California State Auditor

September 2014

California Department of Housing and Community Development

Inconsistent Oversight Has Resulted in the Questionable Use of Some Housing Bond Funds

Report 2014-037

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California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

September 11, 2014 2014-037

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

Dear Governor and Legislative Leaders:

As required by the California Health and Safety Code, sections 53533 and 53545, the California State Auditor presents its fourth audit in a series concerning the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006.

This report concludes that the California Department of Housing and Community Development (HCD), the California Pollution Control Financing Authority, and the California Housing Finance Agency generally awarded funds in a timely manner. However, weaknesses in awarding funds for some of the programs HCD administers have resulted in certain recipients' questionable use of the funds. For example, in one program, HCD does not have an adequate process for determining the reasonableness of the costs of proposed projects, as required by law. As a result, it awarded funds to projects with costs well above the averages for their geographical areas without determining whether their higher costs were reasonable. Moreover, HCD awarded funds to a project for the Catalyst Communities Grant Program to construct an outdoor green space even though state law restricted the use of these funds specifically for the building of affordable housing.

HCD also failed to adequately monitor four of the seven housing bond programs that we reviewed. Although this sort of monitoring is critical to ensuring that recipients use funds as state law intends, HCD failed to regularly obtain many status reports from recipients that it needs to effectively monitor them. For example, HCD did not obtain more than half of the reports that two of the programs' recipients should have submitted in the past two years. As a result, HCD does not know whether recipients use housing bond funds in accordance with award requirements to achieve the programs' various goals.

Because it does not provide an adequate level of monitoring, HCD often does not know if recipients used funds in accordance with program requirements or if programs benefited targeted populations. In fact, for two of the programs we reviewed, HCD advanced funds to several recipients that for years did not provide evidence to HCD of how they spent those funds. When HCD finally asked one of these recipients to return a portion of an advance six years after disbursing it, the recipient no longer had the funds and had to enter into a payment plan with HCD. If HCD had properly monitored the recipient and had not allowed it to hold the advanced funds for nearly six years, HCD likely would have avoided a situation in which the recipient used funds for potentially unauthorized purposes.

Respectfully submitted,

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Summary

Results in Brief

California voters passed the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 (Proposition 46 and Proposition 1C, respectively) to provide nearly $5 billion in bonds (housing bonds) for financing affordable housing for low- to moderate-income Californians. The California Department of Housing and Community Development (HCD), the California Housing Finance Agency (CalHFA), and the California Pollution Control Financing Authority are responsible for administering the housing bond funds through various programs. As of March 2014 HCD and CalHFA had awarded almost all of the initial housing bond funds to recipients, who are typically either individuals purchasing their first homes or local entities and nonprofit corporations that construct or rehabilitate housing developments. However, weaknesses in awarding funds for some of the programs HCD administers have resulted in certain recipients' questionable use of the funds.

For example, we found that HCD's awarding processes for two programs need improvement. According to state law, the costs for Multifamily Housing Program projects must be reasonable compared to the costs of comparable projects. However, HCD does not have an adequate process for determining whether the costs of proposed projects are reasonable. As a result, it awarded funds to projects with costs well above the averages for their geographical areas without determining whether the projects' higher costs were reasonable. In one instance, HCD awarded funds to one project with a cost per housing unit of more than $411,000 even though its own data identified comparable projects in the area as costing only $264,000 per housing unit, and HCD did not determine whether the increased cost was justified. Moreover, HCD awarded funds to a project for the Catalyst Communities Grant Program (Catalyst Program) that did not meet the program's purpose of increasing affordable housing. Instead the recipient used the funds to build an outdoor green space.

HCD also failed to adequately monitor four of the seven housing bond programs that we reviewed. Monitoring of housing bond programs typically involves receiving reports on the status of projects and conducting on-site visits. This sort of monitoring is critical to ensuring that recipients use funds as state law intends. However, HCD failed to regularly obtain many status reports from recipients. For example, HCD did not obtain more than half of the reports that two of the programs' recipients should have submitted in the past two years. Consequently, HCD does not know whether recipients are using housing bond funds in accordance with award requirements to achieve the programs' various goals.

Audit Highlights . . .

