State of California Department of Housing and Community Development

Community Development Block Grant

Disaster Recovery

Monitoring Plan

December 9, 2020

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Monitoring Plan Revision Sheet

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I.   Introduction

1. Purpose

This Monitoring Plan (Plan) describes how the State of California's Department of Housing and Community Development (HCD) oversees other State agencies, its subrecipients, and other monitored entities in the implementation of the Disaster Recovery Program (DR Program) and Mitigation Program (MIT Program) funded by CDBG-DR grants and Mitigation grants from the US Department of Housing and Urban Development (HUD). Although no other State agencies presently play a substantive role in the DR and MIT Programs, HCD has designated multiple local government jurisdictions to assist in carrying out funded program components/activities. Additionally, HCD has engaged other entities to perform related services.

As the recipient of DR and MIT grants, HCD is responsible for managing the day-to-day operations of the State's DR and MIT Programs, and to ensure that Federal funds are expended in accordance with each program requirements. It is important to note that the State does not pass through DR and MIT funds to jurisdictions to fully manage subgrants as under the CDBG Program. Yet, the legal relationship between the State (HCD) and most parties will be 'grantee and subrecipient'. The subrecipient relationship requires each of those jurisdictions to conform to Uniform Administrative Requirements 2 CFR 200. In addition to subrecipient relationships, HCD may also enter into legal relationships with a contractor/vendor to manage a DR or MIT program(s) on its behalf. The relationship between HCD and its contractor/vendor also requires conformance with certain parts of the Uniform Administrative Requirements in 2 CFR 200. Consequently, HCD follows this Plan as a part of its internal controls in conformance with oversight responsibilities – specifically to ensure that the State manages the Federal award in compliance with Federal statutes, regulations, and the terms and conditions through monitoring and reporting of program performance as per 2 CFR 200.303 and 200.328.

Monitoring is both an integral management control technique and is an ongoing process that assesses quality of performance over time. Monitoring provides information about program participants that is critical for making informed judgements about program effectiveness and management efficiency. It also identifies instances of fraud, waste, and abuse. This Plan, however, does not describe the HCD's internal auditing process which separately uses Audit and Evaluation Division staff[1].

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[1] HCD Audit Staff provide ongoing reviews of internal processes to ensure the grant meets all Federal compliance standards. At the end of each calendar year, the Audit staff prepares a formal report on issues and compliance standards for HCD executive staff review. This ongoing internal HCD Audit

HCD monitors its subrecipients , when applicable, based upon an assessment of risk posed by the jurisdiction and according to specific monitoring criteria per 2 CFR 200.331. Conversely and as prescribed by 2 CFR 200.205(c) and the CDBG-DR and MIT Certifications and Implementation Plan's Section II (Evaluation of Risk and Management Capacity), HCD will complete internal risk analysis and capacity gap reviews on grant administration and programmatic performance. All subrecipients, programs, and administrative functions are reviewed on an annual basis under this Plan to ensure compliance with regulations and grant requirements. Most subrecipients will be monitored multiple times over the course of their agreement, depending on complexity of their activities and implementation timeline. Additionally, the Plan provides for delivery of technical assistance to build capacity of subrecipients and to strengthen grant and program management and oversight, especially when new or different program components/activities are undertaken. In the following sections, further details are provided about HCD's responsibilities and procedures for monitoring its subrecipients, programs, and internal grant administration, as well as the Annual Monitoring Strategy.

2. Definition

To better understand, use and follow this Plan, the reader will benefit from definition of frequently used terms and phrases. A set of definitions appears below:

Action Plan: An official plan prepared by a grantee receiving Federal assistance from HUD which describes current conditions, proposes goals, strategies, programs, and projects, and includes a budget for a grant-in-aid. Under the DR and MIT programs, this plan determines and details how a grantee will address unmet needs and describes what programs and projects/activities will be implemented in response. An Action Plan can be updated to address changes in the DR and MIT programs via an Action Plan Amendment.
Allowable Costs: Costs that are acceptable under 2 CFR 200 and are approved as part of an activity in the grant agreement.
Assurance: A written statement or contractual agreement signed by the chief executive officer in which a grantee agrees to administer Federally assisted programs in accordance with laws and regulations.
Beneficiaries: Persons to whom assistance, services, or benefits are provided.
Community Development Block Grant -Disaster Recovery (CDBG-DR): A

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process ensures that the Federal and State compliance standards are met, and that HCD Grant Management personnel follow standard operating procedures for grant implementation.

	special grant in aid to a State for recovery from a Presidentially-declared disaster awarded by HUD under a Federal entitlement program that also provides funds to States and cities/counties for community development programs and projects.
	Chief Executive Officer or Chief Elected Official (CEO): The official representative of a local jurisdiction who is duly authorized to sign an agreement between the State and jurisdiction.
	Corrective Action: Action taken by the auditee that corrects identified deficiencies, addresses a concern or otherwise produces recommended improvements.
	Concern: An area of noncompliance that is not in clear violation of an existing statutory, regulatory, DR, or MIT specific requirements, but a condition that could lead to future findings if not corrected.
	Consolidated Plan (Con Plan): A plan prepared in accordance with the requirements set forth in 24 CFR Part 91, which describes community needs, resources, priorities, and proposed activities to be undertaken under certain HUD programs, including CDBG.
	Contract: A legal instrument by which a non-Federal entity purchases property or services needed to carry out the project of program under a Federal award.
	Contractor/Vendor: A contractor/vendor is an entity paid with project funds in return for a specific service (e.g., consultants, equipment suppliers, and construction contractors). Contractors/Vendors must be selected through a competitive procurement process.
	Federal Assistance: Any funding for the purpose of assisting a beneficiary typically through a Federal award.
	Federal Register Notice: An official public notification (within the Federal Register of the Government Printing Office) that presents a Federal department's rules, regulations, or other guidance concerning the allocation of Federal grants, their intended use, and the administration or other required conduct for the recipient of a Federal award.
	Finding: A deficiency in performance for which there is clear non-compliance with a statutory, regulatory, DR, or MIT specific requirement.
	Grantee: Refers to the State of California which is a grant recipient under HUD's Recovery and Resilience Programs.
	Internal Controls: Policies and procedures that ensure project transactions will be carried out in conformity with applicable regulations with HCD policy.
	Low-income: A household/family having an income below 50 percent of the area median income.
	Moderate-income: A household/family having an income above 50 percent but below 80 percent of the area median income.
	Monitoring: A routine review of projects during or after Federal assistance has been

provided to designated subrecipient of the grantee that is conducted at one of two levels – a desk monitoring or onsite monitoring of the subrecipient – to determine program compliance.

Mitigation Program (MIT Program) – Is a new program by which Congress allocates funds for activities that increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship, by lessening the impact of future disasters. It is important to note that MIT funds are not the same as DR funds and have special program requirements.

Non-Federal Entity: A state, local government, Indian tribe, institution of higher education, or nonprofit that carries out a Federal award as a recipient or subrecipient.

Pass – through entity: A non-federal entity that provides a subaward to a subrecipient to carry out part of a Federal program.

Period of Performance: The time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency, or pass-through entity, must include a start and end date of the period of performance in the Federal award.

Program Income: Gross income received by a unit of general local government or a subrecipient that was generated from the use of CDBG funds.

Regulations: Refers to the implementing requirements that are developed and issued by the agency responsible for a certain program or requirement. In the case of CDBG, the regulations are issued by HUD and can be found at 24 CFR 570.

Risk Assessment: An objective evaluation of potentially adverse consequences that could arise from the use of Federal assistance by a grant recipient or its subrecipient(s) which informs a strategy for the level of necessary oversight that should be exercised in the conduct of Federally assisted programs and projects.

Sanctions: Measures that may be invoked by the State or HUD to exclude or disqualify someone from participation in HUD programs (e.g., debarment and suspension) or to address situation of noncompliance.

Subrecipient: Non-Federal entities (governmental or private nonprofit organizations) chosen by the State to undertake certain eligible DR and/or MIT activities.

Technical Assistance: Facilitating of skills and knowledge in planning, developing, and administering activities among entities that may need but do not possess such skills and knowledge, and includes assessing programs and activities.

Uniform Administrative Requirements: Regulations issued at 2 CFR 200 by the White House Office of Management and Budget (OMB) to provide common rules for administering Federally funded grant programs with regard to financial management, procurement, audits, and much more.

US Department of Housing and Urban Development (HUD): The Federal department that administer national grant-in-aid programs, insurance for home mortgages, operating subsidies for public housing and more.

3. Acronyms

In addition to the preceding glossary of terms, appearing below is a description of frequently used acronyms.

AP: Action Plan
A&E: Audit & Evaluation Division
SCO: California State Controller's Office
CAIL: Corrective Action Incomplete Letter
CEQA: California Environmental Quality Agency
CDBG-DR: Community Development Block Grant – Disaster Recovery Program
CEO: Chief Executive Officer or Chief Elected Official
CFR: Code of Federal Regulations
Con Plan: Consolidated Plan
CPA: Certified Public Accountant
DBRA: Davis Bacon and Related Acts
DR Program: Disaster Recovery Program
DOB: Duplication of Benefit
DR: Disaster Recovery
DRGR: Disaster Recovery Grant Reporting
EO: Executive Order
ERR: Environmental Review Record

FAC: Federal Audit Clearinghouse	
FEMA: Federal Emergency Management Agency	
FRN: Federal Register Notice	
GAGAS: Generally Accepted Government Auditing Standards	
GAM: Grant Administration Manual	
GMS: Grant Management System	
GWRA: Grant Wide Risk Assessment	
The HCD Act: The Housing and Community Development Act of 1974	
HCD: Housing and Community Development Department (State of California)	
HUD: Housing and Urban Development	
MDL: Management Decision Letter	
MIT: Mitigation	
MRL: Monitoring Report and Letter	
MRCL: Monitoring Report Clearance Letter	
NEPA: National Environmental Protection Agency	
NOFA: Notice of Funding Availability	
PI: Program Income	
POC: Point of Contact	
Plan: Monitoring Plan	
SA: Standard Agreement	
TA: Technical Assistance	
URA: Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended	
U.S.C: United States Code	

QPRs: Quarterly Progress Reports

II. Roles and Responsibilities

1. Roles and Responsibilities Purpose

As the lead agency for implementing the State of California's DR and MIT grant, HCD leads all monitoring efforts. Using documents and reports submitted by its subrecipients and its contractors/vendors, the Monitoring and Compliance team inspects and monitors grant activities to determine compliance with federal and state laws, regulations, rules, and guidelines relative to use of the DR and MIT grant funds. The compliance unit ensures – to the greatest extent feasible – that subrecipients and state-administered program staff, including program implementation contractors, comply with regulations governing administrative, financial, and programmatic operations, and that they achieve performance objectives on time and within the budget.

HCD has established the Plan as a part of its internal controls in conformance with 2 CFR 200.62 and monitoring and reporting program performance requirements in 2 CFR 200. These requirements include evaluation and monitoring compliance with federal statutes, regulation, and the terms and conditions of federal awards.

The Plan defines HCD's role and responsibilities and the procedures for monitoring its subrecipients in the implementation of the DR and MIT Programs funded through HUD grants. Monitoring is an integral management control technique and is an ongoing process that assesses quality of performance over time.

2. Organizational Unit – HCD

2.1. Roles

As the lead agency for administering the State of California's DR and MIT grants, HCD leads all monitoring efforts by:

- Providing subrecipients with technical assistance and guidance.
- Monitoring DR and MIT funded programs and their subrecipients to ensure performance and compliance.
- Reviewing project applications to ensure that all activities are eligible and compliant with all other requirements, which may include but are not limited to:

- o Environmental reviews (NEPA),
- o Procurement,
- o Section 3; and
- o Labor standards.
- Tracking progress to ensure timely recovery.

