LMHC employees enter information obtained from the permit application into a permit database. Employees enter funds received into a receipt database listing a receipt number, payor, date, check number, and amount. Staff then prepare a transmittal sheet, which includes the checks received and a printout of corresponding receipt numbers.

As licensed installers use the permits, information required on the card is completed and mailed to LMHC. LMHC then enters information obtained from the cards into its installation database.

Our review of the installation permits process disclosed the following internal control weaknesses:

- LMHC does not account for all permit cards after they have been printed to ensure that each individual card has been consecutively numbered and is not damaged.
- LMHC does not file permits available for sale in an orderly fashion; thereby, allowing an employee to issue permits out of sequence as evidenced by the installation permits database.

- Some LMHC employees do not fully complete all applications for permits as to check number, amount, and date received.
- LMHC does not give receipts to customers unless requested.
- LMHC does not prepare a monthly reconciliation of installation permits issued to receipts generated and deposits made.

In addition, we reviewed 6,712 installation permits sold from July 1, 2004 through May 18, 2005; the results of our review are as follows:

- LMHC was unable to locate a corresponding deposit for five permits (039301 through 039305) sold to a current LMHC member on September 20, 2004. Subsequently, LMHC notified the member who remitted \$100 on July 22, 2005 (ten months later).
- LMHC was unable to explain the disposition of one permit (040901).
- LMHC was unable to locate the corresponding deposit for 10 permits (041853 through 041862) sold on February 9, 2005.
- Ten permits (042496 through 042505) shown as sold on March 11, 2005 should have had a corresponding \$200 deposit. The permit application confirms that LMHC processed 10 permits. However, the deposit for this transaction only totaled \$100. Subsequently, LMHC notified the installer who remitted an additional \$100 on July 20, 2005.
- LMHC was unable to explain the disposition of 20 permits (043001 through 043020). Subsequently, we noted that an installer had returned eight of the 20 permit cards indicating he used them. We were unable to contact the installer to discuss the eight returned permit cards and determine the disposition of the remaining 12.

Recommendations:

8. LMHC should develop formal written procedures that ensure proper accounting for the sale and issuance of installation permits.
9. LMHC should conduct regular reconciliations of its installation permits and investigate the outstanding installation permits noted above.

Installation Complaints Not Handled Timely

LMHC lacks an effective system to ensure its employees work installation complaints timely. Extended periods elapsed between LMHC receiving the complaint, investigating the installation, and issuing fines when necessary.

LSA-R.S. 51:912.21 through 51:912.28 requires that home installations meet the manufacturer's installation requirements if available or the guidelines set forth in the statutes.

According to LMHC employees, they receive installation complaints from homeowners and concerned third parties. LMHC then logs these complaints into a database and a file folder is established. LMHC assigns an investigator to conduct an onsite installation inspection. The investigator records any deficiencies found with the home installation on an inspection report. This report is mailed to the installer allowing 30 days to correct the problems and return the report to LMHC. The installer must sign and date the report certifying the corrections were made.

Furthermore, when an installer is found to be unlicensed, LMHC issues a cease and desist order along with a subpoena for all records of previous installations. An unlicensed installer is fined \$500 for each installation.

Finally, licensed installers failing to correct reported problems within the allotted 30-day period are issued a \$500 fine. Installers are given 30 days to pay the fine or appeal to LMHC. Fines not paid or appealed within the 30-day period are given to the LMHC attorney for further action. The attorney sends a demand of payment letter allowing an additional 14 days to pay the fine.

We reviewed 22 (41%) of 53 consumer complaints recorded by LMHC for the period January 1, 2005 through June 7, 2005. We found that 14 (64%) of the 22 complaint files contained one or more problems with timeliness. The days shown below reflect a June 7, 2005 cutoff as follows:

- Ten case files showed an extended period from 35 to 88 calendar days between the date LMHC received the complaint and date of the investigator's inspection report.
- Five case files showed 20 to 32 calendar days between the investigator's inspection report and certified letter to the installer requiring corrections.
- Two case files showed 38 to 40 calendar days had elapsed from the expiration of the 30-day period given to the installer to correct problems and the issuance of the fine to the installer.
- Two case files showed an extended period from 17 to 38 days had elapsed from the 30-day period for the installer to pay the fine and the demand letter from the attorney.

