CALIFORNIA STATE AUDITOR

Department of Housing and Community Development:

Despite Being Mostly Prepared, It Must Take Additional Steps to Better Ensure Proper Implementation of the Recovery Act's Homelessness Prevention Program

February 2010 Letter Report 2009-119.3

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February 25, 2010 Letter Report 2009-119.3

The Governor of California
President Pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This letter report presents the results of a review conducted by the Bureau of State Audits (bureau) concerning the preparedness of the Department of Housing and Community Development (department) to receive and administer funds under the American Recovery and Reinvestment Act of 2009 (Recovery Act). Under this act, the U.S. Department of Housing and Urban Development (HUD) awarded funds to the department for the State's portion of the Homelessness Prevention and Rapid Re-Housing Program (Homelessness Prevention program). On February 17, 2009, the federal government enacted the Recovery Act for purposes that include preserving and creating jobs; promoting economic recovery; assisting those most affected by the recession; investing in transportation, environmental protection, and other infrastructure; and stabilizing state and local government budgets. The Recovery Act also states that the funds authorized should be spent to achieve the above purposes as quickly as possible, consistent with prudent management. See the Appendix for a table summarizing the department's level of preparation for managing the Homelessness Prevention program.

The department has taken many steps to position itself to successfully administer its portion of the Homelessness Prevention program. For example, it has implemented processes to minimize the time that elapses between drawing down Homelessness Prevention funds and disbursing them to subrecipients such as cities, counties, and local nonprofit organizations, and to help ensure that these funds are spent by certain deadlines. However, the department could take additional steps to improve its administration of the program. These steps include developing and implementing processes to ensure that subrecipients do not maintain excessive balances of federal funds and finalizing and implementing guidelines for monitoring subrecipients. Additionally, the department could develop written policies for practices that it states it currently follows, such as its periodic review of its spending for administrative costs. Further, it could document actions it takes while administering the program, such as recording the date that it submits Recovery Act information to the State.

Recommendations

To strengthen the processes over its administration of the Homelessness Prevention program, the department should take the following actions:

- Develop and implement necessary policies that are currently absent.

- Finalize and implement those policies that are currently in draft form.

- Put into writing those practices that it states it currently follows.
- Document actions it takes while administering the program.

Background

On February 17, 2009, the federal government enacted the Recovery Act for purposes that include preserving and creating jobs; promoting economic recovery; assisting those most affected by the recession; investing in transportation, environmental protection, and other infrastructure; and stabilizing state and local government budgets. One general principle of the Recovery Act is that the funds be used to achieve its purposes as quickly as possible consistent with prudent management.

Accountability Requirements for the Use of Recovery Act Funds

Accountability and transparency are cornerstones of the Recovery Act. In its February 18, 2009, initial guidance for implementing the Recovery Act, the U.S. Office of Management and Budget (OMB) directed federal agencies to immediately take critical steps to meet the accountability objectives defined in the text box. On April 3, 2009, the OMB updated its initial guidance to clarify existing provisions, such as those related to the mechanics of implementing the reporting requirements of the Recovery Act, and to establish additional steps that must be taken to facilitate the accountability objectives of the Recovery Act. In addition to the guidance the OMB issues, federal agencies responsible for administering Recovery Act programs provide guidance for states, local governments, and Indian tribes that use program funds or provide them to subrecipients.

Accountability Objectives for Implementing the American Recovery and Reinvestment Act of 2009

- American Recovery and Reinvestment Act of 2009 (Recovery Act) funds are awarded and distributed in a prompt, fair, and reasonable manner.
- The recipients and uses of all Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, and abuse is mitigated.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

Source: U.S. Office of Management and Budget's *Initial Implementing Guidance for the Recovery Act*, February 18, 2009.

The Recovery Act also established the Recovery Accountability and Transparency Board (Recovery Board) to coordinate and conduct oversight of federal agencies' handling of Recovery Act funds in order to prevent fraud, waste, and abuse. The Recovery Board's responsibilities include auditing or reviewing funds to determine whether wasteful spending, poor contract or grant management, and other abuses are occurring, as well as referring matters it considers appropriate for investigation to the inspector general of the federal agency that distributed the funds. The Recovery Board must also coordinate its oversight activities with the Comptroller General of the United States (better known as the Government Accountability Office, or GAO) and state auditors.

The OMB provides guidance for conducting state and local audits of federal financial assistance programs, including those programs authorized or augmented by the Recovery Act. The Single Audit Act of 1984 established requirements for audits of states, local governments, and Indian tribes that administer federal financial assistance programs. The OMB provides program compliance requirements for recipients of federal financial assistance program funds and guidelines to assist auditors in performing required audits. For Recovery Act programs, this guidance is contained in OMB's 2009 *Compliance Supplement to Circular A-133* and the June 30, 2009, *Addendum to the Compliance Supplement.*

California's Administration of the Homelessness Prevention Program

The Recovery Act created the Homelessness Prevention program. Under this program, HUD provides funds to grantees such as states, metropolitan cities, urban counties, and four territories for the purposes of providing assistance to households that would otherwise become homeless—many due to the economic crisis—and rapidly re-housing persons who are homeless as defined by federal law. The Recovery Act designated a total of $1.5 billion for the Homelessness Prevention program, of which California was awarded $189.1 million. Of that amount, HUD awarded $144.6 million directly to California cities and counties. HUD awarded the department the remaining $44.5 million to administer the State's portion of the program to cover costs related to the following four areas: [1]

- Financial assistance, which is limited to short- and medium-term rental assistance, security deposits, utility deposits and payments, moving cost assistance, and motel and hotel vouchers.
- Housing relocation and stabilization services, which are limited to case management, outreach and engagement, housing search and placement, legal services, and credit repair.

1 HUD requirements prohibit making payments directly to program participants; payments must be made to third parties such as landlords and utility companies.

- Data collection and evaluation, which includes the purchase of computer software and user licenses; leasing or purchasing computer equipment; costs associated with data collection, entry, and analysis; computer system staffing and training; and costs for participating in HUD research and evaluation of the program.

- Administrative costs, which include preaward administrative costs; the costs involved in accounting for the use of grant funds, preparing reports for submission to HUD, obtaining program audits, and similar costs related to administering the grant after the award; and the salaries of staff associated with the administration of Homelessness Prevention funds.

The department intends to provide $42.7 million (96 percent) of its $44.5 million award to subrecipients.

The Recovery Act allows grantees such as the department to use up to 5 percent of their grant award for administrative costs. The department intends to keep $1.8 million (4 percent) of the total grant amount to cover its own administrative costs and provide the remaining $42.7 million (96 percent) to subrecipients.

To obtain Homelessness Prevention funds, the department successfully met federal deadlines to apply for the funds and to award them to subrecipients. HUD required eligible grantees interested in receiving Homelessness Prevention awards to submit applications by May 18, 2009, and required each applicant to include a "substantial amendment" to its "action plan" with its application. In its substantial amendment the grantee must address major components of its plan to use Homelessness Prevention program funds, including the grantee's plan for distributing, administering, and overseeing the use of the funds; the grantee's plan for collaborating with local organizations receiving Recovery Act funds; and a budget estimate for Homelessness Prevention funds. The department signed its substantial amendment on May 18, 2009.

To notify subrecipients of the availability of Homelessness Prevention funds, and to request proposals from eligible subrecipients, the department issued a notice of funding availability (NOFA) dated July 8, 2009. The department asked potential subrecipients to submit their applications for Homelessness Prevention funds by August 6, 2009. On September 11, 2009, HUD granted the department's Homelessness Prevention award. Federal requirements directed grantees to obligate grant funds to their subrecipients by September 30, 2009. The department sent grant award letters dated September 21, 2009, to the 31 subrecipients it selected, awarding them $42.7 million in Homelessness Prevention funds.

Records indicate that the department executed contracts with its 31 subrecipients by October 15, 2009. Individual awards ranged in size from $500,000 to $1.6 million. Further, the Recovery Act sets two spending deadlines. It dictates that 60 percent of Homelessness Prevention funds be spent within two years from the date that the funds became available for obligation and that 100 percent be spent within three years. Because HUD's award letter to the department is dated September 11, 2009, the department and its subrecipients must spend 60 percent of their Homelessness Prevention funds by September 10, 2011, and 100 percent by September 10, 2012.

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Executive Branch Oversight of Recovery Act Funds

California provides guidance and oversight of state agencies' use of Recovery Act funds through entities such as the California Recovery Task Force (task force), the California Office of the Inspector General, and the Department of Finance. The governor created the task force in March 2009 through Executive Order S-02-09. The task force is led by a senior advisor to the governor, and its responsibilities include ensuring that the State receives the optimal benefit from the Recovery Act, ensuring that the funds are used strategically and in a manner consistent with federal requirements, and providing accountability and transparency regarding the programs funded under the Recovery Act.

Further, in April 2009 the governor signed Executive Order S-04-09, creating the Office of the Inspector General as an entity independent of the task force. According to the governor's executive order, the inspector general's responsibilities include protecting the integrity and accountability of the expenditure of Recovery Act funds by detecting and preventing fraud, waste, and misconduct in the use of those funds and conducting periodic reviews and audits to ensure that state and local governments comply with the federal requirements of the Recovery Act and state law. The Department of Finance, among other duties, serves as the governor's chief fiscal policy adviser and ensures the financial integrity of the State by issuing policy directives and by monitoring and auditing expenditures and internal controls of state departments to ensure compliance with the law, approved standards, and policies.