2.1.1. Monitoring Representative

Monitoring is the responsibility of HCD's Monitors with oversight by the Monitoring and Compliance Manager. The primary role of the Monitor is to perform regular monitoring on HCD's subrecipients and programs managed directly by HCD. In order to determine the frequency of monitoring activities – which will include a focus on technical assistance and capacity building within the first year of the monitoring activities – the monitor must complete the overall Risk Assessment Worksheet of all HCD's DR and/or MIT programs and subrecipients on an annual basis and categorize the level of risk using the methodology, as covered in Section IV.

After the monitor has completed the risk assessment process – as discussed in Section IV – he/she will detail the risk assessment results and provide the results to the Compliance manager. The Compliance manager uses this information to set up the yearly monitoring schedule that dictates if the activity will be technical assistance or a level of monitoring for each subrecipient. The monitor will provide technical assistance resources or conduct a monitoring activity (Desk or On-site) based on this schedule on an on-going basis.

2.1.2. Compliance Manager

The Compliance manager's leading role within HCD is to ensure that HCD remains in compliance with:

- HUD grantee agreement,
- DR grant conditions,
- MIT grant conditions,
- Federal Register Notices,
- Regulatory requirements, and
- State requirements, where applicable.

This will require the Compliance manager to regularly review appropriate Federal and state resources for latest updates, discuss with appropriate HUD Regional Field Specialist (as necessary), and manage the monitoring unit. Additionally, the Compliance manager should maintain regular training for monitoring staff for knowledge and capacity development with any changing regulations, FRNs, and HUD guidance – to include any changes in program management standards – regarding DR and MIT program/grant compliance.

2.1.3. Program Staff

Monitoring staff will require program, subrecipient, or contractor/vendor specific information in completing its monitoring functions. Instances could arise where program staff initiate certain processes (document collection, site visits, and other training and technical assistance activities) prior to any monitoring staff initiatives, the results of which could be of benefit to monitoring staff.

Program staff could provide vital information or documentation, in a strictly supporting role, to monitoring staff's efforts in completion of its compliance activities. While monitoring staff should gather this information or documentation through Grants Network, events may transpire which program staff has initial knowledge of, and the monitoring staff do not. This may include, but not limited to, the following examples:

- Specific observations noticed by program staff before or during project implementation,
- Change in subrecipient/vendor contact information, or
- Any pending Standard Agreement changes under review/consideration and not previously known to monitoring staff.

In this manner, program staff may share verbal information under an informal process and provide that verbal knowledge in support of monitoring staff's activities. Monitoring staff can reach out to program staff for – or program staff may notify monitoring staff of – specific information which is not fully recorded in Grants Network to ensure duplicative efforts or requests to subrecipients or program implementation and operations contractor/vendors by the monitoring staff are avoided.

2.2. Responsibilities

2.2.1. Monitoring Representative

The monitor inspects and monitors grant activities to determine compliance with federal and state laws, regulations, rules, and guidelines relative to the use of DR and MIT grant funds including regulations governing administrative, financial, programmatic operations, and that they achieve performance objectives on time and within budget.

Monitor Responsibilities, including but not limited to:

- Completes the Annual Risk Assessment by reviewing documents found in Grants Network and through interviewing subrecipient(s) or program staff.
- Reports Risk Assessment results to the Compliance manager.

- Conducts appropriate level of monitoring on subrecipients and programs to determine performance compliance.
- Conducts Exit Conference (Conference Call or On-site) to discuss issues identified during the monitoring.
- Prepares the Monitoring Report and letter.

2.2.2. Compliance Manager

The Compliance Manager is responsible for overseeing the Monitoring unit to ensure that the Plan is followed and that subrecipient(s) and all HCD's program implementation contractors/vendors are held to the regulations and requirements of HCD's DR and MIT Programs. The responsibilities may not be an all-inclusive list, as additional duties may be required as the Programs evolve during the grant lives.

Compliance Manager Responsibilities:

- Creates the official Monitoring Schedule and maintains the authority, as prescribed and updated within HCD's organizational chart, to alter the monitoring schedule as the need arises,
- Reviews recommendation of finding(s) or concern(s) provided by monitoring staff after a monitoring (on-site or desk) is completed,
- Reviews, edits, signs MRL, and disseminates the letter to the subrecipient or program for response,
- Tracks finding(s) or concern(s), and resolutions of identified issues, as a result of the monitoring,
- Reviews recommendation made by the monitoring staff of the subrecipient's response to the MRL,
- Reviews and edits Corrective Action Incomplete Letter (CAIL) or Monitoring Report Clearance Letter (MRCL),
- Approves, signs, and sends CAIL or MRCL, and
- Updates subrecipient file to complete/close monitoring.
- Provides Section Chief with a weekly Status Report

Additional information regarding each responsibility will be described in more detail in later sections of the Plan.

2.2.3. Program Staff

HCD's Monitoring unit is mainly tasked with enforcing compliance standards. In order to accomplish the goal of ensuring grant and regulatory compliance, monitoring staff will, at times, need to consult and coordinate with program staff to effectively carry out training, technical assistance, and monitoring activities. Monitoring staff may also contact program staff periodically to provide or receive guidance that informs risk assessment results, technical assistance events and

planning, training, and monitoring activities. Potential program staff support activities include, but not limited to, the following:

- Support technical assistance and training activities as needed per the TA plan (e.g., assist in conducting portions of training or technical assistance to subrecipient or HCD program contractors as requested by monitoring staff, ensure a subrecipient's program compliance and performance metrics are being adhered to within daily programmatic and operational tasks),
- Informing monitoring staff of program-led or other ad hoc technical assistance and training activities which are conducted outside of the published TA plan (e.g., subrecipient onboarding and initial site visits which serve as technical assistance measures around Standard Agreement execution to discuss program and cross-cutting requirements, contractor or vendor kick-off meetings which discuss contract performance and other federal and grant requirements, providing technical assistance to a subrecipient or program contractor to address or resolve a potentially noncompliant issue which arose suddenly or unknowingly within the subrecipient's program or project),
- Providing support to monitoring staff on subrecipient and project information, etc.
- Alert the Compliance manager of any situation that may require monitoring staff to perform a level of monitoring (on-site or desk)
- Assist in the Appeals review process – as applicable

3. Organizational Unit – Subrecipient

3.1. Roles

3.1.1. Subrecipient Program Staff

The subrecipient personnel listed in the Standard Agreement (SA) is the point of contact for day-to-day grant administration and for coordination on monitoring efforts. The subrecipient staff organizes grant files in preparation for the monitoring and provides documentation requested from HCD staff for desk monitoring or during the on-site monitoring.

Subrecipients must have a working knowledge of DR and MIT programmatic requirements and demonstrate adequate capacity in the administration of all HCD's HUD funded programs.

3.2. Responsibilities

3.2.1. Subrecipient Program Staff

Subrecipients are responsible for the administration of HUD funded grant activities described in the SA scope of work. Some subrecipients have multiple activities and some activities are more complex, so monitoring requirements will vary. At a minimum, subrecipients are responsible for:

- Complying with the terms and conditions of the Standard Agreement with HCD, specifically anti-fraud and abuse,
- Following procurement processes in accordance with 2 CFR 200 or local standards if higher,
- Monitoring any subrecipient for federal compliance standards,
- Monitoring construction contractors for equal opportunity, federal and state labor standards and Section 3 requirement,
- Performing sufficient financial controls to ensure DR and MIT costs are eligible, allowable, reasonable and allocable, and
- Documenting national objective compliance for all activities.

III. Grant Wide Risk Assessment and Program Specific Reviews

1. Grant Wide Risk Assessment and Program Specific Review Purpose

The Grant Wide Risk Assessment (GWRA) is an independent assessment to evaluate program, capacity building, and oversight activity carried out by HCD administrative and programmatic personnel, including its contractors/vendors who may assist personnel in grant administration or program management. It provides information on areas of high risk or concern to HCD through a specific point-in-time assessment. A review of risk analysis on this level assists HCD in determining what type of internal actions may be required to avoid potential areas of noncompliance, which could result in subsequent HUD findings and concerns. The assessment can also determine areas where the Agency's internal risk is low, which confirms a measure of compliance with the applicable HUD grant conditions or programmatic requirements. Monitoring and grant compliance staff guide preparation and completion of the assessment, identification of any internal capacity building or risk reduction strategies, and oversight of related actions to employ such strategies. Grant compliance staff will also provide support around overall grant performance by reviewing updated grant conditions or requirements imposed by HUD throughout implementation of the DR and MIT programs and ensuring these requirements are considered in the risk analysis.

The Program Specific Review process allows for either a due diligence review of subrecipients' initial program documents or an evaluation review of subrecipient qualifications for programs which utilize a state-issued NOFA. This early review serves as a determination of subrecipients' readiness to execute a (Master) Standard Agreement (SA) and implement the respective program for which it is receiving funding. Respective program staff are responsible for collecting documentation and completing an initial review to establish conditions which HCD may place into a subrecipient's SA for execution. These conditions require that the subrecipient meet certain standards prior to the drawing down of funds. Along with this initial due diligence or evaluation review, monitoring staff also reviews the   program specific determinations to confirm any initial areas of noncompliance as well as other information which may inform the completion of the grant wide risk assessment or subrecipient risk assessment.

2. Grant Wide Risk Assessment Worksheet

The Grant Wide Risk Assessment Worksheet *(Exhibit 2)* compiles high-level program and grant operations information needed to complete the assessment. The worksheet utilizes a Risk Matrix which identifies and evaluates HCD Grant

Administration and Management as well as HCD Program Management risk criteria.

2.1. Document Collection

Monitoring and grant compliance staff outlines and uses specific documentation to inform the analysis completed within the Grant Wide Risk Assessment Worksheet. These documents may include:

- Capacity and experience documents (staffing charts, job descriptions, etc.);
- Grant administration and program operations documents (policies and procedures, internal stand operating procedures, internal reports);
- Program design documents (draft applications, project budgets and timelines);
- Evidence of compliance history (past audits and monitoring reports as applicable);
- Scope design documents (draft vendor contract, work plan, contract budget estimate); and
- Program implementation documents (draft agreement, program budget).

Ultimately, the grant management contract staff, in limited coordination with HCD staff, determine the degree of sufficient documentation from Grants Networks, internal program and administrative document folders, and interviews (as necessary) in order to complete the assessments. Due to the independent nature (non-HCD, or third party, review) of the GWRA, it is important to note interaction with HCD administrative and program staff must be limited to situations where there are no other methods to obtain the information required.

2.2. Grant Wide Risk Assessment Elements

The Grant Wide Risk Assessment focuses on two main risk criteria, Grant Administration and Program Management, which informs HCD management staff on internal risk at two distinct levels:

- As an administrative, or non-programmatic, function such as risks for noncompliance under overarching HCD financial management, reporting, and environmental processes, among other grant compliance procedures; and
- As a programmatic function, such as risks for noncompliance under each subrecipient or HCD-administered program within a specific DR or MIT program.