LMHC employees attributed problems with handling complaints to deficiencies with the database used to record and track complaints and a lack of field personnel to inspect the homes. In addition, LMHC has not established a comprehensive set of procedures along with an acceptable timeline to work complaints once received.

As a result, LMHC may not always ensure that faulty home installations are corrected in a timely manner to comply with manufacturer's installation requirements or the guidelines set forth in the statutes.

Recommendations:

10. LMHC should develop formal written complaint handling procedures along with an acceptable timeline that ensures complaints are handled timely and installation problems are corrected timely.
11. LMHC should review all currently active installation complaints to ensure they are properly recorded and worked in a timely manner.
12. LMHC should evaluate its staffing needs for complaint handling to speed up complaint resolution.

Inadequate Tracking and Collection of Past Due Fines

LMHC does not ensure past due fines are properly tracked and aggressively collected. LSA-R.S. 51:911.21 et seq. and R.S. 51:912.21 et seq. give LMHC broad powers over licensees including the issuance of fines and the authority to sue. LMHC imposes fines varying in amount from \$100 for failure to submit a monthly report to \$1,000 for hiring an unlicensed installer. In addition, minutes of the June 18, 2002 LMHC meeting, state the LMHC attorney will file civil law suits on individuals that have not responded to fines and collection letters.

LMHC contracted with an attorney for the period July 1, 2002 through June 30, 2005. Among the duties listed in the contract were the preparation of 14-day demand letters and the filing of all lawsuits on behalf of LMHC. The contract is no longer in effect and LMHC is now represented by the Attorney General's Office.

Our review of the past due violations process revealed several problems as follows:

- Two LMHC employees track the fines issued by LMHC, both using a different method, primarily job knowledge and experience.
- LMHC did not maintain a written record of past due violations given the attorney or actively track the progress of the collection process.
- The former LMHC contract attorney did not maintain a record of cases received and actions taken. We were unable to find written reports containing the status of cases, which could be presented to LMHC. A review of the minutes and tape recordings of commission meetings revealed oral presentations concerning the status of cases were usually general in nature with few specifics of the cases.

In addition, we reviewed 24 case files that have exceeded the deadline to pay the fine; the results of our review are as follows:

- Eleven cases were unresolved with fines totaling \$32,500 where we noted the following:
 - Six case files did not contain a 14-day demand of payment letter and indicate no further action taken. These cases had fine expiration dates ranging from September 2004 to January 2005.
 - Three case files contained a 14-day demand of payment letter and indicate no further action taken. The demand of payment letters were dated from four months to eight months after the fine expiration dates.

- Two unresolved case files contained civil law suits. These suits were filed between three weeks and six months past the deadline to pay the fine.
- LMHC closed the remaining 13 files with fines collected of \$4,250. However, we noted that 12 case files contained 14-day demand of payment letters dated between two months and nine months after the fine expiration date.

Recommendations:

13. LMHC should develop written procedures to ensure past due fines are properly tracked and aggressively collected.
14. LMHC should promulgate rules imposing penalties or authorizing other actions such as license suspension or revocation for violators who do not pay fines timely.
15. LMHC should turn over unresolved cases to the Attorney General.

Inconsistent Installation Inspection Reporting

LMHC lacks uniform reporting requirements to ensure its field investigators accurately report the number of home installation inspections conducted. Prudent business practice requires that LMHC management must have accurate and uniform information to assist it in monitoring and directing operations toward organizational goals and objectives.

LMHC employs three field investigators and one investigator supervisor to perform various duties, which include manufactured home installation setup inspections. As part of its annual operational plan, LMHC has established a goal of inspecting 60% of all reported manufactured home installations.

For our audit period of July 2004 through March 2005, LMHC reported that its investigators inspected approximately 60% of manufactured home installations. LMHC derived this percentage from inspections reported by investigators on monthly inspection reports and total installations reported by licensed installers.

Investigators are required to complete a daily activity report that details activities performed. Activities listed in the report include home inspections, travel, office, training, leave, et cetera. Our review of daily activity reports for each investigator during our audit period disclosed the documents contain inconsistent reporting data.

For example, one investigator reported the address of the home and permit sticker number for a setup inspection while another investigator reported multiple inspections in a mobile home park without listing permit sticker numbers. The investigator supervisor also performs setup inspections but until recently was not required to complete a daily activity report.