Scope and Methodology

The Joint Legislative Audit Committee requested that the bureau conduct a review of California's preparedness to receive federal Recovery Act funds for selected federal programs. Using selection criteria contained in the audit request, we chose the Homelessness Prevention program for review. To gain an understanding of the program's requirements, we obtained and reviewed laws, rules, and guidance from federal oversight agencies that are relevant to the program and significant to the audit objectives. We also reviewed the *Federal Register* to determine whether the OMB or HUD had proposed new regulations governing the use of Homelessness Prevention funds as of February 3, 2010.

To gain an understanding of its internal controls, or processes, for helping to ensure compliance with applicable federal requirements, we interviewed the department's management and staff and reviewed relevant documents. To determine the reasonableness of these processes, we identified and evaluated the department's internal processes for eight broad areas, such as managing federal funds and monitoring subrecipients. We also evaluated the effectiveness of the processes that the department had already implemented for two of those broad areas by testing a sample of 12 payments the department made to subrecipients. In addition, we assessed the extent to which the department is prepared to receive and administer the federal funds. We primarily used program risk considerations and other program guidance developed by the OMB and HUD, as well as requirements identified in the federal grant award, to evaluate the department's processes for receiving and administering the funds.

The Department Has Taken Several Actions to Help It Meet Homelessness Prevention Requirements, but It Should Do More

The department has taken steps to help ensure that it complies with federal requirements governing the use of Homelessness Prevention funds. As a condition of receiving these funds, the Recovery Act and HUD requirements direct the department to meet several federal requirements, including monitoring subrecipients to ensure that they adhere to the various federal requirements governing the program, ensuring that funds are spent by specified deadlines and only on allowable activities, and reporting specific data elements to the federal government. The department provided guidance to subrecipients to help ensure that they comply with Homelessness Prevention requirements. Additionally, the department has established processes to help it manage Homelessness Prevention funds. For example, the department established procedures to help it avoid exceeding a federally imposed cost limit. It also implemented processes to minimize the time that elapses between its receipt of Homelessness Prevention funds and its disbursements to subrecipients, ensure that Homelessness Prevention funds are spent by certain deadlines, and ensure that funds are spent only on activities permitted under the program.

Although the department has taken these steps, it should also take others. Specifically, the department should develop and implement policies that are currently absent, should finalize and implement other processes that are currently in draft form, should put into writing certain unwritten practices that it currently follows, and should document actions it takes related to its administration of the Homelessness Prevention program. Nonexistent, draft, and unwritten processes can inhibit the prevention or detection of instances of noncompliance, which in turn can lead to remedial actions being taken by the federal government against the department. These remedial actions can include penalties up to withholding funds, suspension, debarment, and termination.

The Department Has Taken Steps to Help Ensure That Subrecipients Comply With Federal Requirements

The department has taken steps to help ensure that it complies with various monitoring requirements related to its subrecipients' use of Homelessness Prevention funds. HUD requires the department to ensure that its subrecipients fully comply with Homelessness Prevention requirements. These requirements include meeting spending deadlines, providing allowable services, administering grant funds, and not charging fees to program participants. To help ensure compliance with these requirements, the department provided subrecipients with several documents informing them of the federal requirements governing the use of Homelessness Prevention funds. These documents included the NOFA, application material, a 59-page HUD notice[2] containing requirements governing the funds, and the contracts executed with each subrecipient. The department also periodically issues program notices to its subrecipients to communicate or clarify requirements and to keep subrecipients informed of recent developments. As of February 17, 2010, the department had posted seven such program notices on its Web site. Collectively, these notices provide guidance on topics including reporting requirements, eligible expenses, and grant management; the most recent one deals with spending deadlines.

The department is also still developing during-the-award and post-award procedures to help it ensure that subrecipients do not charge program fees. Federal requirements prohibit the charging of fees to participants in the Homelessness Prevention program. According to the program manager, department staff, as part of their contract management, will ask subrecipients whether they

The department is still developing during-the-award and post-award procedures to help it ensure that subrecipients do not charge program fees.

2 *Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees Under the American Recovery and Reinvestment Act of 2009* (Docket No. FR-5307-N-01); effective date: March 19, 2009.

are charging participants any fees to participate in Homelessness Prevention activities. Specifically, the program manager indicated that the department is developing quarterly surveys that it plans to send to each subrecipient, and that an example of the type of question the survey would include is whether the subrecipient had charged any program fees to participants. He also stated that, based upon the responses it receives, the department may require subrecipients to provide follow-up documentation. Moreover, similar to actions it takes for another federal program it administers, the department plans to periodically review subrecipients' fiscal records, such as invoices, receipts, checks, and bank statements as a way of verifying whether the survey responses are accurate.

The program manager stated that the department intends to perform site visits or desk audits for all 31 subrecipients between April 2010 and the end of March 2011.

The department also expects to issue guidelines for monitoring subrecipients. It expects these guidelines to include steps for conducting risk assessments, performing site visits and desk audits, and issuing letters to subrecipients that identify any findings. The program manager stated that the department intends to perform site visits or desk audits for all 31 subrecipients between April 2010 and the end of March 2011. During site visits, the department plans to evaluate whether subrecipients are complying with Homelessness Prevention requirements, such as meeting spending deadlines and avoiding ineligible costs.

The department also plans to review quarterly expenditure and performance reports as part of its monitoring. To help it track its subrecipients' spending of Homelessness Prevention funds, the department created an automated expenditure report for subrecipients to submit at least quarterly (quarterly expenditure report). A quarterly expenditure report consists of various spreadsheets, including ones for each of the four spending categories allowed by federal requirements—financial assistance, housing relocation and stabilization services, data collection and evaluation, and administrative costs—and one that shows the total of a subrecipient's expenses compared with its original award amount. When a subrecipient enters its expenses into the spreadsheets for the four categories, the software automatically rolls the amounts into a summary spreadsheet, which displays the subrecipient's beginning balance, expenses to date by category, total expenses for the subrecipient, and remaining balance of the grant allocation. This tool allows the department and a subrecipient to be aware of the subrecipient's total spending and remaining award balance as of the date of the report. When it receives a quarterly expenditure report, the department plans to request documentation from a subrecipient for one expense item from each major budget category. The department plans to review the documentation for reasonableness, allowability, and accuracy.

Although it has taken steps to help ensure that subrecipients comply with applicable Homelessness Prevention requirements, the department should finalize and implement the processes that it currently has in draft form. Specifically, the department should finalize and implement its guidelines for monitoring its subrecipients. As we mentioned earlier, the department intends to provide most of its Homelessness Prevention grant to its subrecipients—$42.7 million, or 96 percent of its award. Through monitoring of its subrecipients the department seeks to ensure that they meet all applicable requirements. These requirements include:

- Limiting the types of services provided to those allowed by law.
- Limiting the federal cash balances that subrecipients maintain.
- Ensuring that federal funds are maintained in interest-bearing accounts.
- Ensuring that only eligible participants receive program services.
- Ensuring that subrecipients do not charge fees to participants in the program.
- Ensuring that spending deadlines are met.
- Limiting administrative costs to applicable limits.
- Ensuring that information in required reports is accurate and complete.
- Ensuring that subrecipients comply with the requirements stated in the Recovery Act and HUD communications.

The department expects to develop forms for performing risk assessments and issue its final monitoring guidelines by the end of March 2010. Because subrecipients have started to spend their Homelessness Prevention advances, the department should finalize and implement its monitoring guidelines as soon as possible to help it better ensure that the program's requirements are properly met.

The department has not yet developed a written plan to ensure that it can perform site visits or desk reviews for all 31 subrecipients within 12 months.

Further, the department has not yet developed a written plan to ensure that it can perform site visits or desk reviews for all 31 subrecipients within 12 months. The program manager stated that the department intends to conduct either site visits or desk reviews for all 31 subrecipients between April 2010 and the end of March 2011. According to the program manager, a monitoring timeline does not exist because risk assessments have not been completed to determine which subrecipients should receive site visits and which should receive desk audits. However, he stated that a desk audit can take about 30 days to complete while a site visit can take 30 to 45 days. He also stated that the department will make available 2.5 positions to perform these reviews.

As a training exercise, the department conducted a site visit for one subrecipient in December 2009. However, based on the site visit document the department provided, this was not a comprehensive review of the Homelessness Prevention program requirements. According to the document, the department concluded that the subrecipient deposited its advance into an interest bearing account and that testing of a computer system is ongoing. It is clear to us that the site visit was not a complete review and therefore, the department should include this subrecipient with the remaining 30 when performing monitoring between April 2010 and the end of March 2011.

We question whether the department will be able to meet its goal of conducting a site visit or desk audit on all 31 subrecipients between April 2010 and the end of March 2011 with only 2.5 staff available to perform these reviews.

Presuming that all site visits take the minimum amount of time estimated by the program manager, the department would be able to perform a maximum of 30 site visits or desk audits during the year (2.5 positions multiplied by one activity per month, multiplied by 12 months). We question whether the department will be able to meet its goal of conducting a site visit or desk audit on all 31 subrecipients between April 2010 and the end of March 2011 with only 2.5 staff available to perform these reviews. The program manager, however, indicated that department staff can perform multiple desk audits simultaneously—implying that although desk audits may take about 30 calendar days to complete, staff performing these audits will not need to work full-time on only one—and will perform more desk audits than site visits. He concluded, therefore, that the department should be able to meet its goal of conducting an annual review of each subrecipient. He indicated that because department staff can perform multiple desk audits simultaneously and will perform more desk audits than site visits, the department will be able to meet its goal of conducting an annual review of each subrecipient.