Our review of the activities related to the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006, which provide housing bonds for use in financing affordable housing, highlighted the following:

- *The California Department of Housing and Community Development's (HCD) weaknesses in awarding funds for some of the programs it administers have resulted in the questionable use of funds.*
  - *It awarded funds to projects with costs well above the averages for their geographical areas without determining whether these costs were reasonable.*
  - *It awarded funds to a project that did not meet the purpose of the funding program—increasing affordable housing.*
- *HCD failed to adequately monitor four of the seven housing bond programs that we reviewed.*
  - *It failed to obtain many status reports from program recipients.*
  - *For the CalHome Program, it has not developed an adequate, risk-based process for determining which recipients warrant on-site visits.*
  - *For two of the programs, it advanced funds to several recipients that for years did not provide evidence of how funds were spent.*
- *Continued weaknesses in HCD's housing bond database negatively affects its monitoring efforts.*

In addition, despite acknowledging the importance of on-site monitoring, HCD has not developed an adequate, risk-based process for determining which recipients warrant on-site visits for the CalHome Program (CalHome). Instead, HCD has allowed staff to judgmentally decide which of its projects to visit. The lack of a risk-based system could help explain why one recipient has never received an on-site visit even though the recipient, which has received $1 million from HCD, has not submitted any of the required status reports since 2007.

Because it does not provide an adequate level of monitoring, HCD often does not know if recipients used funds in accordance with program requirements or if programs benefited targeted populations. In fact, for two of the programs we reviewed, HCD advanced funds to several recipients that for years did not provide evidence to HCD of how they spent those funds. When HCD finally asked one of these recipients to return a portion of an advance six years after HCD disbursed it, the recipient no longer had the funds and had to enter into a payment plan with HCD. If HCD had properly monitored the recipient and had not allowed it to hold the advanced funds for nearly six years, HCD likely would have avoided a situation in which the recipient used funds for potentially unauthorized purposes.

HCD's failure to monitor appropriately its housing bond programs may be due in part to weaknesses in its housing bond database, which it implemented in 2007 to monitor and manage its loans and grants. Although HCD has thus far spent more than $5 million on the database, the system still has a limited ability to generate reports, and it requires that users perform complex steps to access information. Because the system still lacks the functionality its users need, many HCD program managers rely on other, informal methods to monitor their programs. Considering that HCD has dealt with system issues since the database's implementation and that HCD anticipates the additions of needed functionality will require years of work, HCD needs to develop a strategic plan that contains timelines and measureable goals to ensure that the system will meet its needs.

Finally, although the Legislature placed statutory limits on the amount HCD can spend to administer many of the housing bond programs, HCD does not have adequate policies in place to ensure that it does not exceed those limits. For 11 of the 21 housing bond programs HCD manages, state law restricts the amount HCD may charge for administrative costs to 5 percent of funds available. Recently, HCD revised the tool it uses to track its administrative costs to account for these statutory limits. However, according to its tracking tool, HCD projects that it will exceed these limits for two of its programs, but it has yet to develop the steps it should take to avoid exceeding the administrative cost limits.

Recommendations

To ensure that it complies with state law and maximizes the public benefits that its Multifamily Housing Program provides, HCD should improve its current process for awarding program funds by documenting its determinations about whether the costs of proposed projects are reasonable.

To meet the intent of state law, HCD should approve and fund only Catalyst Program projects that more directly create or preserve affordable housing opportunities.

To ensure that recipients spend promptly program funds that HCD has advanced to them and that it has accurate information about outstanding advanced funds, HCD should do the following:

- Develop a thorough process to track and monitor advances.
- Reconcile advances to its accounting records and to documentation supporting that recipients spent all of the advances that HCD made previously.

To maximize the benefits of its on-site reviews for CalHome, HCD should revise its current risk assessment tool or develop a new tool to identify the recipients that are at high risk of noncompliance with program requirements. For example, HCD could identify as high risk those recipients that have received large amounts of funds but that have not submitted required status reports for six months.

To ensure that its housing bond database is an effective tool for managing its housing bond programs, HCD should revise its strategy documents to clearly outline the steps it will take to address the database's current weaknesses. HCD should include specific timelines and activities within its strategy documents.