In a majority of cases, the daily activity report is the only document, which records a setup inspection, listing an address and permit sticker number. The investigators prepare an individual setup inspection report when a problem with the installation is noted; however, these reports were not completed for routine inspections.

In addition to the daily activity report, investigators prepare a monthly inspection count report that separates inspections into various categories of state and federal inspections. LMHC employees stated they use the state inspections reported by investigators on the monthly inspection count report to establish the percent of homes inspected.

A comparison of the monthly inspection count report with the daily activity report for our audit period disclosed the number of inspections reported in the two documents does not agree. For example, the three investigators submitting daily reports reported 2,087 inspections. For the same period, the three investigators submitted monthly inspection reports showing they conducted 1,897 inspections.

Interviews with the field investigators indicate they use different methods of reporting setup inspections on the monthly inspection count report. Two of the investigators stated an individual inspection could be reported in several categories. In addition, some of the inspections reported on the monthly report would not meet the requirements of a setup inspection.

LMHC used the numbers reported by the field investigators to determine the total number of home setup inspections. However, LMHC did not realize the numbers were inflated due to duplication and definition of a setup inspection. Since an accurate number of inspections cannot be determined due to the problems cited, LMHC does not know if it is meeting its desired inspection goal.

Subsequent to our audit, field investigators are now required to complete an individual setup inspection report for each inspection performed.

Recommendation:

16. LMHC should include reporting procedures in its policies and procedures manual, once developed, to ensure its employees report their work activities accurately and uniformly.

APPENDIX A

LMHC Response



Kathleen Blanco
GOVERNOR

State of Louisiana Manufactured Housing Commission



Deane Frazier
EXECUTIVE DIRECTOR

February 17, 2006

Ms. Sharon B. Robinson
State Inspector General
224 Florida Blvd.
Suite 303
Baton Rouge, LA 70801

Dear Ms. Robinson:

Enclosed herewith please find the official response of the Louisiana Manufactured Housing Commission to the "draft audit report" provided to me on February 7, 2006. If I can be of any further assistance to you, please do not hesitate to contact me.

Best Regards,

A handwritten signature in black ink, appearing to read "Michael Canimmarosano".

Michael Canimmarosano
Chairman, LMHC

224 Florida St., Suite 101, Baton Rouge, LA 70801
(225) 342-2943 fax: (225) 342-2999
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LOUISIANA MANUFACTURED HOUSING COMMISSION



KATHLEEN BLANCO
GOVERNOR

DEANE FRAZIER
EXECUTIVE DIRECTOR

Preface

On behalf of the Louisiana Manufactured Housing Commission (hereinafter LMHC), I Michael Cammarosano, Chairman, acknowledge receipt of, on February 7, 2006, a “draft audit report” prepared by Gordon Devall of the Office of State Inspector General, and wish to express appreciation to those involved in this audit review for the constructive information presented in connection with this audit. Please have every assurance that this information will be utilized to address *operational deficiencies of the LMHC*. However, at the outset of my response, I would like to make you aware that since the time of this audit (audit period: January 1, 2004 through June 28, 2005) a new permanent Executive Director, Deane Frazier, has been employed to lead the LMHC. Deane’s employment with the LMHC became effective November 14, 2005, and in the short time of her tenure as Director, she has identified many of the concerns/problems outlined in this report and is in the process of developing and implementing policies and procedures that will address many of the management control weaknesses identified in your audit report. Additionally, prior to her arrival, certain changes in procedure were implemented at the initiative of the LMHC, which similarly addressed operational deficiencies of the LMHC. The following will respond to individual findings and recommendations, as well as provide a status report of any corrective action *taken or planned to be taken if necessary*. A timetable for implementation of corrective action will be defined in terms of a short-term goal, to be implemented within 0-3 months; an intermediate term goal, to be implemented within 3-6 months or a long-term goal to be implemented with 6-9 months.