Although the program manager indicated that the department will be able to perform site visits and desk audits of all 31 subrecipients within a year, the absence of a written plan, including a timeline, is troubling. We believe that a written plan offers several advantages, including identifying a stated goal, documenting all facts and assumptions used in identifying how to achieve the goal, and allowing management to review the plan before it is implemented to identify any errors and offer corrections.

The Department Has Established a Process to Ensure That It Quickly Provides Funds to Subrecipients

The department has taken steps to help ensure that it quickly provides funds to its subrecipients. Federal regulations require the department to minimize the time period between the drawdown of federal funds and disbursement to subrecipients. As described earlier, HUD awarded the department $44.5 million in Homelessness Prevention funds. Of the $44.5 million award it received, the department awarded $42.7 million (96 percent) to its subrecipients. As of December 31, 2009, the department had disbursed $5 million (11.6 percent) in the form of advances to its subrecipients.

As of December 31, 2009, the department had disbursed $5 million (11.6 percent) of the $42.7 million it awarded to its subrecipients.

According to the chief of its accounting branch, the department adopted a three-business-day timeline from drawdown to disbursement. This timeline is consistent with direction from the Department of Finance. To implement the timeline, the department has established processes for its accounting staff to follow when performing drawdown and claim processing activities that are designed to ensure that the three-day period is not exceeded. The accounting branch chief told us that accounting staff are to complete drawdown requests by the close of business on the last workday of the week. In addition, the accounting staff are instructed to process the claims and remittance advices for disbursement by Monday of the following week and send them to the State Controller's Office by Tuesday. The accounting branch chief told us that this process allows HUD to process the drawdowns on Fridays and the following Mondays, so that by approximately Tuesday afternoon or Wednesday morning the funds will have been drawn down from HUD and be available for disbursement. We tested a sample of 12 disbursements the department made to subrecipients in December 2009 and found that it disbursed funds for all 12 within one day. Although the department's effort to minimize the time period from drawdown to disbursement has so far been successful, we believe the department should put its policy in writing to better ensure that staff who implement it have a consistent approach to follow.

We also believe that the department should develop and implement policies to minimize the time period between when subrecipients receive federal funds and when they disburse them, so they do not maintain excessive balances of Homelessness Prevention funds. The Recovery Act states that the funds authorized should be spent to achieve the act's purposes as quickly as possible, consistent with prudent management. Because federal regulations require the department to minimize how long it holds onto federal funds, we believe it prudent that the department require its subrecipients to do the same. Otherwise, the department unnecessarily increases the risk of having difficulty in recovering funds it has advanced to a subrecipient should the subrecipient be unable to fulfill its Homelessness Prevention obligations.

The department's intent is to advance grant funds quarterly to coincide with the quarterly expenditure reports subrecipients are required to submit for this program. The department has also approved drawdown schedules as part of the application process for each subrecipient that set the amounts of quarterly draws. However, the program manager indicated that the department does not impose a time frame within which subrecipients must spend their advances of grant funds.

We question whether a subrecipient's ability to maintain relatively large balances of federal funds in its accounts is consistent with prudent management. As the Table shows, as of December 31, 2009, after one calendar quarter, the department had advanced to its subrecipients 11.6 percent of their total award amounts. Because subrecipients have eight calendar quarters to meet the 60 percent spending requirement and 12 quarters to meet the 100 percent spending requirement, advancing amounts that, in the aggregate, equate to 11.6 percent does not seem unreasonable to help ensure that subrecipients meet spending deadlines while not maintaining excessive cash balances. However, the department advanced 15 percent or more of the individual award amounts to seven subrecipients, of which two received more than 20 percent. Because a proportionate distribution of the program funds over 12 quarters would result in quarterly advances averaging 8.3 percent, the proportion of the department's advances to these seven subrecipients seems excessive to us.

Subrecipients reported that as of December 31, 2009, they had spent only $1.1 million (22 percent) of the $5 million in Homelessness Prevention funds advanced during that quarter.

Although the department plans to reduce the amount of additional Homelessness Prevention funds that subrecipients request for a quarter by the amount of their grant funds remaining from the previous quarter, it has not established procedures to monitor spending to ensure that subrecipients do not maintain excessive cash balances of federal funds. As the Table shows, the subrecipients reported that as of December 31, 2009, they had spent only $1.1 million (22 percent) of the $5 million in Homelessness Prevention funds advanced during that quarter. Redwood Community Action Agency, the subrecipient that received the largest advance, reported that it spent only $71,307 (18 percent) of its $400,000 advance by December 31, 2009. Therefore, this subrecipient had a balance of $328,693 in federal funds. The department advanced the funds to the subrecipient in late November. However, in its contracts, the department told subrecipients that it would not reimburse them for any expenses incurred prior to September 30, 2009, or the effective date of the contract, whichever is later. This language indicates that subrecipients

Table

Funds Awarded and Advanced to Subrecipients Under the Recovery Act's Homelessness Prevention and Rapid Re-Housing Program, as of December 31, 2009

SUBRECIPIENT NAME	AMOUNT AWARDED	AMOUNT ADVANCED	PERCENTAGE ADVANCED	REMAINING AWARD BALANCE	AMOUNT SPENT*
Adult & Older Adult System of Care, Mendocino County Health and Human Services Agency	$1,600,000	$267,221	16.7%	$1,332,779	$22,855
Amador-Tuolumne Community Action Agency	1,600,000	100,000	6.3	1,500,000	106,006
Catholic Charities of the Diocese of Santa Rosa	1,195,000	100,000	8.4	1,095,000	2,752
City of Livermore	900,000	69,250	7.7	830,750	33,254
City of Santa Barbara	1,200,000	100,000	8.3	1,100,000	692
City of Union City	500,000	50,000	10.0	450,000	0
Community Action Board of Santa Cruz County, Inc.	1,200,000	150,000	12.5	1,050,000	27,626
Community Assistance Network	1,599,730	133,311	8.3	1,466,419	26,991
Community Resource Center	1,599,992	145,820	9.1	1,454,172	25,694
Cornerstone Community Development Corporation	1,500,000	150,000	10.0	1,350,000	34,759
County of Monterey	1,600,000	160,000	10.0	1,440,000	2,429
County of Napa	1,600,000	200,000	12.5	1,400,000	33,225
County of Santa Cruz Health Services Agency	1,200,000	75,000	6.3	1,125,000	12,757
Families in Transition of Santa Cruz County, Inc.	1,600,000	160,000	10.0	1,440,000	71,717
Glenn County Human Resource Agency	1,600,000	187,500	11.7	1,412,500	37,835
KIDS FIRST!	1,243,482	185,000	14.9	1,058,482	13,623
Kings United Way	1,200,000	188,140	15.7	1,011,860	20,750
People Assisting the Homeless (Bellflower)†	1,200,000	80,000	6.7	1,120,000	17,357
People Assisting the Homeless (Lakewood)	1,500,000	100,000	6.7	1,400,000	17,386
People Assisting the Homeless (Paramount)	900,000	75,000	8.3	825,000	12,404
Plumas Crisis Intervention & Resource Center	1,150,000	175,000	15.2	975,000	34,667
Redwood Community Action Agency	1,600,000	400,000	25.0	1,200,000	71,307
Sacred Heart Community Service	1,599,998	349,999	21.9	1,249,999	23,424
The Salvation Army	1,600,000	186,365	11.6	1,413,635	99,492
Samaritan House	1,600,000	264,000	16.5	1,336,000	29,008
Shelter, Inc. of Contra Costa County	1,500,000	147,726	9.8	1,352,274	42,761
South Bay Community Services	900,000	113,400	12.6	786,600	25,322
Stanislaus Community Assistance Project	1,500,000	150,000	10.0	1,350,000	96,454
United Way of Tulare County	1,600,000	240,000	15.0	1,360,000	11,054
WomanHaven	1,500,000	106,190	7.1	1,393,810	68,923
Yolo Family Resource Center	1,600,000	150,000	9.4	1,450,000	39,943
Totals	**$42,688,202**	**$4,958,922**	**11.6%**	**$37,729,280**	**$1,062,467**

Sources: Documents provided by the Department of Housing and Community Development and auditor calculations.

* As reported by subrecipients for the quarter ending December 31, 2009. We did not audit these amounts.

† People Assisting the Homeless has separate contracts for serving three cities within Los Angeles County.

could be reimbursed for Homelessness Prevention expenses incurred on or after October 1, 2009, allowing them up to the entire first quarter of the grant award to incur allowable expenses. We believe that allowing subrecipients to maintain large balances of federal funds is not consistent with prudent management and that the department should develop and implement processes to prevent subrecipients from maintaining such balances.

Finally, the department notified its subrecipients of requirements regarding using or being exempt from using interest-bearing accounts to hold federal funds. The department requires its subrecipients to maintain advances of Homelessness Prevention funds in interest-bearing accounts unless certain exceptions are met. According to the current draft of its monitoring guidelines, the department plans to determine whether its subrecipients have placed their awards in interest-bearing accounts.