Before July 2015 HCD should adopt policies identifying the steps it will take to ensure that it does not exceed statutory limits for administrative costs and that it follows those policies when warranted.

Agency Comments

HCD has no issues with our recommendations but indicated that the audit report title and several of the report's subtitles mischaracterize issues in the report and HCD's overall administration of the housing bond programs. It also disagreed with our conclusions that it violated state law when funding one project for the Catalyst Program.

Introduction

Background

For more than 25 years California voters and the Legislature have supported numerous initiatives to aid low- to moderate-income and homeless populations in securing housing and shelter. After providing varying levels of funding for housing programs before 2002, the Legislature proposed and voters approved a total of nearly $5 billion in Housing and Emergency Shelter Trust Fund Act bonds (housing bonds) in 2002 and in 2006.

Housing Bond Core Areas

Multifamily housing programs: These programs provide funding for constructing or rehabilitating rental housing projects. They also fund supportive housing for disabled or homeless individuals. Funding generally takes the form of low-interest loans to recipients to partially fund the cost of construction.

Home ownership programs: These programs encourage home ownership by offering low-interest loans or grants that help low- to moderate-income Californians meet down-payment requirements.

Farmworker housing programs: These programs provide funding for the construction or rehabilitation of housing for agricultural employees and their families. The funds support both rental and owner-occupied housing.

Development programs: These programs provide funds for parks and for projects that include transportation, water, sewage, traffic mitigation, and brownfield cleanup around and near public transportation.

Other programs: These programs provide funding for developing emergency homeless shelters and transitional housing, for offering incentives to cities and counties based on the number of new housing units they approve, for providing mortgage insurance for high-risk homebuyers, and for meeting the capital needs of local government agencies responsible for enforcing housing codes.

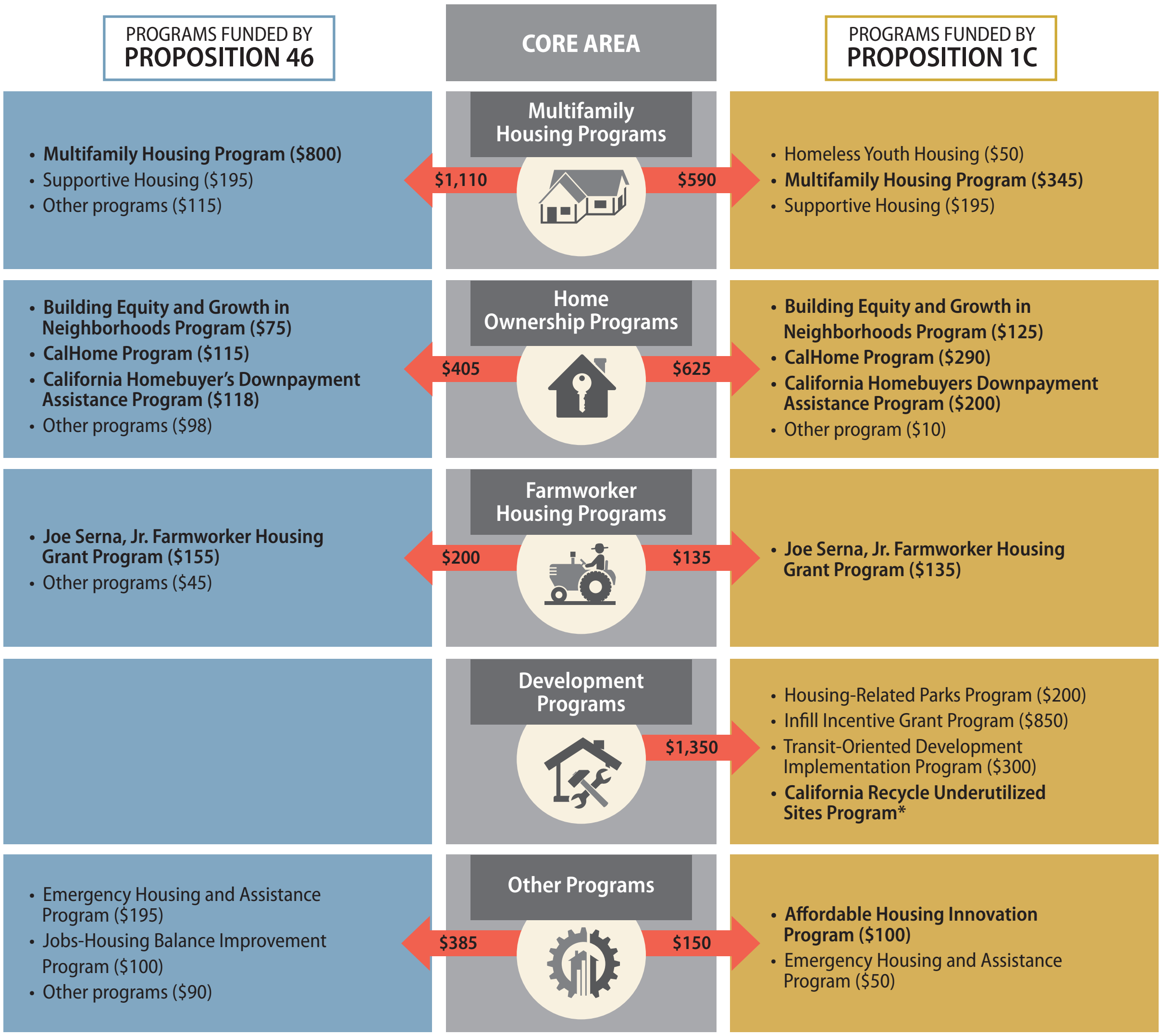
Sources: *Analysis of the 2003–04 Budget Bill* dated February 19, 2003, by the Legislative Analyst's Office; *Implementation of the Housing Bond*, dated March 28, 2007, by the Legislative Analyst's Office; the California Department of Housing and Community Development's *Cumulative Proposition 46 and 1C Bond Awards Through December 31, 2013*; and various sections in the California Health and Safety Code, Division 31.

Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006

In November 2002 California voters approved the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46), which provided $2.1 billion for the development of affordable rental housing and emergency homeless shelters and for down-payment assistance to first-time, low- and moderate-income homebuyers. Proposition 46 provides funds in four core areas that the text box describes: multifamily housing programs, home ownership programs, farmworker housing programs, and other programs. In November 2006, California voters approved the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C). It provided $2.85 billion to support the same four core areas as those funded by Proposition 46, plus a fifth area—development programs—that focuses on infrastructure.

Propositions 46 and 1C allocate specific amounts to 29 different housing programs that are administered by the California Department of Housing and Community Development (HCD), the California Housing Finance Agency (CalHFA), or the California Pollution Control Financing Authority (Financing Authority). Figure 1 on the following page shows Proposition 46 and Proposition 1C funding allocations for each core area and summaries of the programs that the propositions fund. The Appendix provides details on each program.

Figure 1
Funding Allocations Under the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 (Propositions 46 and 1C)
(In Millions)



Sources: Propositions 46 and 1C, California Health and Safety Code, sections 53533 and 53545–53545.14.

* The Legislature funded the California Recycle Underutilized Sites Program through a later appropriation of $60 million from bond funds allocated to the Regional Planning, Housing, and Infill Incentive Account.

Note: Items that appear in boldface represent programs reviewed during the audit.

The Legislature has amended Proposition 1C three times since October 2012, when we issued our last report on housing bonds. Chapter 784, Statutes of 2012, eliminated some programs funded by the Affordable Housing Innovation Fund, which provides funding for a number of programs that develop new approaches to create or preserve affordable housing. It transferred the funds from the eliminated programs to the Multifamily Housing Program, which awards funding for the development and construction of new affordable housing, the acquisition and rehabilitation of existing affordable housing, and the conversion of nonresidential structures to affordable housing. Chapter 769, Statutes of 2013, revised the maximum awards and removed certain restrictions for the Local Housing Trust Fund Matching Grant Program, which provides grants to cities to help fund local housing trust funds dedicated to the creation or preservation of affordable housing. Finally, Chapter 28, Statutes of 2014, authorized HCD to spend directly up to $11 million of funds from the Joe Serna, Jr. Farmworker Housing Grant Program to reconstruct and rehabilitate migrant shelters.