Response to Findings and Recommendations

Inspector General Findings:

I. “Commission Member Allows Unlicensed Salesman to Initiate Sales”

- **Response: Concur** – Commission member allows unlicensed salesman to initiate sales

A. Inspector General Recommendations:

1. “LMHC should immediately request an Attorney General’s opinion regarding clarification of the term ‘offer for sale.’ Then LMHC should seek to amend LSA-R.S. 51:911.24 (A) (1) as appropriate.”
2. “LMHC should adopt, and follow rules that will ensure its fines are imposed consistently.”
 - **Response: Concur in part** - A resolution requesting an Attorney General opinion of what constitutes an “offer for sale” is necessary. However, LSA-R.S. 51:911.22 may be the more appropriate provision of our statute to amend upon receipt of said opinion

- **Response: Concur** - LMHC should update its rules to ensure fines are imposed consistently

(a) Corrective Action Take or Planned:

- Deane Frazier, Director of the LMHC, will draft and transmit to Attorney General Foti a resolution requesting an opinion of what constitutes an “offer for sale” within seven days of submission of this report
- Upon receipt of such opinion, the LMHC enabling legislation should be amended at the first reasonable legislative opportunity
- It is an intermediate term goal of the LMHC to review and update all of its rules governing imposition of civil fines
- Deane Frazier, Director of the LMHC, will initiate process to comprehensively review and update all rules governing imposition of civil fines. It is anticipated that a comprehensive review and update of rules governing imposition of civil fines be completed no later than 6 months from submission of this report

II. “Administrative Rules Not Properly Amended”

- **Response: Concur** – The LMHC should review, update and promulgate appropriate administrative rules
3. “LMHC should seek assistance from the Office of State Register to promulgate rules for its new fine amounts in compliance with the LAPA.”

- **Response: Concur in part** - LMHC should seek assistance form the Office of State Register to promulgate updated rules governing new fine amounts, in addition to promulgating other appropriate revisions

(a) Corrective Action Take or Planned:

- It is a long term goal of the LMHC to review and update all of its rules governing imposition of civil fines, in addition to promulgating other appropriate revisions
- Deane Frazier, Director of LMHC, will initiate process to comprehensively review, update and promulgate all applicable rules and regulations in accordance with the Louisiana Administrative Procedure Act. It is anticipated that a comprehensive review, update and promulgation of all rules and regulations be completed no later than 9 months from submission of this report

III. “Lack of Policy and Procedures Manual”

- **Response: Concur** – The LMHC should develop a comprehensive Employee Policy and Procedures Manual governing operational and reporting activities

4. "The Executive Director should develop a detailed policy and procedures manual governing all LMHC's internal operations, to include the various recommendations noted within this report related to policy and procedures, subject to review and approval by the LMHC. This manual should be kept updated and include expected timelines for completing various tasks and procedures for cross-training employees."

➤ **Response: Concur** - The Executive Director should develop a detailed policy and procedures manual governing all LMHC internal operations, including the various recommendations noted within this report related to policy and procedures, subject to review and approval by the LMHC. This manual should be kept updated and include expected timelines for completing various tasks and procedures for cross-training employees

(a) Corrective Action Take or Planned:

- It is a short term goal of the LMHC to develop detailed policies and procedures governing operational and reporting activities of the LMHC in those areas identified in the audit report as operational deficiencies
- Deane Frazier, Director of the LMHC, will initiate process to develop detailed policies and procedures governing operational and reporting activities of the LMHC in those areas identified in the audit report as operational deficiencies. It is anticipated that such policies and procedures be drafted no later than 3 months from submission of this report
- It is a long term goal of the LMHC to develop a more comprehensive detailed policy and procedures manual which includes: objectives of the agency; activities/functions of the agency; the interrelationships of individuals working on the same activity and function; the responsibilities of individuals working on agency activities; and guidelines that control the actions of personnel
- Deane Frazier, Director of the LMHC, will initiate process to develop comprehensive detailed policy and procedures manual which includes: objectives of the agency; activities/functions of the agency; the interrelationships of individuals working on the same activity and function; the responsibilities of individuals working on agency activities; and guidelines that control the actions of personnel. It is anticipated that such manual be drafted no later than 9 months from submission of this report

IV. "LMHC Databases Not Properly Maintained"

- **Response: Concur in part** - The LMHC databases should possess a reasonably high degree of veracity given the LMHC constraints of aged hardware & software, as well as incomplete reporting of requested information by the public
5. "LMHC should develop written input validation procedures to guide its employees in proper data entry and verification."

6. "LMHC should ensure its database systems contain proper system edit checks to prevent invalid data entries."