As previously mentioned, this assessment focuses on HCD's ability and measure of performance to carry out certain grant administration and programmatic functions. The assessment still incorporates certain risk analysis elements which

allow the review of other entities who may support or assist HCD, such as program operations and implementation contractors/vendors, in administering State-run programs. Based on the risk analysis methodology explained above, the two primary risk criteria for the assessment are further broken down into risk components:

- Grant Administration and Management
  - Grant Administration Capacity
  - HUD Grant Conditions
  - Internal Standard Operating Procedure Review
  - Internal Audit and Monitoring History

- Program Management
  - Program Capacity
  - Program Allocations
  - Program Timelines

To ensure compliance with 42 U.S.C section 5304(e)(1), 2 CFR 200.205(c), and Section VI.A.18 of the 2017 CDBG-DR Allocations, Common Application, Waivers, and Alternative Requirements *Federal Register Notice* (83 FR 5856) concerning a waiver and alternative requirements to 24 CFR 570.492, HCD will conduct this risk assessment to determine internal capacity levels and gaps for effective implementation of the respective DR and MIT programs. Whereas the Implementation Plan may serve as the overarching standard by which HCD explains its intended capacity to administratively manage and implement DR and MIT programs, the Grant Wide Risk Assessment is the vehicle, or process, in which that standard of internal capacity and risk of noncompliance is continually measured and addressed.

While the risk assessment looks at an annual "point-in-time" of a DR or MIT program, most notably prior to any substantial level of Standard Agreement (SA) executions or multiple activity/program expenditures within a DR or MIT allocation, it may also involve semi-annual updates based on the implementation level of each DR or MIT program. Annual updates to multiple subrecipients' or a program's Standard Agreement may also impact the assessment to capture any new provisions or HUD grant conditions that might require additional HCD capacity or compliance and therefore, increase risk. Monitoring and grant compliance staff may also adjust risk criteria to focus more on implementation components – grant-wide and program expenditure rates as well as actual performance on other administrative and program completion deadlines – as DR and MIT programs move forward towards completion.

Once the grant management team conducts the Grant-Wide Risk Assessment on a DR or MIT program, the risk results and final qualitative ratings are documented by the Compliance manager. Based on these results, the monitoring

and grant compliance staff will complete a Grant Wide Risk Assessment Report, which is descried below.

Records of the risk assessment results are maintained by the Compliance manager in the appropriate DR or MIT program monitoring file. With the steps outlined above and the additional report described below, HCD management staff will have information which helps develop strategies on how to effectively mitigate internal risk and increase HCD program staff compliance in implementing all DR and/or MIT funded programs.

2.3. Grant Wide Risk Assessment Results

Due to the nature of the GWRA, the results will not be numerical as it is with the Subrecipient Risk Assessment. The assessment will utilize a color code system corresponding to areas which pose the highest, medium, and lowest risk to compliance with HUD grant conditions and overall grant management activities. This visual system will assist in making management decisions on how to address areas – specific or overarching – to avoid weaknesses or grant compliance issues from becoming more severe.

2.4. Grant Wide Risk Assessment Report

The Grant Wide Risk Assessment Report summarizes the risk results and offers recommendations on how best to mitigate or lessen risk and other areas of concern within HCD's grant administration and program management. HCD intends to use the report as a mechanism for instituting changes within HCD's administrative or programmatic functions. The report may suggest best practices or guidance for HCD to ensure grant and program compliance with HUD requirements as part of its monitoring strategy, but it is not seen as a direct impact on subrecipient monitoring or other monitoring activities which involve communication with subrecipients, program implementation vendors, or other external entities. Therefore, the report is for HCD internal use only.

3. Program Specific Review – Due Diligence Review Only

3.1. Document Collection

Currently, the Program Specific Review for the due diligence process has a specific Document Collection Checklist which outlines specific documentation program staff will use to inform the analysis completed within that review. These documents may include:

- Capacity and experience documents (staffing charts, job descriptions, etc.)

- Program design documents (draft applications, project budgets and timelines)
- Scope design documents (draft vendor contract, work plan, contract budget estimate)
- Program implementation documents (draft agreement, program budget)

Ultimately, program staff – with advice from Monitoring and Compliance – is responsible for ensuring that they have sufficient documentation in Grants Networks, subrecipient and contractor/vender documents, and interviews in order to complete the Program Specific Review. When completing the review, it is vital for monitoring staff to understand the documents obtained by programs staff in the Document Collection Checklist as a document guide for the Program Specific Review prior to determining what additional information is still needed.

3.2. Program Specific Assessment Elements

Program staff collects information necessary to populate the SA and confirm authority to execute the SA. Program working group collect basic organizational capacity information and relevant policies and procedures for the program area from the implementing department or agency. Implementing department or agency within subrecipient jurisdiction may vary across programs.

Where key local policies do not exist, program working group identifies plan to develop the policies. Subrecipient may request TA or Program may provide TA for items. This assessment may result in the inclusion of grant conditions in the SA, if warranted. Grant conditions required by program working group must be resolved before project-specific funds may be used, following program staff's issuance of a Notice to Proceed (NTP).

Program Due Diligence and SA execution may occur before Subrecipient Risk Assessment (see section below). Provisions are included in the SA (Exhibit E Special Conditions) that require the Subrecipient to provide documents and information to facilitate HCD's Subrecipient capacity assessment as required in *Federal Register Notice* (83 FR 5856). Subrecipient further agrees to comply with the requirements, requests, and results of the Department's capacity assessment and maintain the capacity to carry out disaster recovery activities in a timely manner.

3.3. Program Specific Assessment Results

Program staff will identify within the assessment the completion of program policies, procedures, and critical documents necessary to confirm a subrecipient's readiness for program launch. The program staff make determinations as to whether a review of documents, or lack thereof, result in the

subrecipient meeting a minimum standard of program readiness. In those instances in which the minimum standard is not met, program staff will utilize written conditions within the SA to enforce additional controls on the subrecipient to enact prior to receiving authorization to move forward in program implementation (e.g., Notice to Proceed, processing of initial request for payment, etc.).

Program staff do not review the documents in a fashion which determines whether these policies, procedures, or other critical documents comply with regulatory or grant requirements. The monitoring staff contributes the results of this assessment by reviewing these documents for potential risk of noncompliance with such requirements.

IV. Subrecipient Risk Assessment and Annual Strategy

1. Risk Assessment Purpose

As the initial action within the monitoring process, the risk assessment analysis informs HCD on the potential level of subrecipient or program compliance with Federal, state, and DR and MIT requirements. In accordance with 2 CFR 200.221, 24 CFR 570.492 and 570.501, and 42 U.S.C Section 5304(e)(2), the risk assessment seeks to gauge not only a subrecipient's capacity to implement a program or project in a compliant manner as established within the Standard Agreement but also a HCD program's compliance with performance objectives and regulatory or grant compliance provisions. Since HCD administers programs on both a state and subrecipient level, it is important to assess that operational risk similarly across different distribution methods. The goal of this process then is to determine the highest areas of risk across all DR and MIT funded activities. This measure ultimately provides HCD with the programs, subrecipients, and/or grant administrative areas which require the greatest oversight in ensuring general compliance with DR and MIT programs.

Within initial program stages (awarding, Standard Agreement, and early implementation phases), the risk assessment primarily advises HCD of those high risk subrecipients and programs who require direct administrative oversight in the form of intensive technical assistance and capacity training. As programs progress into full project implementation, the risk assessment shifts to provide HCD with understanding and prioritization of potential subrecipient or program areas to focus compliance and monitoring activities on, which also still considers the components in which technical assistance and training were initially provided. In this sense, the risk assessment serves as the foundation from which HCD records and documents both its technical assistance and monitoring efforts to ensure regulatory compliance as responsible and effective stewards of HUD funding.

Additional functional results of the HCD risk assessment process include determinations on scheduling, frequency, and types of technical assistance, training, and monitoring activities. These specific areas and justifications are further outlined in the Annual Strategy and Monitoring Schedule section below.

2. Risk Assessment Package

The risk assessment process involves multiple documents which seek to inform HCD monitoring (and program) staff of the potential for noncompliance in managing DR programs and the level of risk posed to HCD. These documents review multiple areas (entity, regulatory, and programmatic risks) on multiple levels (individual entity, multiple entities, and programmatic levels) by analyzing the risk assessment data in different ways.

The documents included in the risk assessment process provide insight to monitoring staff on different areas within its HUD funded program structures, which require a low, medium, or high level of oversight. They are:

- **Document Collection Checklist:** Provides a list of documentation from the subrecipient or program which should be reviewed to inform the Risk Assessment Worksheet.
- **Subrecipient Risk Assessment Worksheet:** An analysis of potential capacity, experience, design and implementation methods, and prior performance history which educates monitoring staff on current subrecipient abilities.
- **Summary by Topic (Risk Criteria by Subrecipient):** A comparative analysis (e.g., across multiple subrecipients) which helps monitoring staff understand those entities with the highest risks.
- **Summary by Program:** A comparative analysis which informs monitoring staff on the potential program which would require the most amount of administrative oversight and monitoring activity.

All of the documents, when collectively completed, provide a comprehensive overview of the risk assessment results which the Compliance manager will utilize in determining technical assistance, training, and monitoring strategies, and frequency of the activities. They are located under Section VII. Monitoring Exhibits.

As mentioned earlier, monitoring staff will need both documentation and information during this process to complete all applicable forms. Monitoring staff – after review of documentation in Grants Network – may need additional contact/interviews with a subrecipient and/or program staff in order to gather appropriate level of information to complete the Risk Assessment process. While program staff is not involved with the Risk Assessment process, there may be special circumstances where exceptions may apply. These circumstances may

require approval by the Compliance manager. The Risk Assessment process is covered in more detail throughout Section IV of the Plan.

2.1. Document Collection

The Document Collection Checklist *(Exhibit 3.1)* outlines specific documentation which HCD monitors use to inform the analysis completed within the Risk Assessment Worksheet. These documents may include:

- Capacity and experience documents (staffing charts, job descriptions, etc.)
- Program design documents (draft applications, project budgets and timelines)
- Scope design documents (draft vendor contract, work plan, contract budget estimate)
- Program implementation documents (draft agreement, program budget)
- Prior compliance history (monitoring and audit reports)

Depending on the circumstances and timing of the document collection process, HCD monitors may consult and coordinate with the Program Rep (Program Representative) in the collection of this documentation from subrecipients. There may be instances in which the Program Rep is holding on-site visits or other outreach initiatives which provide an opportunity to seek out documentation. Conversely, other HCD staff may hold contractual discussions with program implementation contractors/vendors in which they could obtain additional information or documentation.

Ultimately, the monitor is responsible for ensuring that they have sufficient documentation from the subrecipient or program in completing a Risk Assessment Worksheet. The monitor will first use available resources, specifically Grants Network, to establish the number of documents which have already been provided. It is vital to initially utilize this checklist as a document guide for the Risk Assessment Worksheet prior to determining what additional information is still needed.

2.2. Risk Assessment Elements

The risk assessment primarily focuses on four general criteria which informs the level of HCD administrative oversight needed. This initial assessment occurs on the level of entities who carry out HUD funded program activities: subrecipients and HCD program or grant management contractors/vendors. The risk criteria for subrecipients include:

- Staff capacity and relevant experience
- Program design and complexity
- Program implementation

- Compliance history

To ensure compliance with 42 U.S.C section 5304(e)(2) and 24 CFR 570.492(a), HCD will conduct risk assessments on an annual basis to determine its level of effort for continuing the varying degrees of technical assistance, training, and monitoring activities. The risk assessments may also be impacted by annual updates to the Standard Agreement to capture any new provisions or HUD grant conditions that might require additional capacity or compliance and therefore, increase risk. Monitoring staff may also adjust risk criteria to focus more on implementation components – subrecipients or program expenditure rates as well as actual performance on other program or project completion deadlines – as programs move forward towards completion.

HCD conducts this risk assessment analysis within the Subrecipient Risk Assessment Worksheets *(Exhibit 3.2)*. Monitoring staff, specifically the Compliance manager, are also primarily responsible for determining both the risk criteria and scoring methodology for the Risk Assessment Worksheets.