Department of Housing and Community Development

The State's lead housing agency, HCD, administers programs that provide loans and grants to construct, acquire, rehabilitate, or preserve affordable rental or ownership housing. HCD directly administers 21 of the 29 current housing bond programs, such as the Multifamily Housing Program. Most of the programs that HCD operates provide funding to recipients that construct or manage housing projects. The text box identifies the various types of recipients that may receive housing bond funds. Before receiving funds, recipients must execute a contract with HCD, which may include requirements relating to HCD's ongoing monitoring of program-funded projects. For instance, as we discuss in the Audit Results, HCD requires recipients of some programs to submit periodic reports. Typically, housing bond funds only partially finance housing projects. As of December 2013, HCD reported that its recipients received just over $12 billion from other funding sources in addition to the approximately $3.5 billion that HCD had awarded the recipients.

Housing Bond Recipients

Sponsors: Generally, entities that receive funds and in turn provide grants or loans to homebuyers. Sponsors include individuals, local public entities, joint ventures, partnerships, limited partnerships, trusts, or corporations.

Developers: A locality or corporation that owns land for a project, obtains project financing, and develops a homeownership project.

Homebuyers: Individuals who are generally purchasing homes for the first time and earn low to moderate incomes.

Sources: California Department of Housing and Community Development's Operations Handbook for the Building Equity and Growth in Neighborhoods Program, California Health and Safety Code, Section 51504, and various sections in the California Code of Regulations, Title 25.

California Housing Finance Agency

CalHFA is a self-supporting state agency that primarily issues low-interest-rate loans through the sale of tax-exempt bonds. It administers seven housing bond programs funded by Propositions 46 or 1C that assist renters and first-time homebuyers who fall within specified income limits. The largest housing bond program CalHFA administers is the California Homebuyer's Downpayment Assistance Program (CHDAP). The program provides down-payment assistance to low- and moderate-income individuals in the form of deferred-payment, low-interest loans. Once a recipient repays a CHDAP loan, CalHFA then awards the funds again. CalHFA reported that as of May 31, 2014, it had provided 41,961 homebuyers with down-payment assistance through CHDAP, and this aid amounted to more than $295 million in housing bond funding.

California Pollution Control Financing Authority

The Financing Authority is an entity consisting of the state treasurer, the state controller, and the director of the California Department of Finance. It manages one housing bond program, the California Recycle Underutilized Sites Program (CALReUSE), which provides grants and loans to recipients seeking to remediate polluted sites and then develop infill and mixed-use housing on those sites. A typical CALReUSE project might be a former industrial site that a developer intends to clean up and develop into affordable housing.

Scope and Methodology

The California Health and Safety Code requires the California State Auditor (state auditor) to conduct periodic audits of housing bond activities to ensure that agencies that administer housing bond programs have awarded proceeds in a timely manner that is consistent with legal requirements and that recipients have used the funds in compliance with the law. Table 1 lists the audit objectives and the methods we used to address them. The state auditor previously issued audit reports on this subject in September 2007, November 2009, and October 2012.

Table 1
Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Determine whether awards of housing bond funds were timely.	• Because there is no statutory definition of *timely*, we judgmentally determined that the California Department of Housing and Community Development (HCD), California Pollution Control Financing Authority (Financing Authority), and the California Housing Finance Agency (CalHFA) should have awarded substantially all of their bond funds by December 31, 2013, the date of the most recent expenditure data. • If HCD, the Financing Authority, and CalHFA had not yet awarded to a specific program more than 90 percent of the bond funds from the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46) or 85 percent of the bond funds from the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C) we interviewed program staff to obtain an understanding of the reasons for the delays, and assessed whether their explanations seemed reasonable.