➤ **Response: Concur in part** - The LMHC database accuracy/completeness is determined, in part, by: (a) the quality/completeness of the information furnished by the public and (b) the hardware/software utilized to manage the information stored in its databases. Current LMHC hardware/software may not allow for proper system edit checks to prevent invalid data entries. Accordingly, given the LMHC constraints of aged hardware & software, as well as incomplete reporting of requested information by the public, the LMHC databases should possess a reasonably high degree of veracity

(a) Corrective Action Take or Planned:

- It is a short term goal of the LMHC to improve the veracity of all the LMHC databases through developing written input validation procedures as part of a larger process of developing detailed policies and procedures governing various LMHC internal operations
- Deane Frazier, Director of the LMHC, will initiate process to develop detailed policies and procedures governing various LMHC internal operations. It is anticipated that through developing appropriate policies and procedures governing various LMHC internal operations, the veracity of all the LMHC databases will be improved. It is anticipated that such policies and procedures be drafted no later than 3 months from submission of this report
- The LMHC will pursue a course of replacing computer hardware/software as time and resources permit

V. "Cash Management Procedures Need Improvement"

- **Response: Concur** – The LMHC should implement formal cash management policies and procedures

7. "LMHC should develop written cash management procedures that ensure timely submission of funds to the Division of Administration for deposit into the state treasury."

➤ **Response: Concur** - The Director should develop detailed policies and procedures governing cash management

(a) Corrective Action Take or Planned:

- Deane Frazier, Director of the LMHC, will initiate process to develop a formal cash management procedure. It is anticipated that such policy be implemented no later than 3 months from submission of this report

VI. "Weaknesses in Accounting for Installation Permits"

- **Response: Concur in part** - As a result of this audit review, the LMHC has implemented policies and procedures designed to improve the installation permit accounting function

8. "LMHC should develop formal written procedures that ensure proper accounting for the sale and issuance of installation permits."
9. "LMHC should conduct regular reconciliations of its installation permits and investigate the outstanding installation permits noted above."

- **Response: Concur in part** - Policies and procedures should and have been implemented which are designed to ensure proper accounting and issuance of installation permit stickers, including monthly reconciliations of installation permit stickers sales to receipts generated and deposits made
- **Response: Disagree** - Given the volume of stickers that the LMHC sales annually, the time that has elapsed since the unaccounted for permit stickers and corresponding deposits (totally \$420.00) were first noted, together with the efforts that were presumably made to account for such items at the time the problem was first noted, it is not believed that it is cost effective or a wise use of limited resources to expend additional time and resources researching the whereabouts of these stickers. Particularly since it is believed that the lost money will not be recovered

(a) Corrective Action Taken or Planned

- Deficiencies with the permit sticker database noted at the time of the audit have been addressed
- *The Director has employed new personnel to maintain this database effective 2/8/06. By employing new personnel to maintain this database, the goal is to bring this database current and thereafter prospectively input data from Applications to Purchase Installation Permit Stickers simultaneous with the sale of installation permit stickers*
- Since installation permits are printed and acquired from printer in very large quantities (approximately 10,000 stickers per order), installation permit stickers are removed and prepared for sale in smaller manageable quantities. When stickers are prepared for sale, they are checked individually to ensure that they are numbered consecutively and are thereafter bundled in sets of 100
- Any skips in the consecutive numbering scheme are documented
- Permit stickers are stored and placed for sale in a consecutive manner in an effort to ensure that they are distributed to the public sequentially
- Applications to Purchase Permits Stickers are received by mail or in person. When an application is received in person, staff are to ensure that the application is filled out completely, noting the date of purchase and the check number, etc. When incomplete applications to purchase permit stickers are received by mail, staff should make reasonable efforts to obtain the missing information where feasible

- The LMHC will begin to issue receipts to purchasers of permit stickers effective immediately
- The LMHC currently conducts monthly reconciliations of its installation permits issued to receipts generated and deposits made
- Deane Frazier, Director of the LMHC, will initiate process to memorialize in writing formal policies and procedures to account for the sale and issuance of installation permit stickers. It is anticipated that such policies and procedures be drafted no later than 3 months from submission of this report

VII. "Installation Complaints Not Handled Timely"

- **Response: Concur** – LMHC is not handling installation complaints in a timely fashion
10. "LMHC should develop formal written complaint handling procedures along with an acceptable timeline that ensures complaints are handled timely and installation problems are corrected timely."
 11. "LMHC should review all currently active installation complaints to ensure they are properly recorded and worked in a timely manner."
 12. "LMHC should evaluate its staffing needs for complaint handling to speed up complaint resolution."
- **Response: Concur** – The LMHC should develop detailed policies and procedures governing the handling of installation complaints, together with an acceptable timeline for handling such complaints. Additionally, the LMHC should review its staffing needs and, at the first available opportunity, review all currently active installation complaints