Monitoring staff should understand when to conduct the risk assessment. Ideally, a subrecipient risk assessment is conducted and completed around the same period of time or shortly after the execution of a Standard Agreement by the subrecipients. The risk assessment should be completed, and risks should be fully communicated to all applicable HCD units to inform them of potential risk and noncompliance areas, prior to the expenditure of any HUD funding by the subrecipient. In the unlikely event where monitoring staff did not perform a risk assessment for subrecipients prior to the expenditure of grant funding, the basis for determining technical assistance, training, or monitoring prioritization must still be documented. HCD will also document justification – in Grants Network – for why a risk assessment was not previously conducted in this instance.

Once monitoring staff conducts a Risk Assessment Worksheet on a subrecipient, the risk results and final rating are reported to the Compliance manager within 30 days. Based on these results and along with additional document tools, described below, to analyze risk across multiple subrecipients, and programs, the Compliance manager will develop:

- Technical assistance plans and training activity schedules for higher risk subrecipients, and
- Monitoring schedules for all subrecipients and/or programs.

Records of the risk assessment results are maintained by the Compliance manager in the appropriate subrecipient, or program monitoring file. Monitoring staff will upload all completed risk assessment documents into Grants Network. Monitoring staff will also use Grants Network for internal tracking or oversight of the risk assessment process.

With the steps outlined above and the suite of documents described below, monitoring staff will prepare annual strategies on how to effectively manage risk and increase compliance among all HUD funded programs.

2.3. Summary by Topic

The Subrecipient Risk Assessment Summaries (Risk Criteria) *(Exhibit 3.3)* provide monitoring staff with a high-level look and review of how entities compare in their risk among each other. The intent of the summary is to:

- Determine common risk areas where technical assistance and training could assist in reducing the same concerns across multiple entities.
- Indicate the greater risks for noncompliance across all entities.

This summary document becomes the first comparative analysis which highlights areas for coordinated technical assistance and training for both individual and multi-entity events. The summary can also inform monitoring staff of potential regulatory or programmatic training needs which can then translate into viable monitoring topics and options within the same program year or into the next year.

Monitoring staff would complete this summary once all Risk Assessment Worksheets have been completed for subrecipients within a given program year. While it is possible that a risk assessment can be conducted within the middle of a program or fiscal year, the summary process is intended to capture all risk assessments at one certain point in time. This would preferably take place after monitoring staff has concluded what it believes are all subrecipient risk assessments for which an agreement or contract, respectively, is anticipated to be fully executed within the first half of a given program or fiscal year. Like the risk assessments, the summary document is crafted so that a summary of all entities' risk criteria can be gauged annually.

The Risk Assessment are located within Section VII. Monitoring Exhibits.

2.4. Summary by Program

The Program Summary *(Exhibit 3.4)* is a tool which allows monitoring staff to determine which programs run the greatest risk during an implementation phase. Another high-level document, the summary's intent is to compare both subrecipient-implemented and HCD-administered programs side by side to offer insight on which program may require a more extensive monitoring oversight. With this analysis, monitoring staff will be able to provide guidance and recommendations to program staff on whether program implementation is advisable as well as what technical areas the program staff could support subrecipients on in an effort to keep the program compliant.

Another feature of this document includes the ability for the Compliance manager to map out or begin drafting a schedule for potential technical assistance, training, or monitoring (desk or on-site) events during the upcoming fiscal year which Section Chiefs can review and approve prior to any release to program staff. Based on the risk levels established within the Risk Assessment Worksheets, monitoring staff can pull in those criteria to establish the frequency and type of events needed for each subrecipient or program. Most of the events for high risk entities will involve quarterly or bi-annual technical assistance and/or monitoring, while medium to low risk entities will more than likely receive bi-annual, or "as-needed," technical assistance and yearly monitoring. Like the Risk Assessment Worksheet and Risk Assessment Summaries (by risk criteria), this summary is updated annually. This update ensures that monitoring staff can identify that both the effectiveness and oversight of their efforts is not resulting in a decrease in capacity or compliance for any one entity.

While the summary is meant to follow risk criteria identified within the Risk Assessment Worksheets during pre-program implementation stages, HCD may consider several other factors for prioritizing monitoring and technical assistance once program implementation is underway. An analysis of the status of activity expenditures and other progress narratives which may not be quantified within the risk assessment process may help support schedules in those subsequent implementation years.

Since the summary utilizes information solely from the Risk Assessment Worksheets, it is not anticipated that Monitoring staff will require support from program staff for the completion of this document. Coordination with program staff may come in during the time of assessing a Program Summary to recommend program shifts as mentioned above within this section.

2.5. Risk Assessment Results

Once the Monitoring staff completes all Risk Assessment Worksheets and Summary documents, official planning and scheduling of technical assistance, training, and monitoring activities can begin. There may be instances in which other technical assistance or training events are completed outside of the formal plan or schedule, but this would most likely involve program staff providing these events at the request of the entity. Monitoring staff will be responsible for developing and requesting program staff support on any formal technical assistance, training, or monitoring activity.

At the conclusion of the risk assessment process, the monitoring staff must share the results of the assessment with program staff in order to solicit feedback and informed on actions regarding their subrecipients that may impact the risk level assessed and if the monitoring action is the most appropriate at this time. Simultaneously with the program staff review of the risk assessment, the Compliance manager will create and finalize the Monitoring Schedule *(Exhibit*

3.5). Additionally, the Monitoring Schedule will be provided to program staff for review and applicable feedback.

The Compliance manager reserves the right to edit the official schedule as provided by HCD's current organizational structure – which dictates technical assistance, training, and monitoring activities – as needed to address an immediate concern or issue of noncompliance or high risk which may occur outside of the annual risk assessment process.

3. Annual Strategy and Monitoring Schedule

In the preceding sections, the Risk Assessment Packages refer to the evaluation of grant administration, program, or subrecipient risk informing the annual monitoring strategy and determining the schedule for necessary oversight and support action from HCD.

Each year, HCD considers the status of the State's disaster recovery initiatives and those programs, projects, and activities that will be undertaken by subrecipients. Program components are not rolled out at once, nor is the mix of projects and activities the same throughout the recovery period. Depending on subrecipients needs at the time, HCD strategy's will include varying levels of training, technical assistance, monitoring, and other forms for oversight. The result is an Annual Strategy that responds to capacity or compliance issues presented collectively by those subrecipients who will actively implement the State's DR and MIT programs.

Because the assessment is meant to capture a subrecipient's risk in implementing a program, the strategy will typically feature training or technical assistance to build subrecipient capacity when they are setting up their program. After programs launch and become operational, assessment results of subrecipients' risks across programs, will help HCD determine the timing, frequency, and type of subrecipient program monitoring. Such oversight activity can even alert HCD to possible changes in program design elements or standard operating procedures.

The summary results provide justification for the risk level determination while the areas of concern also outline general methods of technical assistance to subrecipients that staff can utilize to reduce or avoid violations to the greatest extent feasible, especially during the first 18-month period of implementing the DR and MIT Action Plans.

Using this framework for deciding its strategy, HCD creates a schedule for delivery of the training, technical assistance, or monitoring though the course of each program year. The current year's schedule is attached to the Risk Assessment Package following summaries of the assessment results.

3.1. Technical Assistance and Training

The areas outlined below provide a general sense of frequency which is considered when scheduling subrecipient training and technical assistance, and monitoring activities throughout the program year:

Training:

This type of support is designed to increase knowledge and skills within a subrecipient and can be offered to group/individual subrecipients. Training will be provided throughout the year by HCD, HUD, or other third parties in the form of a webinar, self-guided module, or in-person workshop. Training is not conducted by monitoring staff but other staff within HCD, HUD, or other parties. HCD conducted training(s) must include the following documents in Grants Networks:

- Daily Sign-In Sheet
- Training Agenda
- Applicable training material

It typically cast a broader net than technical assistance delivery. Due to the amount of time and effort a training will take, it should be conducted less frequently then technical assistance. Often, this activity will cover the basics of DR and MIT, cross-cutting regulations, and applicable Federal Register Notices required to administer a DR or MIT funded grant. HCD will determine how trainings will be handled in terms of how many topics to cover per training.

Technical Assistance:

This activity is typically less formal than trainings and more focused on a specific area that a subrecipient needs covered. HCD identifies subrecipient technical assistance needs through a review of risk assessment results, the conduct of monitoring, and ongoing quality controls and assurance. While HCD determines when to perform this action, subrecipients can request technical assistance and specify areas technical assistance is required. Since technical assistance is – typically – less comprehensive compared to trainings, it should be performed more frequently than trainings. The nature and extent of technical assistance is determined at the discretion of the HCD staff. Some examples of technical assistance include:

- Observation of subrecipient activities and the provision of feedback,
- Verbal or written guidance, and

- Formal delivery of technical assistance according to a plan describing the basis for intervention, the capacity gap, and the techniques for building capacity in that specific area.

Successful delivery of technical assistance addresses the most common challenges revealed in the oversight of subrecipients and effectively increases local grant management capacity and improves performance. Technical assistance performed by HCD, HUD, and/or third parties should be clearly documented and filed in the Grants Network system. Methods for documentation include, but is not limited to:

- Technical Assistance Sign-in Sheet,
- Technical Assistance Agenda, and
- Technical Assistance tools provided to the subrecipient.

4. Monitoring

In addition to subrecipient training and technical assistance, monitoring activities are conducted throughout the program year and include the following:

Monitoring:

Depending on the assessed risk level, this can either be performed in the form of on-site monitoring or a desk monitoring. This activity – typically – is performed less frequently than technical assistance as monitoring is performed after administration or project activities have been performed. The purpose is to perform an ongoing assessment of the subrecipient's ability to maintain compliance throughout the life of the program.

V. Monitoring Process

1. Monitoring Purpose

As indicated in the prior section, the monitoring process carries out the Annual Strategy and follows the Monitoring Schedule for HCD's monitoring of its subrecipients and programs. This routine represents the key method of oversight which HCD directs toward those subrecipients charged with implementing all or parts of its DR and MIT programs. It is both an integral management control technique and an ongoing process to assess quality of performance over time. More specifically, monitoring ensures that the State manages the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions through monitoring and reporting of program performance.[2]

As noted, the State must manage the grants in compliance with terms and conditions of the award. This includes any special conditions or information contained in HUD communications and/or applicable

Depending on the assessed risk level and stage of program implementation, this oversight can take the form of training, technical assistance, or monitoring. However, when the program is fully operational, HCD can expect to undertake a monitoring process as the primary method of ensuring programmatic compliance.

This section of the Plan describes the monitoring process in detail from the initial notification to a subrecipient to reporting results, corrective actions, and the eventual clearance of any findings of non-compliance. It covers both levels of monitoring:

- Desk Monitoring
- On-site Monitoring

Importantly, the process also explains how and when technical assistance is provided during the monitoring of a subrecipient - to improve performance, develop or increase capacity, and augment management and technical skills where possible or feasible. Lastly, the section includes instructions for record keeping to properly maintain the subrecipient's file in Grants Network.

2. Monitoring Notification Letter

2.1. Subrecipient Communication

Prior to a notification letter being disseminated to the subrecipient, the monitor – conducting the visit – must reach out to the subrecipient. This pre-notification communication between the monitor and subrecipient should be made via phone or email. The purpose of this communication is to alert the subrecipient that a monitoring has been scheduled – and discuss potential dates for the monitoring – and discuss any monitoring logistics required to execute the monitoring.

Additional information concerning the Monitoring Notification Letter can be found in follow-up sections of this Plan. If during the 30-day notification period something occurs that may require an on-site monitoring visit to be postponed/rescheduled, the subrecipient must reach out to the monitor in writing – via email – and discuss justification for a request to reschedule a monitoring visit. The monitor should review the request and conduct any follow-up discussions necessary to gather all necessary information regarding justification, suggested dates, etc. After the monitor has collected all the information, a discussion between the monitor and Compliance manager should take place to determine if the justification is reasonable and if the requested reschedule dates

are acceptable. Once the Compliance manager has provided approval to reschedule the monitoring, the monitor must follow up via email to notify the subrecipient of the determination and agreed upon dates. This should be maintained in the file for record keeping purposes.