The Department Has Taken Steps to Ensure That Administrative Costs Stay Under Established Limits

Federal requirements impose a limit on the proportion of administrative costs that can be charged to the Homelessness Prevention program.

The department has taken steps to help ensure that it and its subrecipients do not exceed the administrative cost limits imposed by federal law. Federal requirements impose a limit on the proportion of administrative costs that can be charged to the Homelessness Prevention program. According to the Recovery Act and the HUD notice, no more than 5 percent of a total grant award may be spent on administrative costs, whether by a grantee such as the department or its subrecipients. The department kept 4 percent of the total award for its own administrative costs and allocated 1 percent of its total award to its subrecipients for their administrative costs.

The department states it currently has in place a system to monitor its administrative costs for other federal programs and plans to implement the same system for the Homelessness Prevention program beginning at the end of February 2010. Specifically, the assistant deputy director of the department's Division of Financial Assistance stated that she currently reviews monthly accounting reports that show personnel costs charged by the department. She also stated that she reviews a report that projects the department's expenditures for the year to help ensure that the department stays on target with its administrative costs. However, these reviews are not part of a written policy, and she does not document this review. She stated that there is no formal sign-off and if any changes are necessary, she notes them on the document and follows up with the Budget Office in the next month. Documentation of management's periodic reviews provides assurance that the reviews actually occurred and that any concerns identified were resolved.

Moreover, the department has established processes that, if followed, would seem to help it ensure that its subrecipients do not exceed the 1 percent limit on administrative costs. To help ensure that subrecipients stay within the 1 percent limit it imposed on them, the department has generally limited administrative costs for each subrecipient to 1 percent of its grant award amount. The department informed its subrecipients of the 1 percent limit on administrative costs through its NOFA, application material, and other guidance. The department also included an approved budget as part of each subrecipient's contract, in which administrative costs did not exceed 1 percent. Further, the department established a separate code in its accounting system to capture expenditure amounts for the subrecipients' administrative costs. Also, according to the chief of its Homeless and Housing Section, the department enabled its automated system for drawing down federal funds to prevent values larger than 1 percent from being entered into the system.

The Department Has Issued Guidance to Help Ensure That Subrecipients Meet Spending Deadlines and Provide Only Allowable Services

The department has taken steps to help ensure that it meets federal deadlines and that Homelessness Prevention funds are used to provide only allowable services. Federal law requires the department to spend 60 percent of its Homelessness Prevention award within two years of the date that funds become available for obligation and to spend 100 percent of the award within three years of this date. HUD defined this date as the date it signed an agreement with the grantee. Because HUD's grant agreement with the department is dated September 11, 2009, the department and its subrecipients must meet the 60 percent requirement by September 10, 2011, and the 100 percent requirement by September 10, 2012. To help ensure that subrecipients adhere to the expenditure deadlines, the department issued a program notice that informed them of its deadlines for spending Homelessness Prevention funds.

To help ensure that subrecipients adhere to the expenditure deadlines, the department issued a program notice that informed them of its deadlines for spending Homelessness Prevention funds.

Additionally, federal requirements direct the department to ensure that Homelessness Prevention funds are used for only four specific allowable activities. As described earlier, these four activities are financial assistance, housing relocation and stabilization services, data collection and evaluation, and administrative costs. To help ensure that subrecipients spend Homelessness Prevention funds on only these allowable activities, the department provided its 31 subrecipients with guidance through various documents, including the NOFA, the program application, the contracts, and other documents issued during the award.

Further, the department's program manager developed a procedures manual, which he made available to the department's staff, that includes federal requirements, state regulations, and various tools and forms. This procedures manual includes guidance on eligible expenses and instructions for staff to follow to ensure that subrecipients use Homelessness Prevention funds to provide only allowable services. For example, the procedures manual indicates that department staff will review subrecipients' reported expenditures to verify that the expenses are eligible prior to releasing funds. Specifically, when a subrecipient requests an advance of Homelessness Prevention funds, the department requires it to also submit a quarterly expenditure report so that, according to the program manager, it may review the subrecipient's expenditures for the previous quarter before granting the request. The program manager indicated that the department's staff will review the quarterly expenditure report to verify that the expenditures reported are allowable under the terms of the contract and are within approved budgets. He also stated that staff are to verify that the expenditures occurred within the time period allowed by federal requirements.

According to the chief of the department's Homeless and Housing Section, although the department does not require subrecipients to submit supporting documentation—such as invoices and receipts with its quarterly expenditure reports—it does require them to retain the supporting documentation for all of their reported expenditures. She also stated that the department plans to have its program staff test the supporting documents for a sample of expenditures during its annual site visits and desk audits. The site visits will consist of department staff visiting subrecipients and reviewing documents and operations to determine whether the subrecipients are meeting program requirements. Once the department completes its planned risk assessments, lower-risk subrecipients may receive desk audits, which will consist of department staff obtaining and reviewing copies of specific documents, such as receipts and time cards. Moreover, the department's contract with its subrecipients states that the department has the right to request additional information and clarification to determine the reasonability and eligibility of all costs paid for by Homelessness Prevention funds and that if the subrecipient cannot adequately support an expenditure, the expenditure will be disallowed and must be reimbursed to the department or its designee.

Once the department completes its planned risk assessments, lower-risk subrecipients may receive desk audits, which will consist of department staff obtaining and reviewing copies of specific documents, such as receipts and time cards.

Further, during the award period, the department plans to monitor subrecipients' award balances and the rate at which they are spending funds and follow up with any who appear to be in jeopardy of not spending 60 percent of their awards within two years or 100 percent within three years. For example, as one part of this monitoring, the department stated in its "substantial amendment" that it plans to evaluate all contracts for expenditure flow no later than 120 days before September 30, 2011. If the department discovers subrecipients with challenges in spending their respective funds within the two-year deadline, it plans to provide technical assistance to those subrecipients to help enhance their expenditures, or it may reallocate their funding to other subrecipients with a demonstrated need.

As another part of monitoring subrecipient spending, the department intends to notify subrecipients with slow expenditure rates, by August 1, 2011, that they have 21 days to submit information to the department regarding any eligible expenses of Homelessness Prevention funds accrued within the two-year period, to bring these subrecipients into compliance with the 60 percent expenditure threshold. This schedule is the same as the one HUD has in place to monitor the department's spending. If the department determines that a subrecipient is unlikely to meet the requirement, it may disencumber the subrecipient's remaining balance.

The Department Has Established Processes for Submitting Reports

The department has taken steps to help ensure the completeness, accuracy, and timely submission of the reports required by both HUD and the Recovery Act. HUD requires the department to submit initial, quarterly, and annual performance reports during the award period. These reports must include certain information, including the amount of funds allocated for the eligible Homelessness Prevention activities and the total amount spent, the estimated number of individuals and families served, the estimated numbers of new jobs created and retained, and other information as specified by HUD. HUD required the department to submit its initial performance report by October 10, 2009. It also requires preliminary quarterly performance reports within 10 days after the end of each quarter and final quarterly performance reports by the fifth day of the following month. HUD also requires the department to submit an annual performance report no later than November 30, 60 days after the end of the federal fiscal year. The department must report the same types of information as in its other performance reports, as well as additional information such as the demographics of persons served and outcomes related to housing stability, as specified by HUD.

Section 1512 of the Recovery Act requires the department to submit quarterly reports no later than 10 days after the end of the quarter. The department is required to submit information on, among other things, the amount of Recovery Act funds spent, a detailed list of projects or activities for which the Recovery Act funds were spent, the completion status of the projects or activities, and an estimate of the number of jobs created and retained by the projects or activities. The task force and the State's chief information officer created the California ARRA[3] Accountability Tool (CAAT) for departments to use to report their Recovery Act data. Departments use the CAAT to submit their information to the State; the State's chief information officer then consolidates data from the departments and reports them to a federal Web site.

To help ensure that the department and its subrecipients meet the HUD and Recovery Act reporting requirements, the department included information related to the reporting of data in its contracts with subrecipients and as part of the training it provided. The department's program manager stated that when subrecipients submit their required reports to the department, his staff aggregate the data before submitting them. He indicated that the department then reviews the reports for completeness before approving them for submission. For example, according to the chief of the department's Homeless and Housing Section, she reviewed the HUD initial performance report for completeness. The section chief also instructed department staff to obtain subrecipients' reports and review them for completeness before forwarding them for her review. For the HUD quarterly and annual performance reports as well as the Recovery Act reports, the program manager indicated that the department plans to follow the same process for review to help ensure completeness.

The department plans to establish processes to help ensure the accuracy of both the HUD and Recovery Act reports.

Moreover, the department plans to establish processes to help ensure the accuracy of both the HUD and Recovery Act reports. According to the chief of its Homeless and Housing Section, the department plans to verify the expenditure information on these reports by reconciling it with expenditure information the subrecipients report on their quarterly expenditure reports. According to its program manager, the department plans to select a random sample of expenses from the subrecipients' quarterly expenditure reports and verify the accuracy of this information. Specifically, he stated that the department plans to randomly sample one expense from each major budget category—financial assistance, housing stabilization, data collection and evaluation, and grant administration. He also stated that the department plans to request documentation to support subrecipients' claimed expenses. Additionally, the program manager indicated that the department plans to review quarterly expenditure reports for accuracy during annual site visits. The department also requires subrecipients to comply with the audit requirements of the OMB's *Circular A-133*.

[3] ARRA is the task force's acronym for the Recovery Act.