(a) Corrective Action Taken or Planned

- Deane Frazier, Director of the LMHC, will initiate process to develop policies and procedures to govern the handling of installation complaints in a more timely fashion. It is anticipated that such policies and procedures be implemented no later than 3 months from submission of this report

VIII. "Inadequate Tracking and Collection of Past Due Fines"

- **Concur in part** - At the time of this audit report, the LMHC was not adequately and aggressively imposing, tracking and collecting civil fines; however, the LMHC has recently contracted with the Attorney General's office to assist with the collection of fines imposed by the LMHC. The LMHC has also implemented certain policies and procedures designed to improve the internal process of tracking civil fines imposed by the LMHC
13. "LMHC should develop written procedures to ensure past due fines are properly tracked and aggressively collected."

14. "LMHC should promulgate rules imposing penalties or authorizing other actions such as license suspension or revocation for violators who do not pay fines timely."

15. "LMHC should turn over unresolved cases to the Attorney General."

- **Response: Concur** – Policies and procedures should and have been implemented which are designed to ensure that past due fines are properly tracked and timely referred to the Attorney General if not collected by the LMHC
- **Response: Concur in part** – As part of the comprehensive update of all appropriate rules and regulations, the LMHC should consider the option of promulgating rules and regulations imposing penalties or authorizing other actions such as license suspension or revocation for violators who do not pay fines timely
- **Response: Concur** – It is believed that the Attorney General can most efficiently handle the collection of LMHC fines

(a) Corrective Action Taken or Planned

- The LMHC has contracted with the Collections Section of the Attorney General's office to collect fines imposed by the LMHC. All outstanding fines that are in excess of 40 days old have been referred to the Attorney General's office. This arrangement allows the LMHC to aggressively pursue violators
- The Attorney General's office maintains detailed tracking/status reports which are presented at the monthly LMHC meetings
- In an effort to ensure proper internal tracking, new policies and procedures have been implemented which redefine with more specificity newly imposed, (for a given reporting period) as well as, pending LMHC fines (a pending fine is a fine that the LMHC office is attempting to collect prior to referring it to the Attorney General. Various letters are issued by the LMHC office prior to referring it to the Attorney General.) Additionally, Deane Frazier, Director of the LMHC, will initiate process to memorialize in writing formal policies and procedures for internal tracking and handling of LMHC fines. It is anticipated that such policies and procedures be drafted no later than 3 months from submission of this report

IX. "Inconsistent Installation Inspection Reporting"

- **Concur in part** - At the time of this audit report, the LMHC investigators were not reporting field inspections in a consistent fashion. As a result of this audit review, the LMHC has implemented certain policies and procedures designed to improve the field inspection accountability and reporting function

16. "LMHC should include reporting procedures in its policies and procedures manual, once developed, to ensure its employees report their work activities accurately and uniformly."

➤ **Response: Concur** – Certain policies and procedures should and have been implemented which are designed to improve the field inspection accountability and reporting function

(a) Corrective Action Taken or Planned

- As a result of this audit review, the LMHC implemented a policy that the field supervisor prepare a Daily Activity Report
- As a result of this audit review, the LMHC implemented a policy that all investigators and supervisors in the field prepare an installation inspection setup report in connection with any inspection, proper or improper
- The LMHC has recently revised and redefined with greater specificity the way in which inspections should be accounted for on a Monthly Inspection Count Report
- Effective 2/25/06 supervision of all LMHC field inspectors will be transferred to the LMHC Director. When this transfer is complete, the Director will place a high degree of scrutiny on all investigator reporting documents, including the Daily Activity Reports, Setup Inspection Reports, Monthly Inspection Counts and Fuelman gas bills to ensure that these documents cross reference and that reporting is accurate, consistent, complete and not duplicated

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A copy of this report has been made available for public inspection at the Office of State Inspector General and is posted on the Office of State Inspector General's Web site at www.doa.louisiana.gov/oig/inspector.htm. Reference should be made to Case No. 2-05-0002. If you need any assistance relative to this report, please contact Bruce J. Janet, CPA, State Audit Director at 225/342-4262.