If there has not been a request to postpone the monitoring visit, the monitor must contact the subrecipient's POC within 14 days prior to the visit to serve as a reminder of the agreed upon date(s), time, and location of the on-site monitoring. There should also be discussion on any arrival logistics required, e.g. parking restrictions, construction issues, etc.

2.2. Desk Monitoring Notification Letter

A monitoring notification letter *(Exhibit 4.1)* shall be sent by the Compliance manager notifying the subrecipient no later than 30 days prior to the start of the desk monitoring. The letter states the purpose of the desk monitoring and the subrecipient's responsibilities related to the desk monitoring effort. The letter also identifies the activity and compliance standards to be monitored, the documentation to be delivered to the Compliance manager or appropriate monitoring staff, and the method(s) for providing the documentation to the HCD office.

The timeframe from notification letter to the commencement of desk monitoring allows a sufficient period for the subrecipient to organize monitoring documentation, review their policies and procedures, and initiate internal controls they determine to be appropriate in advance of the monitoring. Also included in the letter is the Document Request Checklist *(Exhibit 4.2)* that must be used to compile the documentation for subrecipient submission to HCD.

Once the subrecipient returns the completed Document Request Checklist with supporting documentation, the monitor shall perform a preliminary review to determine that all requested documentation has been provided. In accordance with monitoring objectives, the monitor may exercise their judgement to determine if additional, reasonable guidance would improve monitoring results or if the documentation is satisfactory for compliance verification.

2.3. On-site Monitoring Notification Letter

A Monitoring Notification Letter (MNL) *(Exhibit 4.1)* and document request checklist *(Exhibit 4.2)* shall be sent by the Compliance manager notifying the subrecipient no later than 30 days prior to the start of the on-site monitoring. The letter states the purpose of the on-site monitoring, length of time the monitor will be on-site, and the subrecipient's responsibilities in assisting the monitor's on-site monitoring activities. The letter must clearly identify areas to be monitored and state that appropriate subrecipient staff and any applicable consultants must be on-site to provide clarification and/or take part in interviews as determined

necessary by the monitor. The letter must also emphasize that the monitor be provided suitable space – away from subrecipient staff – in order to conduct the monitoring.

The timeframe from notification letter to the commencement of the on-site monitoring allows a sufficient period for the subrecipient to organize program documentation, review their policies and procedures, and to ensure required individuals are available – onsite – to assist monitoring staff. This will also afford the monitor sufficient time to start the preparation work for the on-site visit. Preparation activities are covered in the pre-monitoring section.

3.   Monitoring Levels

3.1. Desk Monitoring

The desk monitoring commences 30 days after the subrecipient is notified of the monitoring via the notification letter. During the 30-day notification period, the subrecipient will provide the monitor with any documentation requested in the document request checklist contained in the notification letter. Desk monitoring is conducted at the HCD office regardless of the location of the subrecipient's office. A desk monitoring can either be area specific (e.g. Procurement and Contract, Environmental, Section 3) or a comprehensive review of the project of the DR or MIT Programs administered by the subrecipient or HCD program staff with grant funds. The desk monitoring also serves to assess subrecipient or program compliance and potential training/technical assistance needs in order to become compliant and maintain proper administration within acceptable compliance standards as set in Federal and state regulations, rules, and applicable guidance (provided either by HCD or HUD, or other Federal Agencies).

Prior to the start of the desk monitoring, the monitor should review the following, in order to get a better understanding of the project(s) and any special conditions:

- The requirements of the DR or MIT program,
- FRN requirements applicable to the DR or MIT program and any applicable waivers,
- Other federal regulatory guidance, such as Uniform Administrative Requirements, cost principles, and audit requirements outlined in 2 CFR 200,
- Specific conditions as stated in 2 CFR 200.205 and 200.207 respectively to mitigate the risk of the grant,
- The Standard Agreement with the subrecipient, including amendments if applicable,
- The annual monitoring assessment and strategy, and

- Results of any ongoing desk reviews conducted by both program and compliance personnel (these desk reviews are focused on period quality control and quality assurance reviews).

Typically, desk monitoring is only conducted for low risk to medium risk subrecipients who pose the least amount of risk to HCD and its grant with HUD. Special circumstances may arise that require a special desk monitoring for a high risk subrecipient, e.g. a news report related to a DR funded project where actions may require a special on-site monitoring.

3.1.1. Additional Action – Finding

A desk monitoring may identify a finding in either a particular area(s) of project management or identify a systematic deficiency that needs further investigation. If a finding is identified during a desk monitoring, the monitor is to halt all monitoring review activities – this includes if the monitoring review is incomplete – and arrange for discussion with management (Compliance Manager) to determine the most appropriate next steps. The next steps can result in either continuing the desk monitoring or require an on-site monitoring.

If the determination is an on-site monitoring must be conducted, the following actions should be taken:

- Notate the decision on the draft monitoring report,
- Explain the next step is an on-site monitoring and process,
- Request tentative dates with appropriate subrecipient staff,
- Expand sample and request additional documents for further review prior to the on-site monitoring,
- The Compliance manager amends the official monitoring schedule to reflect the change from desk monitoring to on-site monitoring, and
- Notify the appropriate Program Rep, including the program manager and Section chiefs as applicable, of the changes.

After the above actions are taken, the on-site monitoring process should be followed.

3.1.2. Exit Conference Call

The Exit Conference Call is conducted after the draft monitoring report is completed and the Exit Conference Agenda *(Exhibit 9)* is created. The purpose of the exit conference agenda is to assist the monitor in moving smoothly through the discussion and to inform the subrecipient what points will be covered. This will help the subrecipient discuss internally any questions they may tentatively have for discussion.

The Exit Conference Agenda should contain the follow:

- Start Date and Time of the Exit Conference Call,
- Notations on attendance – names and positions,
- Discussion of the draft monitoring report – verbally,
- Identification of the next stage in the monitoring process, and
- Placeholder for questions and discussion.

A copy of the exit conference agenda should be emailed to the subrecipient staff when the date of the conference call is scheduled. The monitor must contact the subrecipient and schedule the conference call within 14 days of the conclusion of the desk monitoring. The subrecipient program staff and leadership, as appropriate, should be in attendance on the conference call.

The Exit Conference Call will cover:

- Review of the Exit Conference Agenda,
- Draft Monitoring Report – verbally,
- Further actions, if applicable, and
- Monitoring process next steps.

Recommended Best Practice: Make detailed notes from the conference call and any clarifying statements made by the subrecipient. After the conference call, email a copy of the agenda and notes taken from the conference call and allow the subrecipient two days to either confirm the notes accurately reflect the conversation or recommend note changes. After the subrecipient agrees with the notes (this is no more than a 3-day activity), the notes and agenda should be uploaded into the monitoring file in Grants Network.

3.2. On-site Monitoring

Typically, on-site monitoring is reserved for medium high to high risk subrecipients. This group of subrecipients present the greatest risk to HCD's compliance with HUD's grant requirements. On-site monitoring is intended to be a more comprehensive assessment of the subrecipients' management of the DR and MIT programs in compliance with applicable Federal, state, and local regulations and requirements. This level of monitoring is performed at the subrecipient's location and is more formal then a desk monitoring.

3.2.1. Pre-Monitoring Review

The pre-monitoring review process is performed in order to:

- Reduce HCD's use of time and resources in conducting monitoring,
- Ensure the monitor is adequately prepared and familiar with the program and project(s) in order to accurately determine compliance, and

- Reduce the impact of an on-site monitoring's use of staff time and resources of the subrecipient.

In order to facilitate the pre-monitoring review, the monitor should review documents contained within Grants Network, Standard Agreement (SA), and Program Application.

Pre-monitoring review(s) are performed during the 30-day period between when the notification letter is sent to the subrecipient and the date(s) scheduled for the on-site monitoring. The monitor will use the pre-monitoring activity to assess areas where additional clarification and/or documents are necessary in order to accurately assess compliance in applicable areas of project management. Additionally, when the monitor goes on-site, the documents should be reviewed – high level – to HCD's records in order to reflect the most recent and official version of documents. If it is determined that the documentation HCD maintains in Grants Network is not the most recent version, the monitor is to make copies of any document(s) and bring back to HCD to update applicable records.

Recommended Best Practice: For efficiency, the monitor should write out any questions that arise from the pre-monitoring review and notate specific documents to request. The monitor can request the documents during the entrance conference.

3.2.2. Entrance Conference

The entrance conference is the official start of an on-site monitoring. A successful entrance conference will include the following activities:

- Introduction of monitor(s),
- Providing a high-level overview of the on-site monitoring process,
- Obtaining contact information of the appropriate staff members for the areas of review,
- Discussion of general logistics, e.g. fire escape, restrooms, copier, etc.,
- Scheduling – preliminary – interviews, additional interviews maybe required later in the monitoring visit. The appointment log *(Exhibit 6)* should be filled out and
- Ensuring the subrecipient has an understanding – high level – of the on-site monitoring and needs of the monitoring staff.

Prior to the monitoring visit, the monitor should create an Entrance Conference Agenda *(Exhibit 5)*. The purpose of the entrance conference agenda is to assist the monitor in moving smoothly through the discussion and to inform the subrecipient what points will be covered. The monitor must record an accurate attendance record – Monitoring Contact Sheet *(Exhibit 7)* – and take notes of any necessary information provided during the entrance conference.

3.2.3. Conducting the on-site monitoring visit

At the conclusion of the Entrance Conference, the monitor will excuse the subrecipient representatives and any additional attendees from the room and begin conducting the monitoring. While on-site, the monitor will review the subrecipient documents, completing checklists *(Exhibit 8)*, and make notes during the review. During the on-site monitoring, the monitor should also conduct interviews with the appropriate staff or appropriate subrecipient's contractors/vendors. The interviews allow for the monitor to question any initial observations from the review and obtain additional clarification, as necessary, in order to make an assessment of compliance.

3.2.4. Additional Action – Finding

The monitor samples activities performed by the subrecipient during the project life for compliance. During this review, actions performed by the subrecipient may lead to the identification of finding(s) *(see Section I.2. Definition)*. When a violation of a Federal or State regulation is identified, the monitor must perform additional activities in order to assess the extent of the finding (systemic or outlier). In order to make an assessment, the monitor must expand the review sample of area where the finding(s) was identified.

Finding(s) identified during the monitoring does not cause the monitor to stop monitoring activities. The monitor must make sure that all documentation – copies – that resulted in the assessment of a finding must be brought to the office for HCD's records.

3.2.5. Exit Conference

The monitor concludes the site visit with an Exit Conference. The Exit Conference is scheduled once the monitor has started working on the draft monitoring report. Subrecipient program staff and leadership, as appropriate, should be in attendance at the exit conference. The on-site exit conference is conducted much like the desk monitoring Exit Conference Call, as in the areas of weakness and merit are discussed, and the next steps in the monitoring process is explained to the subrecipient. The on-site exit conference should cover the following actions:

- Thanking the subrecipient for their time and assistance,
- Explaining next steps in the monitoring process,
- Covering the questions and documents that remain outstanding and giving the subrecipient a deadline for response,
- Discussing the issues listed on the draft monitoring report – verbally, and
- Responding to any questions by subrecipient staff and/or leadership.