Although the procedures it described verbally to us seem appropriate, the department should put its policies for preparing, reviewing, and submitting required federal reports into writing.

Further, both HUD and the Recovery Act require the department to submit reports no later than 10 days after the end of each quarter. To help ensure that it receives data quickly so that it has time to aggregate the data before submitting them, the department has set deadlines for subrecipients to submit their data for the HUD performance reports five days before the federal deadline and to submit their data for the quarterly reports required by the Recovery Act to the department nine days before the federal deadline. We found that the department submitted its initial HUD performance report and its Recovery Act quarterly reports on time.

In both of its first two quarterly reports required by the Recovery Act, the department reported a total of five jobs created. At the time that it submitted its first Recovery Act quarterly report in October 2009, the federal government defined a *job created* as a new position created or filled or an existing unfilled position that is filled as a result of the Recovery Act. Because the department is administering the Homelessness Prevention program with its existing staff, it reported the number of full-time equivalent positions paid with Recovery Act dollars. It therefore was not in compliance with the Recovery Act requirements in existence at the time. However, the OMB issued new guidance in December 2009 that changed its methodology for calculating the number of jobs created or retained. The new guidance requires recipients to simply report the number of positions that are funded with Recovery Act dollars. Therefore, the department appears to have been in compliance with requirements when it reported five jobs in its second Recovery Act quarterly report, submitted in January 2010.

Moreover, although the department submitted its required HUD performance report and the Recovery Act quarterly report by the October 2009 deadlines and the Recovery Act quarterly report by the January 2010 extended deadline, it was late in submitting its January 2010 HUD quarterly performance report. The department provided documentation showing that it submitted the HUD preliminary quarterly performance report, due by January 10, 2010, to HUD four days late.

The department does not maintain documentation of the date it submits federally required reports.

Further, the department does not maintain documentation of the date it submits federally required reports. In response to our requests for this information, the department provided documents supporting the dates the federal reporting Web site acknowledged receiving the reports. Because submission and receipt dates may differ, the department should maintain documents showing submission dates.

The Department Is Working to Ensure Compliance With Eligibility and Other General Provisions

The department has taken steps to help ensure that it and its subrecipients adhere to federal requirements related to eligibility and other general requirements. As described in the text box, HUD imposes two types of eligibility requirements for Homelessness Prevention: requirements for subrecipients and requirements for program participants. To help it meet the subrecipient eligibility requirements, the department identified the eligible cities and counties in the NOFA it issued to potential applicants. Further, the department awarded Homelessness Prevention funds only to eligible subrecipient applicants. To help ensure that the participant eligibility requirements are met, the department provided guidance to its subrecipients through its NOFA, application, and contract. In addition, the department informed its subrecipients of a "staff affidavit" form from HUD, which requires them to verify and document participant eligibility.

Eligibility Requirements Imposed by HUD

Eligible subrecipients include local governments, such as cities and counties, that the U.S. Department of Housing and Urban Development (HUD) has designated as eligible and private, nonprofit organizations that are approved by a local government.

Eligible program participants include persons who are still housed but are at risk of becoming homeless and persons who are already homeless. A participant must also meet the following requirements:

- Attend an initial consultation with a case manager or other authorized representative who can determine the appropriate type of assistance to meet their needs.
- Be part of a household that is at or below 50 percent of the area median income.*
- Meet these two criteria:
  - No appropriate subsequent housing options have been identified.
  - The household lacks financial resources and support networks needed to obtain immediate housing or remain in its existing housing.

Source: *Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees Under the American Recovery and Reinvestment Act of 2009* (Docket No. FR. 5307. N. 01); effective date: March 19, 2009, issued by HUD.

* According to HUD, area median income (AMI) is determined by the state and by the local jurisdiction in which a household resides and is dependent on the size of the household. The AMI for each state and community can be found at http://www.huduser.org/datasets/il.html.

The department has also taken steps to help ensure that it and its subrecipients meet 11 additional requirements that the HUD notice identified. These requirements include habitability standards for housing units, nondiscrimination and equal opportunity requirements, and requirements involving lead-based paint. To inform subrecipients of these additional requirements, the department included a requirement in its contracts with subrecipients that they abide by the provisions of the HUD notice. The department also included the HUD notice as part of its application material.

Moreover, the department has taken steps to help ensure that its subrecipients comply with federal registration requirements imposed by the Recovery Act. Under these requirements, the department and its subrecipients must maintain current registrations in the Central Contractor Registration (CCR) at all times during the period in which they have active federal awards funded with Recovery Act funds. As the federal government's primary contractor database, the CCR collects, stores, and disseminates information regarding acquisitions. The federal government requires subrecipients to register in the CCR database to help ensure consistent reporting of data such as name, address, and parent organization, making the data more useful to the public. According to the program manager, applicants that were awarded Recovery Act funds were notified by telephone about the CCR requirements. All of our sample of 12 subrecipients had a current registration in the CCR as of February 2010.

However, the department has not provided all required information to its subrecipients. Under the terms of the OMB's *Circular A-133*, the department is required to notify subrecipients of specific award information, such as the Homelessness Prevention program's Catalog of Federal Domestic Assistance title and number, the award name and number, and the name of the federal awarding agency. Although the department provided most of this information, it did not identify the federal award number as required. When we asked how the department supplied its subrecipients with the federal award number, the program manager said the federal award number was not applicable to subrecipients. This statement is not in keeping with *Circular A-133*, however, which requires providing the award number to subrecipients.

Recommendations

To strengthen the processes involved in its administration of the Homelessness Prevention program, the department should take the following actions:

- Develop and implement necessary policies that are currently absent.
- Finalize and implement those policies that are currently in draft form.
- Put into writing those practices that it states it currently follows.
- Document actions that it takes while administering the program.

Specifically, the department should:

- Develop and implement policies for ensuring that subrecipients limit the time that elapses between receiving federal funds and disbursing them, as well as policies for ensuring that subrecipients maintain an appropriate level of federal cash balances.

- Finalize and implement its draft guidelines for monitoring subrecipients, including its plans to conduct quarterly surveys of subrecipients and to perform risk assessments of the subrecipients. These guidelines should ensure that subrecipients comply with the following:

    - Costs incurred are for only those services allowed by law.
    - The time period between receiving and spending federal funds is minimized, which has the effect of limiting the federal cash balances that subrecipients maintain.
    - Federal cash balances are maintained in interest-bearing accounts.
    - Households receiving services are eligible to participate.
    - Eligible households are not charged fees to participate.
    - The two- and three-year spending deadlines are met.
    - Administrative costs stay within applicable limits.
    - Reports submitted to the department contain accurate and complete information.
    - The 11 requirements identified in the HUD notice are met, including habitability standards for housing units, nondiscrimination and equal opportunity requirements, and requirements involving lead-based paint.
    - Registration in the CCR is maintained.

- Finalize and implement its draft plan to perform site visits or desk audits of subrecipients between April 2010 and the end of March 2011.

- Put into writing the following current practices:

    - Procedures for minimizing the time from the date it draws down federal funds to the date it disburses the funds to subrecipients.
    - Management's periodic review of the department's level of spending for administrative costs, to help ensure that it does not exceed the applicable limit.

    - Procedures for preparing, reviewing, and submitting required federal reports.

- Document the following actions:

    - The results of management's periodic review of the department's level of spending for administrative costs.

    - The date on which it submits its Recovery Act information to the CAAT.

The department should also notify its subrecipients of the federal award number for the Homelessness Prevention program.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in this letter report.

Respectfully submitted,

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Appendix

STATUS OF PREPAREDNESS OF THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT TO ADMINISTER FUNDING RECEIVED UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Table A, beginning on the following page, provides a summary of our assessment of the preparedness of the Department of Housing and Community Development (department) to administer the funds received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). We assessed the department's ability to administer the Recovery Act funding it received for the federal Homelessness Prevention and Rapid Re-Housing Program (Homelessness Prevention program). We determined that the department was mostly prepared to administer the funds.

We used the following ranking system, consisting of four colors and symbols, to indicate the department's preparedness with respect to each program risk area:

✔:

- Documentation was provided to support the department's assertions.
- Guidance has been received and implemented.
- Guidance is deemed not necessary, and appropriate action to prepare for receipt of Recovery Act funds has taken place.

◆:

- Documentation was not provided to support the department's assertions.
- Guidance has been received, and the department is in the process of implementing such guidance.
- No guidance is necessary, but the department is still in the process of taking action to prepare for receipt of Recovery Act funds.[4]

[4] In previous reports, we also used the criterion "The federal program was not audited during the past two fiscal years; therefore, we are not sure if internal controls are adequate." Because the Recovery Act created the Homelessness Prevention program in 2009, we have not had the opportunity to audit the department's management of this new program, and therefore we did not use this criterion in this audit.

:

- Documentation was not provided to support the department’s assertions.
- No guidance is necessary, but the department has not taken any action to prepare for receipt of Recovery Act funds.

:

- Documentation was not provided to support the department’s assertions.
- Proposed implementation of provisions will not be effective or timely.

We applied the lowest-ranking symbol when more than one condition was present. For example, if we found that the department provided documentation to support its assertions in a risk area, but that more activities in that area needed to be accomplished, we did not give it a green symbol.

