

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

LETTER REPORT NUMBER 2009-119.3, FEBRUARY 2010

Department of Housing and Community Development's response as of August 2010

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits conduct a review of California's preparedness to receive and administer funds from the American Recovery and Reinvestment Act of 2009 (Recovery Act). Using selection criteria contained in the audit request, we chose to examine the preparedness of the Department of Housing and Community Development (department) to administer Recovery Act funds for the Homelessness Prevention and Rapid Re-housing Program (Homelessness Prevention program). Specifically, the audit committee requested that we review and evaluate applicable laws, rules, and regulations and test the internal controls the department intends to use to administer Recovery Act funds. The audit committee also requested that we identify any critical issues and recommend any areas in which the department needs to improve to ensure that it is prepared to comply with federal requirements when administering Recovery Act funds.

Finding #1: The department has not established policies to ensure that subrecipients do not maintain excessive balances of federal funds.

Although the department has taken steps to help ensure that subrecipients comply with applicable Homelessness Prevention requirements, it has not established policies to ensure that subrecipients 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 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. Moreover, the department advanced 15 percent or more of the individual award amounts to seven of the 31 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. 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. We question whether a subrecipient's ability to maintain relatively large balances of federal funds in its accounts is consistent with prudent management.

We recommended that the department 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.

Department's Action: Partial corrective action taken.

The department stated that to help limit the time from when the subrecipients receive the Homelessness Prevention funds to when they disburse them, it requires subrecipients to submit expenditure reports no later than 30 days after the end of each quarter. The department indicated that it reviews these quarterly expenditure reports to determine the amount of the subrecipient's

next cash advance. Specifically, 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. Although we understand how the new policy may help the department identify instances when subrecipients are not minimizing the time between receipt and disbursement of federal funds, the new policy did not address what amounts or proportions constitute an appropriate level of federal cash balances.

Finding #2: The department has not finalized and implemented processes that are currently in draft form.

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 well as develop a written plan for performing site visits or desk audits of subrecipients. The department expects to issue guidelines for monitoring subrecipients that include steps for conducting risk assessments, performing site visits and desk audits, and issuing letters to subrecipients that identify any findings. Through monitoring of its subrecipients the department seeks to ensure that they meet all applicable program requirements, including limiting the types of services provided to those allowed by law, limiting the federal cash balances that subrecipients maintain, ensuring that spending deadlines are met, ensuring that information in required reports is accurate and complete, and ensuring that subrecipients comply with requirements stated in federal 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.

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 make available 2.5 positions to conduct either site visits or desk reviews for all 31 subrecipients between April 2010 and the end of March 2011. However, 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. 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. Further, 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.

We recommended that the department 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. We also recommended that the department finalize and implement its draft plan to perform site visits or desk audits of subrecipients between April 2010 and the end of March 2011.

Department's Action: Corrective action taken.

The department finalized and implemented its guidelines for monitoring subrecipients, including guidelines for reviewing quarterly expenditure reports to ensure subrecipients expended program funds on only those services allowed by law, and a quarterly subrecipient questionnaire to solicit contract management information and identify possible red flags. Additionally, to help ensure that subrecipients meet spending deadlines, the guidelines also include a policy and procedure for monitoring subrecipients no later than 120 days before the deadlines. The guidelines also include procedures to review information included in quarterly expenditure reports to ensure accuracy and completeness, as well as procedures for performing site monitoring and desk audits of subrecipients

that incorporate the requirements identified in federal guidance. Moreover, in July 2010, the department finalized and implemented its schedule for performing site monitoring visits and desk audits. The new schedule indicates that the department plans to complete its site visits and desk audits of all subrecipients by the end of September 2011 rather than the end of March 2011, as originally planned.

Finding #3: The department has not developed written policies for practices that it states it currently follows.

The department should put into writing certain unwritten practices that it currently follows, such as its periodic review of administrative costs; its procedures for minimizing the time between when it receives federal funds and when it disburses those funds; and its procedures for preparing, reviewing, and submitting required federal reports. 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. However, these reviews are not part of a written policy.

Also, although the department has taken steps to help ensure that it quickly provides funds to its subrecipients, it has not put its processes in writing. Federal regulations require the department to minimize the time period between the drawdown of federal funds and disbursement to subrecipients. 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 process in writing to better ensure that staff who implement it have a consistent approach to follow.

Further, the department has also not put into writing processes it follows to prepare, review, and submit required federal reports accurately. Both the U.S. Department of Housing and Urban Development (HUD) and the Recovery Act require the department to submit reports containing certain information regarding its use of the funds. 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. 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.

We recommended that the department put into writing its 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; and its procedures for preparing, reviewing, and submitting required federal reports.

Department's Action: Corrective action taken.

The department has put into writing the current practices it states it follows. Specifically, in March 2010 the department developed written procedures for minimizing the time between the date it draws down federal funds and the date it disburses those funds to the subrecipients, and for its periodic review of administrative cost spending. Moreover, it also developed procedures for preparing, reviewing, and submitting its required federal reports.

Finding #4: The department does not document actions it takes while administering the Homelessness Prevention program.

Although the department has taken some steps to periodically review its administrative costs and to help it submit federally required reports on time, it does not document these actions. Specifically, the department does not maintain documentation to demonstrate its review of administrative costs charged to the program. Documentation of management's periodic reviews provides assurance that the reviews actually occurred and that any concerns identified were resolved.

Moreover, the department does not maintain documentation of the date it submits federally required reports. The Recovery Act requires the department to submit reports containing specific information no later than 10 days after the end of each quarter. The department was unable to provide documentation demonstrating that it submitted these reports by the required deadlines. 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.

We recommended that the department document the results of management's periodic review of the department's level of spending for administrative costs, and the date on which it submits its quarterly reports required by the Recovery Act.

Department's Action: Corrective action taken.

The department indicated that it documents management's periodic review of administrative costs and the date it submits required federal reports. As a part of its budget review procedure, the department implemented a method for management to document its periodic review of administrative cost spending. The department also provided evidence that it now documents the date it submits its quarterly reports required by the Recovery Act.

Finding #5: The department did not provide all required information to subrecipients.

The department has not provided all required information to its subrecipients of the Homelessness Prevention program. Under the terms of the Office of Management and Budget (OMB) 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 OMB Circular A-133, however, which requires providing the award number to subrecipients.

We recommended that the department notify its subrecipients of the federal award number for the Homelessness Prevention program.

Department's Action: Corrective action taken.

The department notified its subrecipients of the federal award number for the Homelessness Prevention program in February 2010.