Once the Exit Conference has concluded, both the subrecipient representative and the monitor must sign the Exit Conference Agenda *(Exhibit 9)*. Once the agenda is signed a copy must be given to the subrecipient for its records. The purpose of signing the Exit Conference agenda confirms both parties understand all areas discussed and to record any requested information that may result in corrective actions.

Recommended Best Practice: The monitor should take detailed notes of questions asked by the subrecipient and any responses made while discussing the weakness identified during the exit conference.

4. Monitoring Report and Letter

Upon completion of the monitoring and creation of the draft monitoring report, the monitor will begin composing the Monitoring Report and Letter (MRL) *(Exhibits 11 and 12)*. The MRL concisely details:

- Areas of Review,
- Areas of Weaknesses (Finding or Concern),
- Areas of Merit, and
- Areas of Technical Assistance.

Additionally, any required corrective actions must be detailed in a manner that allows the subrecipient or contract/vendor to clearly understand the requirements that must be met and the importance of future compliance. If any areas of merit were discovered during the monitoring, this should also be highlighted in the MRL along with the areas of noncompliance. Once the monitor has completed the MRL draft, it must be sent to the Compliance manager for review, edits, approval, and signature. Once the Compliance manager has signed the MRL, it will be transmitted to the subrecipient.

HCD has 30 days in order to provide the subrecipient or program staff with the results of the monitoring. During the 30-day timeframe – Exit Conference to MRL sent to subrecipient or program staff – the monitored entity has the ability to provide HCD with necessary documents or other means of resolutions that was discussed during the Exit Conference. Submitting the documents prior to when the Official MRL is sent out will help resolve minor issues. Even though the issue is resolved, it will still appear on the MRL, but no actions will be required on resolved issues.

4.1. Corrective Action

Findings or concerns identified in a monitoring letter must be addressed with a corrective action. HCD allows the subrecipient 30 days to respond with a corrective action to a finding(s) and/or concern(s). Corrective action deadlines

may be extended at HCD's discretion or if a time extension is requested and supported by the subrecipient.

In the corrective action, the subrecipient must describe the steps taken to resolve each finding and/or concern and/or provide new process information or clarification on resolving the compliance issue. The corrective actions should follow the agreed upon recommendations from the draft review process.

The monitor reviews the subrecipient's corrective action and compares the response to the findings or concerns noted during the monitoring to determine next steps. If additional revisions are needed to the corrective action before clearance, the Compliance manager will communicate with the subrecipient via phone or e-mail to reach resolution. All findings and concerns from monitoring reviews must be cleared prior to project closeout.

HCD shall prepare and submit official monitoring report and letter to the subrecipient within 30 days. The MRL reflects technical assistance provided on site during the visit and corrective actions will be structured to reinforce capacity building.

Subrecipients will be required to submit a written response, including corrective actions to address all findings or concerns. The corrective action should not only correct the immediate problem but also create future controls that prevent the situation from recurring. Extensions of the corrective action period may be requested in writing for a period that is acceptable to both parties.

At the conclusion of the corrective action period, HCD will review the corrective action documentation submitted.

4.1.1. Corrective Action - Finding

Findings are deficiencies in DR or MIT performance for which there is clear non-compliance with a statutory, regulatory, or DR-specific or MIT-specific requirements. Findings identified during monitoring must be addressed with an appropriate course of action, known as a corrective action plan.

Findings are recorded with a specific regulatory citation of the requirement that is not being adhered to, as well as a description of the condition which is causing the finding. Where possible, references should be made to specific dates, documents, payments, costs, or activities, rather than general operations.

4.1.2. Corrective Action – Concern

Concerns are similar to findings in that a deficiency in performance is identified. However, the deficiency is not in clear violation of an existing statutory,

regulatory, or HCD DR program-specific requirement. Concerns may lead to future findings if deficiencies are not corrected.

Concerns may be more broadly described than a finding and not specifically cite a requirement. Concerns often reference a deficient process and not a deficient item. Subrecipients must address the concerns with details of remedy actions. HCD may also provide recommendations and has the right to approve or reject the action.

4.1.3. Technical Assistance

During an on-site monitoring, the monitor may discover an action or document that shows the subrecipient may have a weak understanding of an area of DR or MIT program management that could lead to a concern or finding, but at the time of the monitoring, it is not an issue. If the monitor identifies a situation like this during a monitoring, they can provide on-site technical assistance. This technical assistance can either be conducted at the time the issue is identified during the review or during the exit conference. When providing this – proactive – technical assistance, the monitor should cover the documentation reviewed and where there appears to be a weak understanding of requirements and/or regulations. It should be explained so that the subrecipient or program staff understands the issue and has examples of best practices to help guide future actions in the correct manner.

When composing the MRL, this on-site technical assistance must be identified in the letter. The MRL should provide a brief overview of what was identified, a summary of the assistance provided, and statements providing additional resources. It is important to record technical assistance provided during the monitoring; in the event the issue is not corrected.

5. Monitoring Report and Letter Response Review

5.1. Incomplete Corrective Action

The subrecipient has 30 days from the date the MRL is issued to respond to any findings and/or concerns identified therein. After the HCD office receives the subrecipient's response to the MRL, it is reviewed to determine if the response satisfies the required corrective actions as stated in the MRL. During this review period, the monitor will assess the actions that have been put in place to avoid future occurrence of noncompliance. During this assessment period, the monitor will determine if the actions are sufficient or insufficient. If it is determined that the official response is insufficient, the monitor will make recommendations to the Compliance manager on next steps, which can include HCD taking more severe actions against the subrecipient.

The Compliance manager will review the recommendations submitted by the monitor. During this review, the Compliance manager will either approve the recommendation – in part or in full – or will reject the recommendation – in part or in full – and will respond to the monitor, instructing on next steps. If the Compliance manager agrees with the recommendations submitted by the monitor, a Corrective Action Incomplete Letter (CAIL) *(Exhibit 14)* will be generated by the monitor. The CAIL will follow the letter review process as covered in the MRL process. The CAIL process will continue until all issues have been satisfied and a Clearance Letter can be generated.

5.2. Corrective Action Complete

After a subrecipient or program has been provided with the MRL, the subrecipient must work on completing the actions stated in the MRL or proposing corrective actions that maybe more appropriate for their agency/business. During this part of the process, HCD monitoring staff and the subrecipient or program staff will work towards satisfying all issues identified to improve internal processes or other actions that were required, based on the issues identified. Once all issues have been satisfied the corrective actions will be considered complete and monitoring closed.

5.3. Deliberative Process

During a monitoring event – starting with the risk assessment – numerous documents are created, evaluated, and continuous discussions take place in order to bring a monitoring event to its conclusion. These documents and any documented discussions illustrate the evolution of an issue identified during a monitoring event. These documents, evaluations, discussions, and history are protected by Government Code Section 6254(p)(1). The protection of these documents, evaluations, discussions, and history means that they are not readily available to the public.

5.4. Sanction

If a finding remains uncorrected, one or more sanctions will be imposed. The severity of the sanction(s) is governed by the type and seriousness of deficiency including violation of Standard Agreement and HCD policies and procedures. Possible sanctions include, but are not limited to:

- Reporting subrecipient in federal debarment system,
- Suspension of grant payments,
- Termination of grant,
- Disqualification from consideration for other CDBG funds, and
- Legal action pursued by CA Attorney General.

If the subrecipient is uncooperative, does not comply with the monitoring report requirements, and/or does not act to clear the findings and concerns, HCD may consider this a violation of the Standard Agreement. It is important to note, however, that HCD's monitoring staff must consider and are encouraged to enact every effort possible on their end, such as providing targeted guidance and capacity building events to assist a subrecipient, to create or develop the required documentation or information from the corrective action which is needed to resolve a finding and/or potential sanction.

As mentioned above, if those efforts do not resolve in resolution, additional HCD actions may include, but are not limited to:

- Issuing a letter of warning that additional action(s) will be taken if deficiencies are not corrected or are repeated,
- Advising the Partner/subrecipient that additional information or assurances will be required before additional funding is provided,
- Suspending or terminating the expenditure of funds for a deficient activity or grant,
- Refraining from extending any further assistance to the subrecipient until full compliance has been met, or
- Requiring recapture of funds in question.

Additionally, if the subrecipient does not address the deficiencies after being sanctioned, additional sanctions may be imposed.

5.5. Appeal Process

If a subrecipient disagrees with a finding, the fact specific requirement of the finding, or the accompanying corrective actions or sanction(s) – that appears in the MRL – that follow, therefrom, the subrecipient may appeal the disputed decision no later than 30 calendar days from the date of issuance of the MRL, pursuant to the statement of subrecipient appeals process and rights, included in this Monitoring Plan as *(Exhibit 16),* unless the 30th day falls on a weekend or state or federal holiday, in which case, subrecipient's request for appeal is due by 5pm PST the next business day.

A subrecipient may not appeal the methodology and standards found within the applicable laws, regulations, policies and procedures, which are used to identify the finding(s) of noncompliance and establish the resulting corrective action(s) and/or sanction(s).

A subrecipient may include in its appeal a request that the Department stay enforcement of any corrective action(s) or sanction(s) otherwise required by the underlying Monitoring Report Letter, pending issuance of an appeal decision. Any request to stay enforcement of the underlying Monitoring Report Letter must be included in and meet the same submission deadline as the associated appeal.

The DR Section Chief or Designee, must be at same management level or above, has 10 days within which to issue any stay requested by the subrecipient, in full or in part, while the decision is being made on the appeals review. The DR Section Chief or Designee will have 30 days to review the subrecipient's Request for Appeal and supporting evidence to determine if the original determination will stand or be repealed.

The DR Section Chief or Designee, who is principally responsible for making and writing the decision on appeal should review and follow the requirements of the statement of subrecipient appeals process and rights, included in this Plan, to guide their conduct of their respective reconsideration or review process and any and all other obligations that attach, thereto.

*Note: The Section Chief's Designee on an appeal may **not** be the Compliance Manager, who signed the underlying Monitoring Report Letter.*

6. Monitoring Report Clearance Letter

Once the monitoring and Compliance manager has determined that all corrective actions have been satisfied by the subrecipient or program staff, a Monitoring Report Clearance Letter (MRCL) *(Exhibit 15)* will be generated. After this letter is generated and provided to the subrecipient or program staff, the monitoring will be officially closed out. After the MRCL has been provided to the subrecipient or program, the Compliance manager will update the file with the report. The MRCL will state the date of the monitoring and address the number of findings and/or concerns, date of final response, and state that all identified issues have now been resolved and the monitoring is now complete.

7. Record Keeping

HCD and its subrecipients are required to meet – at a minimum – the requirements covered in 24 CFR 570.490 (a) and (b) and 2 CFR 200.333, as well as DR and MIT program specific requirements. Accurate and detailed records must be maintained in a manner that allows for easy access and provides enough information to make an accurate assessment on performance and compliance with all applicable regulations and requirements, either at the Federal or State level.

HCD and its subrecipients are required – at a minimum – to:

- Retain all books, records, accounts, documentation, and all other materials required by the Standard Agreement for a minimum period of five (5) years after HCD notifies the subrecipient that the HUD/HCD grants are closed.
- Permit applicable Federal and/or State entities and its representative(s) – as applicable – access to all files upon reasonable notice, unrestricted

access to any or all books, records, accounts, documentation, and all other materials relevant to the SA for the purpose of monitoring, auditing, or otherwise examining said materials.

7.1. Tracking Finding and Concern

After monitoring activities are completed and the Monitoring Report and Letter is sent to the subrecipient, the Compliance manager must enter in findings and concerns identified and the required and/or recommended corrective action into Grants Network and DRGR (a requirement of the Technical Assistance Visit: State of California Grant Agreement Specific Conditions). The corrective actions or subrecipient disputes should be maintained until the corrective actions have been deemed satisfactory and the monitoring process has been completed. This will maintain a detailed compliance history to support records requirements in 24 CFR 570.490(a).