	AUDIT OBJECTIVE	METHOD
2	Determine whether HCD, the Financing Authority, and CalHFA award bond funds in compliance with applicable statutory requirements.	• We selected nine programs with significant Propositions 46 and 1C awards and disbursements through December 31, 2013. We had not reviewed five of these programs in either of our 2009 or 2012 audits: three programs under HCD's Affordable Housing Innovation Program; Catalyst Communities Grant Program, Golden State Acquisition Fund, and the Local Housing Trust Fund Matching Grant Program; the Joe Serna, Jr. Farmworker Housing Grant Program; and the Financing Authority's California Recycle Underutilized Sites Program. We selected two other programs—HCD's CalHome Program and the Building Equity and Growth in Neighborhoods Program—because we had reported issues related to these programs in our previous report. We selected the final two programs because of their high value or number of awards: HCD's Multifamily Housing Program and CalHFA's California Homebuyer's Downpayment Assistance Program (CHDAP). • We obtained data from the CalHFA's Lender Access System for the purpose of selecting loans to test; therefore, we determined that a data reliability assessment was not required. Instead, we performed data-set verification procedures and verified the completeness of the population by performing a sequence analysis on the loan number. For the purposes of this audit, we found the universe from which we extracted our selection of loans to be complete. • We obtained from the Financing Authority its Award Portfolio report (portfolio report) for the California Recycle Underutilized Sites Program's Remediation Program for the purpose of selecting awards to test; therefore, we determined that a data reliability assessment was not necessary. Instead, we performed data-set verification procedures and verified the completeness of the population by tracing the award documents to the portfolio report to gain assurance the population was complete. • We limited our review of awarding requirements only to those programs that we had never reviewed or that we believed likely to award funds in the future: the three programs under HCD's Affordable Housing Innovation Program and its Multifamily Housing Program, the Financing Authority's California Recycle Underutilized Sites Program, and CalHFA's CHDAP. • Our review of relevant laws and regulations identified key legal provisions that the programs must implement when awarding funds. We judgmentally selected 15 awards granted by the four programs that HCD administers, 10 awards granted by the program that the Financing Authority administers, and 16 awards granted by the program that CalHFA administers. We then tested the awards to assess whether the entities met the key legal provisions. • We found no reportable issues in our review of the awarding processes for the Financing Authority's California Recycle Underutilized Sites Program or for CalHFA's CHDAP.
3	Determine whether the departments are ensuring that recipients are using funds in compliance with applicable statutes.	• We reviewed relevant laws, regulations, program guidelines, policies, and procedures and interviewed officials to determine how HCD, the Financing Authority, and CalHFA monitor recipients throughout the terms of the awards. • We judgmentally selected 45 awards from the seven HCD-administered programs and 10 awards from the Financing Authority-administered program to assess whether the entities implemented processes that would allow them to ensure that recipients used housing bond funds in compliance with the law. Further, we tested whether HCD and the Financing Authority followed those processes. • Because CalHFA's CHDAP staff do not actively monitor awards but rather await notification that recipients have repaid loaned funds, our review was limited to confirming through staff interviews CalHFA's policies and procedures for monitoring. • We found no reportable issues in our review of the monitoring processes for Financing Authority's California Recycle Underutilized Sites Program or for CalHFA's CHDAP.
4	Determine whether HCD spent administrative costs within allowed limits.	• We reviewed relevant laws to determine the limits on administrative costs for the housing bond programs that HCD manages. We compared those limits to the amounts that HCD has spent and plans to spend. • We interviewed key staff to determine steps HCD has taken or plans to take to avoid exceeding administrative cost limits.
5	Determine whether HCD has completed its verification of data transferred to its new Consolidated Automated Program Enterprise System (CAPES).	We interviewed HCD officials to determine the status of its implementation of this recommendation, which we made in our 2009 audit report. Additionally, we interviewed key staff to determine the overall status of CAPES.

Sources: California Health and Safety Code, sections 53533(d) and 53545(a)(3), and information and documentation identified in the table column titled Method.

Assessment of Data Reliability

In performing this audit, we relied on various electronic data files that we obtained from the entities listed in Table 2. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. Table 2 shows the results of this analysis.