Table A
The Department of Housing and Community Development’s Preparedness to Administer the Recovery Act Funding for the Homelessness Prevention and Rapid Re-Housing Program

AREA OF PROGRAM RISK	PREPAREDNESS	HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 14.257)
Overall Preparedness		
Overall, is the Department of Housing and Community Development (department) prepared to track, monitor, and report on American Recovery and Reinvestment Act of 2009 (Recovery Act) funds and to comply with Recovery Act provisions?		The department appears to be mostly prepared to implement the provisions of the Recovery Act for the funds received from the Homelessness Prevention and Rapid Re-Housing Program (Homelessness Prevention program).
Human Capital		
Does a sufficient level of personnel exist to manage the Recovery Act programs?		According to its Homelessness Prevention program manager (program manager), the department has enough staff to manage the Homelessness Prevention program. It currently has five full-time equivalent staff managing the program. The department believes that its staff are adequately trained, and it will streamline processes to ensure that program requirements are met with current staffing. According to the program manager, the department intends to conduct either site visits or desk reviews of all 31 subrecipients by the end of March 2011. However, the department has not developed a written plan to ensure that it can perform site visits or desk reviews by the end of March 2011 with its current staff. According to the program manager, the program’s 4 percent funding for administration will support only the current level of five staff; however, if more funds are made available to the department due to reallocations by the U.S. Department of Housing and Urban Development (HUD), it may be possible to add more staff.

AREA OF PROGRAM RISK	PREPAREDNESS	HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 14.257)
Are staff adequately trained to effectively implement Recovery Act provisions?		The department has consolidated guidance from HUD and specific Recovery Act provisions to help ensure that staff and subrecipients are aware of the Homelessness Prevention laws and requirements. Department staff have constant access to these materials through hard copies in the office and electronically through the department's network drive. The department has also held trainings, including Recovery Act Homelessness Prevention Reporting training, to inform staff and subrecipients of Homelessness Prevention laws and regulations. Additionally, the department conducted its first site visit on December 17, 2009; according to the program manager, the department will use that visit as a training exercise to finalize monitoring guidelines. He expects the guidelines to be completed by the end of March 2010.
Financial and Operational Systems		
Are separate accounts established to ensure that Recovery Act funds are clearly distinguishable?		The department has established three separate accounting codes (department administrative costs, subrecipients' administrative costs, and subrecipients' grant costs) to separately account for Homelessness Prevention expenditures.
Are financial and operational systems configured to manage and control Recovery Act funds?		The department already has existing financial and operational systems in place that are used to manage and control Recovery Act funds. Specifically, the department uses the Integrated Disbursement and Information System (IDIS), a HUD computer system, to draw down Recovery Act funds. According to the department's program manager, IDIS drawdowns are reconciled to the California State Accounting and Reporting System.
Can financial and operational systems support the increase in volume of contracts, grants, and loans?		The department uses the IDIS as required by HUD. HUD provided instructions that explain how to set up Homelessness Prevention projects and activities correctly in IDIS. The department has 31 contracts for Homelessness Prevention that are handled by IDIS. Additionally, the department believes that its staff are adequately trained and indicated that it will streamline processes to ensure that program requirements are met with current staffing.
Fraud, Waste, and Abuse		
Will Recovery Act funds be used for authorized purposes, and will the potential for fraud, waste, error, and abuse be minimized and/or mitigated? (Are there internal controls related to allowable and unallowable activities?)		The department has developed procedures that, if followed, would help it to minimize or mitigate the potential for fraud, waste, and abuse. The department provided guidance regarding grant management to its subrecipients in its contracts, including guidance on eligible expenses for each of the four eligible activity categories. As described more fully in the Background section of our report, these four categories consist of financial assistance, housing relocation and stabilization services, data collection and evaluation, and administrative costs. Additionally, the department provided its subrecipients with a Recovery Act Homelessness Prevention reporting webinar. Through its guidance for eligible expenses, the department informed each subrecipient that if a subrecipient claims an expense that is not included in their approved budget, the department will not allow the expense. To prevent unallowable expenses, the department advised each subrecipient to review their approved budget before spending Homelessness Prevention funds. To help ensure that Recovery Act funds are used for authorized purposes, the department plans to review each subrecipient's previous quarterly expenditure report before disbursing funding for the following quarter. Because the department did not expect to receive the first quarterly expenditure reports until after our audit testing period (they were due January 31, 2010), we were unable to determine whether the department actually reviewed them. According to its program manager, the department plans to develop a risk assessment tool to rate the risk of each subrecipient to determine whether a site visit is needed or if a desk audit would be sufficient. The program manager stated that the department intends to conduct either site visits or desk reviews for the 31 subrecipients between April 2010 and the end of March 2011. However, the department has not developed an official plan. In December 2009 the department drafted Homelessness Prevention monitoring guidelines, which are expected to be completed in March 2010, along with the forms for performing risk assessments of each subrecipient. The department asserted that it plans to select a sample of supporting expense documents to audit during site visits and desk audits. Additionally, the department includes a reference to HUD's conflict-of-interest requirements in its subrecipient contracts to help ensure that they are free from conflict. The department also includes a conflict-of-interest discussion in its employee orientation handbooks and requires certain of its employees to attend ethics training every two years to help ensure that employees are free from conflict.

continued on next page . . .

AREA OF PROGRAM RISK	PREPAREDNESS	HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 14.257)
Policies and Procedures		
Have specific provisions of the Recovery Act been incorporated into agency policies?	✓	The department has incorporated specific provisions of the Recovery Act into its policies and practices. The department issued emergency regulations that encompass the requirements of the HUD notice and the Recovery Act and proposed final regulations to establish policies and procedures for the administration of state contracts between the department and its Homelessness Prevention subrecipients. The department also consolidated guidance from HUD that includes the federal program requirements. Moreover, the department includes general Recovery Act provisions in an exhibit in its contracts with subrecipients. Its contracts also include a clause requiring subrecipients to adhere to the requirements set forth in the HUD notice. The department provided the HUD notice as part of the program's application material.
Are there written departmental policies providing procedures for (1) requesting cash advances as close as is administratively possible to actual cash outlays, (2) monitoring cash management activities, and (3) seeking repayment of excess interest earnings when required? (Are there internal controls related to cash management?)	■	The department has written policies providing procedures for requesting cash advances and for monitoring cash management activities. However, it lacks equivalent written policies for monitoring subrecipients. • The department has step-by-step instructions for processing federal cash-draw schedules in its cash management policies and procedures. • According to the chief of its homeless and housing section, the department monitors cash management activities by reviewing subrecipients' requests for funds and quarterly expenditure reports. Specifically, the department plans to review each subrecipient's previous quarterly expenditure report before disbursing funding for the following quarter. Additionally, department staff use worksheets to track cash availability and expenditures of advances to monitor cash management activities. The department also stated that it checks the information within IDIS and the Consolidated Automated Program Enterprise System (CAPES), which is designed in part to process data for funds management and contracts. • Although the department plans to reduce the amount of additional Homelessness Prevention funds that a subrecipient requests for a quarter by the amount of the subrecipient's grant funds remaining from the previous quarter, it does not impose a time frame within which subrecipients must spend their advances of grant funds and has not established procedures to monitor spending to ensure that subrecipients do not maintain excessive cash balances of federal funds. As described earlier in our report, the subrecipients reported that as of December 31, 2009, they had spent only $1.1 million (22 percent) of the $5 million in Homelessness Prevention funds advanced to them during that quarter. • The department notified its subrecipients of requirements regarding using or being exempt from using interest-bearing accounts. The department requires its subrecipients to maintain Homelessness Prevention funds in interest-bearing accounts. The department is currently drafting monitoring guidelines that indicate that it plans to determine whether subrecipients placed their awards in interest-bearing accounts. Moreover, the department recently conducted a trial site visit to one of its subrecipients and verified that the subrecipient kept grant funds in an interest-bearing account.
Have written policies and procedures been established to provide direction for making and documenting eligibility determinations for Recovery Act fund grants? (Are there internal controls related to eligibility?)*	◆	The department has taken steps to help ensure that it and its subrecipients adhere to eligibility requirements. HUD imposes two different types of eligibility requirements for Homelessness Prevention: requirements for subrecipients and requirements for program participants. For example, eligible subrecipients include cities, counties, and nonprofit organizations that have the support of their local governmental jurisdiction. To help meet subrecipient eligibility requirements, the department mentioned in its notice of funding availability (NOFA) and application process that only eligible subrecipients would be awarded funds. Further, the department keeps the approved applications on file to document its eligibility determinations.