7.2. Subrecipient File

HCD is required to maintain accurate monitoring records to support compliance with monitoring requirements of HUD grantees. At the conducting of the Risk Assessment and creation of the yearly monitoring schedule, the Fiscal and Compliance manager will create a file in the Grants Network and DRGR that breaks down monitoring into:

- Fiscal Year;
- Quarter (1,2,3, and 4);
- Within each quarter should be a subrecipient specific file that maintains all correspondence and documented activities performed by monitoring staff.

These files should at a minimum contain:

- Notification Letters,
- Checklist(s),
- Entrance Conference Agenda – if applicable,
- Technical Assistance – if applicable,
- Exit Conference Agenda,
- Internal Monitoring Report,
- Monitoring Report & Letter,
- Follow-up Monitoring Report and Letters – as applicable,
- Monitoring Report Clearance Letter, and
- Any applicable communication between monitor and subrecipient.

VI. Other Oversight Activities

As explained in the Introduction, this Plan, describes how HCD oversees its subrecipients in the implementation of the DR Program and MIT Program funded by HUD grants. While monitoring is an integral management control technique, it is not the only ongoing process that HCD uses to assess program progress, benefits and other qualities of performance or compliance over time. Other oversight activities also enable the State to fulfill its oversight responsibilities.

These oversight responsibilities begin with a package of certifications and assurances the State makes to HUD about its continuing capacity to perform at the start of the grant cycle, especially with respect to grant management. They include internal and external reviews of the DR and MIT Programs' progress toward recovery and resilience with appropriate attention to cross-cutting Federal requirements along the way. Reviews will vary in scope, with some related to grant administration which cover all DR and MIT funded program components, and other reviews focus on specific program components and relate to those project/activities carried out by subrecipients. The topics of the subrecipient reviews either correspond to the monitoring process described in the preceding section or result from ongoing efforts, including periodic reporting from subrecipients, HCD program or financial reconciliation, and compilation of information for the grantee performance reports.

Additionally, this oversight involves independent, internal reviews by an auditor within HCD, as well as a single audit for each subrecipient conducted by an independent CPA firm.

Consequently, this section is divided into three parts. The first broadly covers oversight of grant administration and overall program performance; the second relates to the wide range of cross-cutting Federal requirements; and the third involves independent auditing.

1. Grant Administration and Compliance

As noted above, HCD's first oversight responsibilities regards a package of certifications and assurances the State makes to HUD about its continuing capacity to perform at the start of the grant cycle, especially with respect to grant management. These responsibilities are reviewed annually by program management and leadership (TBD), reported periodically and carefully examined in preparation for annual HUD monitoring visits.

1.1 Certifications

A prerequisite to authorization to spend an awarded grant is completion of a so-called Certifications Package that seeks to establish that the grant recipient possesses the wherewithal to manage a relatively large Federal award. The State typically completes this package as it plans use of a DR and/or MIT grant(s), and it must update the contents as circumstances change. A required checklist is usually provided in connection with each Congressional appropriation

that covers grant allocation. An example of this checklist appears [here](#). HCD must ensure that the accompanying assurances the State makes to HUD remain valid, including the involvement of subrecipients which assist in carrying out the DR and MIT Programs.

1.2. Program Management

As previously mentioned, the State has made assurances to HUD that it will responsibly manage its grant programs. Part of the Certification Package includes a plan for implementation which designates HCD as the lead entity for coordinating California's DR and MIT Programs. To properly manage those programs, HCD has adopted a wide range of policies and procedures for each program component (Owner Occupied Housing Rehabilitation, Infrastructure, and Multi-family Housing). Also, HCD has created a Grant Administration Manual (GAM) to provide oversight for internal administrative routines.

HCD periodically verifies   that such overall program   and grant   management policies and procedures are in place to ensure its continuing capacity to implement grant programs. Likewise, HCD takes similar steps to determine that those subrecipients, which   assist   HCD   in   carrying   out   the program, can properly perform their roles.

Although it has not assigned responsibility for program management to any department of agency other than HCD, the State recognizes that grantees may need to work with staff at other agencies outside of their own to administer and/or implement various aspects of programs or projects. Other public agencies, commissions, or authorities that are independent of HCD (as the administrating agency for the State) are public agencies. If they were to undertake HUD-assisted activities in cooperation with HCD they would be subject to the same requirements as are applicable to the State's subrecipients unless otherwise stated in a Federal Register Notice.

1.3. Program Process

Among the assurances that the State provides is that HCD has "proficient procurement processes" in place to prevent fraud, waste and abuse. The State must follow those processes as outlined in their Certifications or submit updated Certifications if/when they are no longer valid. As part of its oversight, HCD must periodically compare the content of the Certification Package with current program processes during implementation of the DR and/or MIT programs. Likewise, the schedule of performance contained in the Standard Agreement must be compared to the actual progress to date (both in actual results and funds expended) to ensure the program is progressing in accordance with the time frame established. Such information is also used for HCD

to update Quarterly Progress Reports (QPRs) submitted to HUD within the Disaster Recovery Grant Reporting (DRGR) system, featuring the following:

- Activity Progress
- Expenditures
- Actual accomplishments by performance measure
- Beneficiary data
- As provided in the GAM under Sections:
    - V. Financial Management
    - XV. Reporting Requirements

The Compliance manager (Manager I finance/compliance) provides oversight on the DRGR monitoring module content and entries, and the Monitor (Representative II finance/reporting) is responsible for submission of QPRs.

1.4. Program Benefit

CDBG-DR
All DR program(s) activities must meet a need and address an impact of the disaster for which funding was appropriated. Given the standard CDBG requirements, this means each activity must:

- Be CDBG-eligible (or eligible under a waiver or alternative requirement),
- Meet a national objective, and
- Meet an unmet recovery need that addresses a direct or indirect impact from an eligible disaster in a presidentially declared county.

Eligible activities generally fall into one of the following categories: housing; restoration of infrastructure; economic revitalization; or administration and planning. (See section below on Eligible Activities for details related to the State's current HUD funded programs.)

To qualify for CDBG-DR funding, activities must also meet one of three national objectives set forth in section 104(b)(3) of the HCD Act:

- Benefit low-and-moderate-income persons,
- Aid in the prevention or elimination of slums or blight, or
- Meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs (Urgent Need).

CDBG Mitigation (MIT)
All MIT program activities must:
- Meet the definition of "mitigation" activities as defined by HUD and HCD guidelines,

- Address the current and future risks as identified in the Mitigation Needs Assessment of most impacted and distressed (MID) areas,
- Be CDBG-eligible (or eligible under a waiver or alternative requirement), and
- Meet a national objective.

To qualify for Mitigation funding, activities must meet at least one of two national objectives.

- Urgent Need Mitigation
- Benefit low-and-moderate-income persons.

For MIT funds, slum and blight is not an allowable national objective as MIT focus is resilience to future disasters.

HCD reviews program files to ensure the appropriate CDBG National Objective has been met and that the method of determining eligibility was performed in compliance with the State's Income Calculation and Determination Guide. As part of subrecipient oversight, the State reviews progress reports submitted by the subrecipient to determine how many beneficiaries have been served and compares the actual number to the number projected in the approved funding application or Standard Agreement for a wide range of projects. Activities that do not meet the defined National Objective may be determined to be ineligible and a repayment of funds may be required as defined in Standard Agreement.

1.5. Eligible Activities

In accordance with 24 CFR part 570 and HCDA section 105(a), HCD must utilize HUD funding on eligible activities. While those activities vary, most of HCD's programs will implement projects which fall under one of the following eligible activities:

- Housing activities (rehabilitation and reconstruction)
- Acquisition of real property
- Public facilities and improvements
- Payment of non-federal share
- Public services
- Planning and capacity building
- Economic development assistance to for-profit businesses
- Activities carried out through nonprofit development organizations

With each eligible activity, monitoring staff will review applicable project costs paid with HUD grant funding to ensure it was an eligible cost under the activity as well as confirming that certain performance measures and project functionality requirements were documented and verified in order to meet an

eligible activity. This may include site photos of the completed project, other permitting certificates indicating project completion, or other measurable documentation indicating an activity was carried out to completion.

For housing activities, the review may include on-site visits to HCD-selected properties. Depending on whether the program was subrecipient-implemented or HCD-administered, the monitoring staff notifies the subrecipient, HCD program staff, or the program's implementation contractor/vendor, respectively, regarding which sites are to be visited and allows sufficient time to make arrangements with the households. On-site inspections include a review of the rehabilitated unit for property standards compliance, and assessment of the quality of the work, reasonableness of cost, and compliance with applicable laws and requirements. monitoring staff also verify that the number and location of units agree with the application.

For all other non-housing, subrecipient-implemented projects, HCD will monitor subrecipient records to ensure projects funded are compliant with the related regulations for eligible costs and project completion. Additionally, a subrecipient's contractor or vendor will need to maintain similar records to ensure the services they provide are in compliance with the related regulations.

1.6. Program Compliance

The area of program compliance will focus upon a wide-range of topics that relate to how the program not only performs, but also complies with such topics as "cross-cutting Federal requirement which apply to disaster recovery programs.

Appearing within this section of the document (*Section V Other Oversight Activities),* are compliance topics that will be addressed by monitoring activities. A complete list of compliance topics is specified in HUD grant requirements at 24 CFR 570 and in applicable Federal Register Notices.

2. Cross-Cutting Federal Requirements

The second part of the oversight activities relate to the wide range of cross-cutting Federal requirements. The topics arise in respect to subrecipient reviews which correspond to the monitoring process described in the preceding section or result from periodic reporting from subrecipients and compilation of information for the grantee performance reports.

2.1. Financial Management

The HCD personnel determines compliance with the financial management requirements outlined in Section V of the GAM. In particular, the review determines if records are maintained in compliance with 2 CFR 200, and

applicable state requirements. HCD personnel reviews ledgers, invoices, cancelled checks, bank statements, and funds requests to verify that all subrecipients use grant funds for eligible expenses and to ensure costs are reasonable and necessary. Subrecipient financial management systems are also evaluated for compliance with applicable regulations under both 24 CFR 570 and 2 CFR 200. Key requirements under these regulations include but are not limited to:

- Having accurate, current, and complete disclosure of the financial results of each award,
- Identifying all awards received and expended under the program in which they were received,
- Identifying the source and application of funds, and
- Maintaining records to include information related to authorizations, obligations, unobligated balances, assets, income, and interest.

For DR and MIT, HCD uses three management systems to track and report grant expenditures: DRGR, the State's Financial Information System for California (FI$Cal), and the system of record, Grants Network. Each system tracks a specific portion of the financial process, and reports and entries are reconciled on a weekly, monthly, and quarterly basis.
- Invoices and reports are submitted by subrecipients through Grants Network and reviewed by Program Rep (Representative II (program)) or a Specialist II.
- The Program Rep completes a Financial Report (FR) form in Grants Network once the invoice is reviewed and submits the invoice to the Program Manager (Manager I (Program)) for approval and routing to Finance/Compliance.
- The Monitor creates the DRGR voucher, receives approval from Compliance Manager and submits the FR to the Division of Administration and Management Accounting office.
- Once reviewed by Accounting, a payment is created in Fi$Cal and the DRGR voucher is approved.
- Accounting provides a daily report to Grants Network on disbursements.

Further details on Financial Management is referenced in HCD's Financial Management Policy and in the GAM, section V, Financial Management.