Table 2
Methods of Assessing Data Reliability

INFORMATION SYSTEM	PURPOSE	METHOD AND RESULT	CONCLUSION
California Department of Housing and Community Development (HCD) California State Accounting and Reporting System (CALSTARS) Data for March 1, 2012, through December 31, 2013	To identify the amount of state operations expenditures charged to Propositions 46 and 1C bond funds between March 1, 2012, and December 31, 2013.	• We performed data-set verification procedures and electronic testing of key data elements and found no issues. • To test the accuracy of the CALSTARS data, we traced key data elements for a selection of 29 transactions to supporting documentation and found no errors. • To test the completeness of the CALSTARS data, we traced to the data 29 haphazardly selected claim schedules, and we found no errors.	Sufficiently reliable for the purposes of this audit.
HCD Cumulative Propositions 46 and 1C Bond Awards Through December 31, 2013 Award data as of December 31, 2013	To identify the total number and amount of awards by program as of December 31, 2013.	• We performed data-set verification procedures and electronic testing of key data elements and found no significant issues. • To test the accuracy of the Cumulative Propositions 46 and 1C Bond Awards, we traced key data elements from a random selection of 29 Proposition 46 awards and 29 Proposition 1C awards to supporting documentation and found no errors. • To test the completeness of the data, we traced a haphazard selection of 29 Proposition 46 and 29 Proposition 1C awards to the data and found no errors.	Sufficiently reliable for the purposes of this audit.

Source: California State Auditor's analysis of various documents, interviews, and data obtained from HCD.

Audit Results

The California Department of Housing and Community Development's Awarding Processes Need Improvement

The California Department of Housing and Community Development (HCD), the California Housing Finance Agency (CalHFA), and the California Pollution Control Financing Authority (Financing Authority) generally awarded housing bond funds in a timely manner. In fact, as of December 2013, the three agencies had awarded nearly all available funds. However, weaknesses in HCD's awarding process for the Multifamily Housing Program and for the Catalyst Communities Grant Program (Catalyst Program) resulted in some funds' questionable use. Specifically, HCD does not have an adequate process to determine whether the proposed costs for projects funded by the Multifamily Housing Program are reasonable, as state law requires. As a result, HCD awarded funds for projects with costs well above the averages for their respective geographical areas without determining whether the projects' costs were reasonable. In addition, HCD awarded Catalyst Program funds to construct an outdoor green space even though state law restricted the use of these funds specifically for the building of affordable housing.

The Three State Agencies That Administer the Housing Bonds Programs Have Awarded the Majority of the Housing Bond Funds

By December 31, 2013, HCD, CalHFA, and the Financing Authority had awarded almost all of the nearly $5 billion in housing bond funds available for recipients under the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 (Propositions 46 and 1C). However, some housing bond programs still had additional funds available for such reasons as recipients not using all their awards before the standard agreements expired. Further, two Proposition 1C programs still had substantial portions of their original allocations available, as we discuss below.

As of December 31, 2013, HCD had a total of $486 million in returned funds and original allocations to award through the 21 housing bond programs that it manages. Most significantly, it had yet to award 83 percent of the $200 million Proposition 1C bond funds available to award through the Housing-Related Parks Program. HCD's housing policy senior manager attributed HCD's delay in awarding these funds to the lack of a budget appropriation for the program during fiscal year 2012–13. However, according to HCD, a statutory amendment to the law that established the program increased the number of those eligible to apply for the program beginning January 1, 2013. According to HCD, it has subsequently seen a spike in demand for these funds, and in June 2014 it awarded $73 million of the $166 million remaining to award.

In addition, CalHFA still had a significant portion of the original allocation for the California Homebuyer's Downpayment Assistance Program (CHDAP) remaining as of December 2013. Specifically, it had yet to award 27 percent of CHDAP's $200 million in Proposition 1C funds. According to the manager of CalHFA's single-family lending special programs, the decline in housing sales and the suspensions of programs led to fewer individuals applying for funds from 2009 through 2011. Moreover, CalHFA temporarily suspended its housing bond programs following the Pooled Money Investment Board's freeze on bond funds from 2008 through June 2009. Nevertheless, according to a summary of loan activity for CHDAP from 2003 to 2013 that CalHFA provided, the number of applicants seeking assistance through CHDAP has risen since 2011.