AREA OF PROGRAM RISK	PREPAREDNESS	HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 14.257)
		To be eligible for Homelessness Prevention assistance, program participants must be homeless or at risk of becoming homeless, and must also meet certain income requirements. To help ensure that these eligibility requirements are met, HUD provided guidance regarding program participant eligibility, including eligible households. Moreover, HUD requires that subrecipients verify and document household eligibility. Specifically, it requires the completion of a "staff affidavit" that documents that the household receiving Homelessness Prevention funds meets all the eligibility criteria for assistance. During site visits the department may look at the staff affidavit to verify that it was executed. As described earlier, the program manager stated that the department intends to conduct either site visits or desk reviews for the 31 subrecipients between April 2010 and the end of March 2011. However, the department has not yet finalized the guidelines it intends to use for monitoring subrecipients; it expects to complete them by the end of March 2010. Further, the department has not yet developed a written plan to ensure that it can perform site visits or desk reviews for all 31 subrecipients within 12 months.
Are corrective action processes in place to promptly resolve any audit findings that may affect the department's ability to successfully implement the Recovery Act?	✓	The department has a formal process for tracking the implementation of corrective actions for findings noted in audit reports. This process includes having the chief deputy director prepare a coordinated response/corrective action plan, having the department's Audit Division track the status of each finding in a spreadsheet, and having the deputy director of special projects and accountability schedule meetings at least quarterly to discuss the progress of the implementation of the corrective action.
Have new requirements, conditions, and guidance regarding Recovery Act funds been provided to potential recipients?	✓	The department provided Recovery Act requirements and conditions in its NOFA, which was made available to all potential applicants. Additionally, the department included general terms and conditions related to the Recovery Act in its contracts. As described in the section on subrecipient monitoring, the department stated that it also provided subrecipients direction specific to Homelessness Prevention, including requirements, conditions, and guidance regarding Recovery Act funds. Additionally, the department sends all subrecipients program notices of any new Homelessness Prevention requirements, conditions, and guidance when needed. For example, the department has sent program notices to subrecipients regarding grant management and reporting guidance, and expenditure and draw-down deadlines. The department also provided training on Recovery Act reporting to its staff and subrecipients.
Acquisitions/Contracts		
Do new requests for proposals (RFPs) issued under Recovery Act initiatives contain the necessary language to satisfy the provisions of the Recovery Act?	✓	The department issued a NOFA instead of an RFP for the Homelessness Prevention grant. The department's NOFA had the necessary language to satisfy the provisions of the Recovery Act. For example, the department's NOFA includes language regarding required reports and activities that are allowable under the Recovery Act.
Are contracts using Recovery Act funds awarded in a prompt, fair, and reasonable manner?	✓	As described in the Background section of our report, the department issued award letters for its Homelessness Prevention funds by the required date of September 30, 2009. The department distributed an NOFA to potential applicants.
Do new contracts awarded using Recovery Act funds have the specific terms and clauses required?	✓	The department's Homelessness Prevention contracts included an exhibit that specifically covered Recovery Act requirements. Our review of the exhibit found that it includes general Recovery Act requirements, including the use of American iron, steel, and other manufactured goods, wage rate, and reporting requirements.
Will projects funded under the Recovery Act avoid unnecessary delays and cost overruns?	◆	The department requires subrecipients to include a budget and a schedule for drawing down funds in its application for the Homelessness Prevention program. Also, subrecipients are required to submit quarterly expenditure reports to the department before receiving additional funds. Additionally, Homelessness Prevention funds are to be used only for financial assistance, housing relocation and stabilization services, data collection and evaluation, and administration. According to HUD's Office of the Inspector General, these costs have less risk of delays and cost overruns compared to other uses of funds such as new construction, acquisition, and rehabilitation. To avoid unnecessary delays, the department plans to evaluate all contracts no later than 120 days before the end of the two-year period ending September 30, 2011, for expenditure flow. The department also asserted that it will provide technical assistance to subrecipients experiencing challenges in spending their respective funds within the two-year deadline.

continued on next page . . .

AREA OF PROGRAM RISK	PREPAREDNESS	HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 14.257)
Are contracts awarded using Recovery Act funds transparent to the public?	✓	The department made its Homelessness Prevention contracts transparent to the public by posting the awards on its Web site. According to its program manager, the department is also making its Homelessness Prevention contracts transparent to the public through two reports. The first report is submitted to HUD through the department's electronic update of the Special Needs Assistance Programs (eSNAPS), which shows the department's lump-sum distributions. The second report is submitted to the Recovery Act's federal reporting Web site through the California ARRA[†] Accountability Tool (CAAT), which is a mandatory tool used for federal reporting pursuant to Section 1512 of the Recovery Act and for state reporting required by the California Recovery Task Force (task force). In addition, the program manager stated that the public can get copies of the contracts through Public Records Act requests.
Are the public benefits of Recovery Act funds used under contract reported clearly, accurately, and in a timely manner?	◆	According to the department's program manager, the public benefits of Recovery Act funds used under contract have been, and will continue to be, reported through the CAAT to the Recovery Act's federal reporting Web site. The department told us that it reviews and approves federally required reports for submission in the CAAT to ensure their accuracy. The department also uses its Web site to report a Homelessness Prevention awards list to show the total amount of Homelessness Prevention funds awarded to each of its 31 subrecipients. The department, however, has not put its policies for preparing, reviewing, and submitting required federal reports into writing.
Transparency and Accountability		
Has a governance body been established to manage the overall implementation of the Recovery Act?	◆	According to its program manager, the department does not have a departmental Recovery Act governance body; however, the department has staff that participate in the task force and deliver information to the department via e-mail and verbal communication. Specifically, the department's chief deputy director participates in the task force and relays information to program-level staff. Additionally, the department incorporated relevant requirements of the Recovery Act into its NOFA and contracts. The department, however, did not provide documentation to support the role its staff performed with the task force.
Have the data elements that must be captured, classified, and aggregated for analysis and reporting to meet Recovery Act provisions been identified?	✓	Section 1512 of the Recovery Act requires the State to submit quarterly progress reports that include, among other things, information on the amount of Recovery Act funds expended, a list of projects the Recovery Act funds were used for, the status of the projects, and an estimate of the number of jobs created and retained by the projects. States such as California, which have received Recovery Act funds directly from the federal government in the form of grants, loans, or contracts, are required to submit the reports. The department conducted a webinar regarding Section 1512 for its subrecipients and included the Section 1512 data elements in its contracts with subrecipients. HUD identified the data elements that the department must submit and the department incorporated them into its procedures binder. To submit its Recovery Act Section 1512 quarterly reports, the department submits the data to the State's CAAT, and the CAAT submits them to the required federal reporting Web site. In its first two quarterly reports required by Section 1512 of the Recovery Act, the department reported a total of five jobs created. At the time it submitted its October 2009 report, the federal government defined a *job created* as a new position created and filled or an existing unfilled position that is filled as a result of the Recovery Act. Because the department simply reported the number of positions paid with Recovery Act dollars, it was not in compliance with the Recovery Act requirements. However, the U.S. Office of Management and Budget (OMB) issued new guidance in December 2009 that modified its methodology for calculating the number of jobs created or retained to simply be those positions that were paid with Recovery Act dollars. Therefore, the department was in compliance with Recovery Act requirements when it reported five jobs in its January 2010 Section 1512 quarterly report.
Are reporting mechanisms in place to collect the required data from recipients to meet Recovery Act transparency provisions?	✓	The department has provided subrecipients with the CAAT tool and instructions on how to use it to report Recovery Act data. After collecting information from subrecipients through the CAAT tool, the department sends quarterly reports to the State's CAAT and the CAAT submits them to the required federal reporting Web site.
Are reports published under the Recovery Act reviewed and approved for accuracy and completeness? (Are there internal controls related to reporting?)	◆	The department is required to submit quarterly Recovery Act reports to the State through the CAAT and three reports to HUD through eSNAPS (a one-time report, quarterly reports, and annual reports). According to the chief of the department's Homeless and Housing Section, the program fiscal officer, program manager, and program representative will review the data submitted for the reports and concurrently reconcile it with the information in IDIS and CAPES.

AREA OF PROGRAM RISK	PREPAREDNESS	HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 14.257)
		As described earlier in our report, the department has not established written policies for reviewing the HUD and Recovery Act reports to help ensure their accuracy.
Are reports prepared on a timely basis?	Mostly prepared	As described earlier in the report, both the department's October and January Recovery Act reports were submitted within required time frames. Section 1512 of the Recovery Act requires the department to report within 10 days after the end of each quarter on the use of Recovery Act funds. The department's first Recovery Act report was submitted on October 2, 2009, eight days before it was due. The federal government extended the due date for the January Recovery Act report to January 22, 2010, and stated that reports submitted after January 15 would be considered late. The department's second Recovery Act report was submitted on January 14, 2010. HUD required the department to submit a one-time initial performance report by October 10, 2009. The department is also required by HUD to submit a preliminary quarterly performance report (QPR) within 10 days after the end of each quarter and a final QPR by the fifth day of the following month. The department submitted its initial performance report, which included performance information for its first quarter, and the final QPR for its second quarter before their deadlines. However, the department submitted the preliminary QPR for its second quarter four days after the deadline.
Will the department regularly monitor subrecipients' compliance with federal program requirements? (Are there internal controls related to monitoring subrecipients?)	Moderately prepared	As described previously, the department is currently drafting Homelessness Prevention monitoring guidelines and plans to complete them by the end of March 2010. As part of its monitoring, the department plans to perform either a desk audit or a site visit for each of the 31 subrecipients by the end of March 2011. To accomplish this, the department has two and a half full-time equivalent positions to conduct desk audits and site visits. The department stated that it will conduct more desk audits than site visits and will conduct multiple desk audits simultaneously. The department, however, lacks a written plan to ensure that it can perform site visits or desk reviews for all 31 subrecipients within 12 months. The department currently does not have a corrective action plan in place to resolve findings it discovers during desk audits or site visits; however, a plan is currently being constructed and will be very similar to one that it uses for another federal grant it administers.

Sources: Interviews with key department personnel and reviews of relevant documents pertaining to processes, controls, and procedures that the department has in place or is developing for implementing provisions of the Recovery Act.