2.2. Program Income

HCD is required to treat any funds received and retained before closeout of the grant that generated them as program income; consequently, such program income is subject to all applicable requirements of 24 CFR 570. Program income is any gross income a subrecipient receives that is generated from the use of CDBG funds. Some instances where program income can be generated are as follows:

- Fees from services performed,
- Use of rental, real, and/or personal property acquired,
- The sale of commodities or items under the federal award, and
- Principal and interest on loans.

When applicable, HCD personnel shall review reporting on programing income submitted by subrecipients through invoices, as well as any other records pertaining to program income. HCD personnel verifies that records are maintained, expenditures comply with federal requirements, and that there is an approved Program Income Reuse Plan, if applicable (see Standard Agreement). HCD personnel will further determine if the appropriate accounting records are being maintained and if accurate quarterly reports are being submitted to HCD. Subrecipients are required to communicate and identify projects that generate program income.

2.3. Environmental Review

A prerequisite to the State obtaining clearance to spend an awarded grant is satisfaction of a grant condition related to Environmental Review. HCD is the Responsible Entity and Lead Agency responsible for conducting the appropriate level of environmental review and preparing an Environmental Review Record (ERR) to verify that environmental clearance procedures comply with National Environmental Protection Act (NEPA) requirements.

This review includes determining the level of review that applies and completing the required procedures, finding forms, applicable supporting documentation, and necessary notices, public participation and actions are part of the ERR and available at the local government office for public review. California Environmental Quality Act (CEQA) compliance may also be applicable on some DR programs such as Multi-Family Housing and Infrastructure. The HCD personnel makes sure that required mitigation or follow-up actions indicated by HCD correspondence have been carried out.

There are several laws and authorities that the State recognizes, as a grantee: Historic Preservation – Section 106, Executive Order (EO) 11988 – Floodplain Management, and EO 11990 – Protection of Wetlands. HCD interacts in coordination is important with Historic Preservation – Section 106 under Disaster Recovery Programmatic Agreements for Section 106. It includes which states have a FEMA Programmatic Agreement in place, which states, and local governments have executed a HUD addendum to the FEMA Programmatic Agreement, and any state-specific protocols, and/or guidance issued to support historic preservation and disaster recovery in the state. Compliance with EO 11988 - Floodplain Management and EO 11990 – Protection of Wetlands should and is evaluated early in the process with tiering using mapping tools from FEMA

and the U.S. Fish and Wildlife Service, in conjunction with state or local wetland maps.

Further details on HCD's process for environmental compliance can be found in the GAM under section XIII, Environmental Review.

2.4. Procurement

Procurement and contract activities taken in relation to programs under HUD grant agreement are to be in compliance with 2 CFR 200.318 and California Public Contract Code. HCD and the subrecipients are required to have controls and policies regarding how procurement will be conducted and allowable contract activities. When monitoring staff conduct compliance reviews the procurement and contract portion will focus on:

- Conflict of Interest,
- Procurement type, as the most appropriate method performed for goods and services procured,
- Contract type is it within compliance with applicable regulatory standards and appropriate for the services and/or goods procured, and
- All federally required contract provisions are contained within the contract.

All procurement and contract activity will be reviewed/sampled during a monitoring to ensure all standards were met and to ensure the overall procurement and contract process ensure systematic compliance.

2.5. Labor Standards and Section 3

Construction contracts that meet the requirements for Davis Bacon and Related Acts are subject to labor compliance standards. Labor activities must meet the minimum requirements set in 29 CFR, applicable HUD labor standards, as well as, DR program specific labor requirements. When monitoring staff conducts review of projects that trigger DBRA requirements, monitors will review all activities conducted during the Construction Services Bid process and contract. The monitors will review activities to ensure:

- Ensure appropriate Prevailing Wage Rates were used,
- Workers are appropriately classified,
- Review of certified payrolls, and
- Applicable processes were followed, e.g. Restitution and Liquidated Damages.

Construction projects taken on by HCD – directly – may require HCD labor personnel and/or program staff to coordinate activities and/or technical assistance with the HUD Region IX Labor Specialist. In addition to labor

standards, monitors will also ensure that subrecipients have complied with Section 3 requirements and are actively complying with Federal, State, and DR program requirements and the contractor's Section 3 policy and plan.

2.6. Equal Opportunity and Fair Housing

Prior to the release of grant funds, subrecipients must outline the actions taken to affirmatively further fair housing in a fair housing plan submitted to HCD, if the project involves public housing. Subrecipient records must include an assessment of the effectiveness of the program's marketing and outreach efforts to ensure equal access to and non-discrimination in all program benefits. This includes a comparison between the subrecipient's general population, program applicants, and beneficiaries that received assistance or services. Applicants and beneficiaries that do not mirror the general population may indicate inadequate outreach. Monitoring staff will review the documentation of actions taken.

Monitoring staff also reviews employee hiring practices to see if they are exclusionary. If there are any outstanding complaints or lawsuits related to equal employment, then the monitoring staff will require additional details on the subrecipient's hiring practices.

2.7. Section 504

HCD personnel determines compliance with Section 504 of the URA regarding non-discrimination against qualified applicants and employees on the basis of disability and accessibility to program benefits, facilities, and services.

In accordance with Section 504 of the Rehabilitation Act of 1973, HCD is required to have a Section 504 plan for all HUD programs. Additionally, HCD shall provide grievance procedures that provide resolution to complaints for any action prohibited by Section 504. The plan is developed to protect qualified individuals with disabilities from discrimination, such as physical or mental impairment, including hearing, speaking, and visual impairments. It also ensures reasonable accommodations to the disabled.

Because a Section 504 plan is both required of the federal CDBG Program and a valuable part of the planning process, HCD shall undertake the following steps:

- Published advertisements for the above program shall include:

  o No persons with disabilities will be denied participation in public hearings,
  o Persons with specific needs can call ahead to obtain certain accommodations for their participation, and

- o Disabled person will not be denied program services or opportunities to participate; Disabled persons will not be denied employment opportunities,
        - o Date, location, and time of a public hearing to invite project discussion and proposals,
    - o Offer of assistance to disabled persons.

- Section 504 Master File will contain:

    - o A copy of the self-evaluation,
    - o A copy of the transition plan, if needed,
    - o A list of interested persons who were consulted,
    - o A description of areas and building examined, and any problems identified,
    - o A description of modifications made, and remedial steps taken to comply with the regulations as needed, and
    - o Evidence that new or substantial rehab multi-family projects were constructed/rehabilitated to meet 504 standards where applicable.

2.8. Uniform Relocation Assistance and Real Property Acquisition Policies Act

As described in the GAM, under section XIV Acquisition and Relocation, all federally funded property acquisition or other activities which involve displacement or relocation (temporary or permanent) of low-income households or which involve the demolition or conversion of residential units occupied by low-income households must adhere to the requirements of two federal laws--Section 104(d) of the Housing and Community Development Act of 1974, as amended, and the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) as amended--and their implementing regulations.

The URA contains requirements for carrying out real property acquisition or the displacement of a person, regardless of income status, for a project or program in which HUD financial assistance is provided. The implementing regulations, 49 CFR 24, include steps which must be taken with tenant occupants, including those who will not be impacted by the HUD assisted activity. HCD will monitor any project that includes acquisition and relocation to ensure the subrecipient is in compliance with the regulations under the URA.

2.9. Record Keeping

In accordance with 24 CFR 570.490, HCD shall establish and maintain such records as may be necessary to facilitate review and audit by HUD. HCD personnel shall review all program record keeping, timeliness of reporting,

history of receiving stop payments, program files, subrecipients' ability to work within a designated time frame, and the effectiveness of the subrecipient's management system.

HCD expects subrecipients to:

- Retain all books, records, accounts, documentation, and all other materials relevant to Standard Agreement for a minimum period of five (5) years after HCD notifies the subrecipient that the HUD/HCD grants contract are closed.
- Permit the State, federal government, the Bureau of State Audits, HCD and/or their representatives, upon reasonable notice, unrestricted access to any or all books, records, accounts, documentation, and all other materials relevant to the Agreement for the purpose of monitoring, auditing, or otherwise examining said materials.

Subrecipients shall ensure that all records include:

- A full description of each activity undertaken,
- Activities meet one of the National Objectives required under HUD CDBG,
- Eligibility determination of activities,
- Documentation of any acquisition, improvement, use, or disposition of real property with HUD funds,
- Documentation of compliance with fair housing and equal opportunity requirements, and
- Financial Records.

As the Grant Network System is fully implemented, certain records will also be maintained electronically.

For Owner-Occupied Rehabilitation (OOR) documents, contractors are expected to:

- Retain all books, records, accounts, documentation, and all other materials relevant to Standard Agreement in e-Grants system. Certain data from e-Civics will be pulled into Grants Network for reporting and reimbursement purpose.

3. California State Auditor Standards (Bureau of State Audits)

The California State Auditors are charged with conducting:

- Financial audits: Seeks to determine whether a state entity's book balances, and

- Performance audits, an evaluation of whether the entity is performing its assigned role under the law.

Other reviews, such as the federally mandated Single Audit, evaluate state entities' administration of federal grants, both through traditional accountancy and by the appraising how well the state is meeting the goals of federally subsidized programs.

3.1. Internal Audit of HCD

HCD has an Internal Audit Unit within the Audit & Evaluation (A&E) Division. Internal Audit will conduct ongoing audits of internal processes to ensure the grant meets all Federal compliance standards as well to determine the internal controls are operating effectively and efficiently and are designed to detect and deter fraud, waste, and abuse. A&E conducts audit engagements in accordance with applicable federal and state laws and regulations that include, but not limited to, 2 CFR 200, and Federal Register Notices. In addition, A&E audits follow International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors and Generally Accepted Government Auditing standards (GAGAS) when applicable. At the end of each calendar year, the Audit staff prepares a formal report on issues and compliance standards for HCD executive staff review. This ongoing internal HCD Audit process ensures that the Federal and State compliance standards are met, and that HCD Grant Management personnel follow standard operating procedures for grant implementation.

3.2. Single Audit Requirements – Subrecipients

In accordance with the Single Audit Act of 1984 and the OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), non-federal entities are required to track federal funds awarded to subrecipients and pass-through recipients each year. Subrecipients who spend $750,000 or more in federal funds during a fiscal year are required to have an audit conducted in accordance with 2 CFR 200.501. Subrecipients who spend less than $750,000 are exempt from the audit requirements, however, must submit written notification of its exempt status to the California State Controller's Office (SCO) and records must be available for review or audit by appropriate officials of the federal agency, pass-through entity and the Government Accountability Office.

Uniform Guidance 2 CFR 200.513 and 2 CFR 200.331 describe the responsibilities of federal agencies and pass-through entities. Specifically, Uniform Guidance, 2 CFR 200.331 prescribes the responsibilities of a pass-through entity for the federal awards it makes. To ensure that the State of California carries out its responsibilities in accordance with this federal act, the

State Administrative Manual, Section 20070, gave the SCO the responsibility of coordinating single audit activities in local governments. A part of those responsibilities includes the monitoring and review of the single audit reports. In summary, local governments entities are required to submit their reports to the Federal Audit Clearinghouse (FAC) and the SCO. The SCO reviews all state subrecipient audit reports submissions and notifies HCD if there are findings related to HUD funding.

Additionally, the State Auditor's Office conducts audits on any contract involving the expenditure of public funds greater than $10,000 for a period of three years after final contract payment per California Government Code, Section 8546.7. The State Auditor will notify HCD of any findings.

When a subrecipient has an audit finding related to HUD funding, the program rep under the Program manager responsible for the subrecipient issues a Management Decision Letter (MDL) on the outcome of the audit review. The letter defines a period of time for the subrecipient to provide policies and procedures or any other corrective actions needed to ensure findings are mitigated. Timelines and requirements for the internal audit and subrecipient audit review are outlined in the GAM under section V, part J, Internal Audit.