* Although the Compliance Supplement Addendum #1—dated June 30, 2009, and issued by the OMB—states that eligibility is not an applicable requirement, we found eligibility requirements in HUD's *Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees Under the American Recovery and Reinvestment Act of 2009*. We therefore assessed the department's preparedness to meet these eligibility requirements. The eligibility requirements state that the household must be at or below 50 percent of area median income and must be either homeless or at risk of losing its housing, not have appropriate subsequent housing options, and lack the financial resources and support networks to obtain immediate housing or remain in its existing housing.

† ARRA is the California Recovery Task Force's acronym for the Recovery Act.

✓ = Prepared

◇ = Mostly prepared

□ = Moderately prepared

✗ = Not prepared

Note: For a detailed description of each legend, refer to pages 25 to 26.

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(Agency response provided as text only.)

Business, Transportation and Housing Agency
980 9th Street, Suite 2450
Sacramento, CA 95814-2719

February 18, 2010

Elaine M. Howle, State Auditor*
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Attached please find the response from the Department of Housing and Community Development (Department) to your draft letter report *Department of Housing and Community Development: Despite Being Mostly Prepared, It Must Take Additional Steps to Better Ensure Proper Implementation of the Recovery Act's Homelessness Prevention Program* (#2009-119.3). Thank you for allowing the Department and the Business, Transportation and Housing Agency (Agency) the opportunity to respond to the report.

The Agency very much appreciates your recognition of the many steps the Department has taken to position itself to successfully administer the use of Homelessness Prevention and Rapid Re-Housing program funds, and we are pleased to note that your report cited numerous specific efforts the Department has made. Further, we concur with the opportunities for improvement noted in the report, and the Department has already initiated plans for implementing the associated recommendations.

If you need additional information regarding the Department's response, please do not hesitate to contact Michael Tritz, Agency Deputy Secretary for Audits and Performance Improvement, at (916) 324-7517.

Sincerely,

(Signed by: Marjorie M. Berte for)

DALE E. BONNER
Secretary

Attachment

* California State Auditor's comment appears on page 39.

Department of Housing and Community Development
Office of the Director
1800 Third Street, Room 450
Sacramento, CA 95811

February 18, 2010

Mr. Dale E. Bonner, Secretary
Business, Transportation and Housing Agency
980 Ninth Street, Suite 2450
Sacramento, California 9581

Dear Secretary Bonner:

The Department of Housing and Community Development (Department) was pleased to assist the Bureau of State Audits (Bureau) in its review of the American Recovery and Reinvestment Act (ARRA) funded Homelessness Prevention and Rapid Re-Housing Program (HPRP).

The Department notes that, in its review, the Bureau clearly understands the significant effort that the Department has been required to complete within strict and very short timeframes as evidenced, for example, by the following statements from the report:

- "The department has taken many steps to position itself to successfully administer the Homelessness Prevention program."

- "To obtain Homelessness Prevention funds, the department successfully met federal deadlines to apply for them and to award to subrecipients. [The U.S. Department of Housing and Urban Development (HUD)] required eligible grantees interested in receiving Homelessness Prevention awards to submit applications by May 18, 2009, and required each applicant to include a 'substantial amendment' to its 'action plan' with its application."

While recognizing the significant effort that the Department made to successfully receive the award of HPRP funds from HUD, and award these funds to subrecipients by the required September 30, 2009, deadline for obligation, as well as the Department's efforts toward the continued administration of the HPRP, the Bureau has provided a set of recommendations for program improvement. Following are those recommendations and the Department's responses. (Note: while the Bureau's report does not present the recommendations in a numbered bullet format, the Department utilizes such a format to clearly identify the responses that relate to specific recommendations.)

1 Recommendations

To strengthen the processes over its administration of the Homelessness Prevention program, the department should take the following actions:

- Develop and implement necessary policies that are currently absent.

- Finalize and implement those policies that are currently in draft form.

Mr. Dale E. Bonner, Secretary
February 18, 2010
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- Put into writing those practices it states it currently follows.
- Document actions it takes while administering the program.

1. Develop and implement policies for ensuring that subrecipients limit the time from receiving federal funds to disbursing them and for maintaining an appropriate level of federal cash balances.

   Department's Response and Corrective Action Plan:
   The Department will prepare and implement a policy concerning appropriate levels of cash balances maintained by subrecipients by March, 15, 2010. As approved in the Department's Consolidated Plan approved by HUD, "With the exception of 'Administration Costs,' budget flexibility within major budget activities of 'Financial Assistance,' 'Housing and Relocation and Stabilization Services;' and 'Data Collection and Evaluation' shall be allowed to the extent proposed budget changes are critical to the delivery of services."

2. Finalize and implement its draft guidelines for monitoring subrecipients, including its plans to conduct quarterly surveys of subrecipients and to perform risk assessments of the subrecipients. These guidelines should ensure that the subrecipients comply with all applicable requirements, including the following:

   a. Costs incurred are for only those services allowed by law.
   b. Minimizing the time between receiving and spending federal funds, which has the effect of limiting the amount of federal cash balances that subrecipients maintain.
   c. Interest earned on federal cash balances is handled properly.
   d. Households receiving services are eligible to participate.
   e. Eligible households are not charged fees to participate.
   f. Ensuring that the two-year and three-year spending deadlines are met.
   g. Administration costs stay within applicable limits.
   h. Reports submitted to the department contain accurate and complete information.
   i. The 11 requirements identified in the HUD notice, including habitability standards for housing units, nondiscrimination and equal opportunity requirements, and lead-based paint requirements.
   j. Registration in the CCR is maintained.

   Department's Response and Corrective Action Plan:
   Guidelines shall be completed for items (a) and (h) by April 30, 2010. Costs incurred shall continue to be reviewed as part of reviewing the Detailed Expenditure Reports submitted quarterly by all subrecipients. As approved in the Department's Consolidated Plan approved by HUD, no later than 120 days before the end of the two-year period ending September 10, 2011, all contracts will be evaluated for expenditure flow. Subrecipients with challenges spending their respective funds within the two-year deadline will be provided technical assistance to enhance their expenditures, or funding may be reallocated to other existing subrecipients with a demonstrated need. Subrecipients not meeting the program guidelines and contractual obligations under the Standard Agreement may be subject to termination and/or sanctions.

   Guidelines for item (b) may require further verification from HUD and will be completed by March 31, 2010.

Mr. Dale E. Bonner, Secretary
February 18, 2010
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Guidelines for item (c) regarding interest on federal cash balances is clearly stated in the program's HCD HPRP Notice 09-05 dated November 25, 2009, that was provided to all subrecipients. HPRP staff shall develop a procedure for implementing compliance by April 30, 2010.

Guidelines for items (d), (e), (f), (g), (i) and (j) shall be completed by March 31, 2010, and will be part of the site monitoring or desk audit procedures and forms.

3. Finalize and implement its draft plan to perform site visits or desk audits of the 31 subrecipients between April 2010 and March 2011.

   Department's Response and Corrective Action Plan:
   The Department has sufficient staff resources to conduct site visits or desk audits on all 31 subrecipients by March 2011. The Department is currently working on the development of the site monitoring, desk audit, and Risk Assessment forms, and will complete its efforts by March 31, 2010. Following the development of the monitoring forms, the Department will commence Risk Assessments to determine the level of risk for each subrecipient. Initial risk assessments will be completed by July 30, 2010. This time plan allows the subrecipients at least two full quarters to demonstrate expenditures and reporting patterns. In the meantime, staff will conduct cost verifications on random expenditures during the review of quarterly Detailed Expenditure Reports submitted to the Department.

4. Put into writing the following current practices:

   a. Minimizing the time from the date it draws down federal funds to the date it disburses the funds to subrecipients.
   b. Management's periodic review of the department's level of spending for administrative costs, ensuring that it does not exceed the applicable limit.
   c. The department's procedures for preparing, reviewing, and submitting required federal reports.

   Department's Response and Corrective Action Plan:
   The Department shall put into writing the current practices in (a) and (b) by March 15, 2010; item (c) will be completed by April 30, 2010.

5. Document the following actions:

   a. Management's periodic review of the department's level of spending for administrative costs, ensuring that it does not exceed the applicable limit.
   b. The date it submits its Recovery Act information to the CAAT.

Mr. Dale E. Bonner, Secretary
February 18, 2010
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Department's Response and Corrective Action Plan:
The Department tracks monthly Administrative Costs using the CalStars system. Department staff reviews monthly reports and will, with the January 2010 expenditures, document the review showing that spending limits are not exceeded.

The Department has submitted its CAAT reports in a timely manner for the two quarters of program reporting required thus far. Effective immediately, the Department will maintain documentation of its CAAT reporting efforts, including the dates of its CAAT report submissions.

6. The Department should also notify its subrecipients of the federal award number for the Homelessness Prevention Program.

Department's Response and Corrective Action Plan:
In an effort to assist subrecipients with their Office of Management and Budget (OMB) A-133 auditing requirements under ARRA/HPRP, the Department notified all subrecipients of the federal award number. The email notification was sent February 17, 2010. Bureau staff has been provided a copy of the email sent.

Sincerely,

(Signed by: Elliott Mandell for)

Lynn L. Jacobs
Director

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Comment

CALIFORNIA STATE AUDITOR'S COMMENT ON THE RESPONSE FROM THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

To provide clarity and perspective, we are commenting on the response from the Department of Housing and Community Development (department). The number below corresponds to the number we placed in the margin of the department's response.

While preparing our report for publication, the wording of our recommendations changed slightly. 1

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press