HCD Lacks an Adequate Process for Determining Whether the Costs of Proposed Projects for the Multifamily Housing Program Are Reasonable

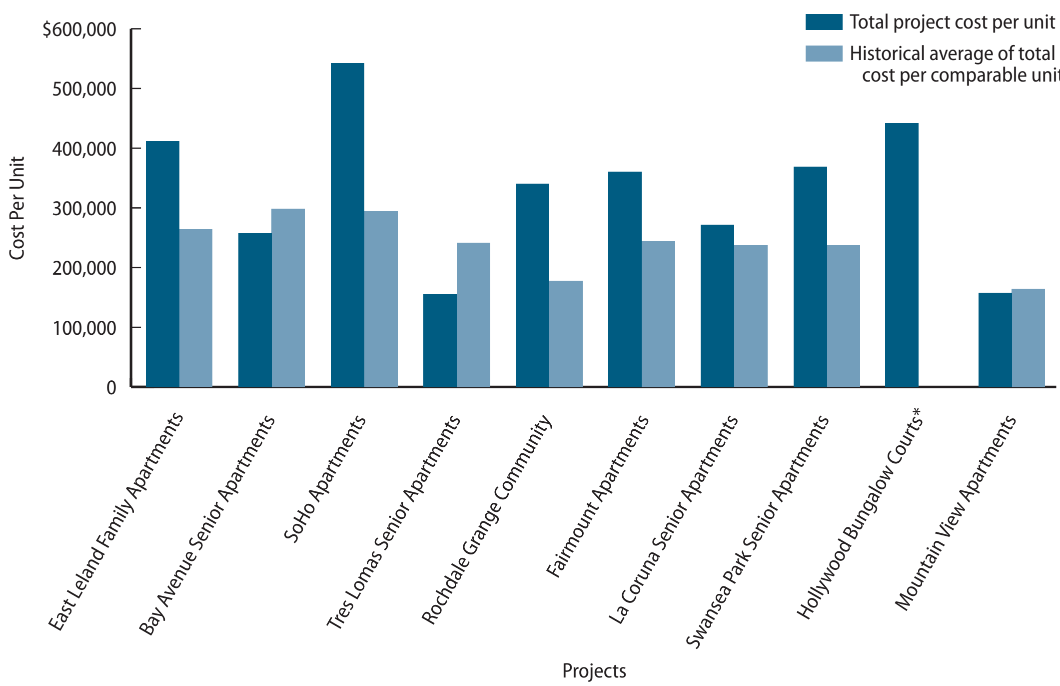
State law requires that development costs for proposed projects under the Multifamily Housing Program be reasonable compared to the costs for comparable projects in the same local areas. However, HCD has yet to develop an adequate process for determining the reasonableness of proposed projects' costs. Instead, according to the program manager for the Multifamily Housing Program, HCD determines whether costs are reasonable by using a spreadsheet it created with historical cost data for the Multifamily Housing Program (historical cost spreadsheet). This spreadsheet lists the program's projects with the total costs broken down by various categories to identify historical average costs per housing unit. When considering a proposed project, HCD compares its costs to comparable costs listed on its historical cost spreadsheet. If a project's costs are higher than those of comparable projects, HCD's review process identifies the causes of the higher costs. However, the process does not assess whether those causes are reasonable. A proposed project could have a higher cost for a valid reason, such as an increase in the cost of a basic construction material, or it could have a higher cost for an invalid reason, such as an unnecessary upgrade or unwarranted consultant fees.

HCD may have funded projects with unnecessarily high costs because it does not evaluate whether projects' costs are reasonable.

Because HCD's process does not evaluate whether projects' costs are reasonable, HCD may have funded projects with unnecessarily high costs. When we reviewed 10 projects to which HCD awarded funds from the Multifamily Housing Program between 2007 and 2012, we found that seven had higher development costs than the average costs of comparable projects under the Multifamily

Housing Program according to the historical cost spreadsheet. Figure 2 details the development costs of projects we reviewed and the average costs of comparable projects. For example, HCD awarded funds to the East Leland Family Apartments, which had a cost per unit of $412,000; however, the average cost per unit for a comparable project in the same area was only $264,000. Nonetheless, the files for these seven higher-cost projects contain no evidence that HCD had determined that the higher costs were reasonable.

Figure 2
Total Costs Per Unit for Select Projects Funded by the Multifamily Housing Program Compared to Historical Averages of Total Costs Per Unit for Comparable Projects



Source: California State Auditor's analysis of Multifamily Housing Program project reports by the California Department of Housing and Community Development (HCD).

Note: HCD funds only a portion of the total project cost. For example, HCD funded $5 million of the $25 million total project cost for the East Leland Family Apartments.

* The report for this project indicates that the project's renovation costs are more expensive than those for traditional building restoration because of the historic nature of the buildings to be renovated, and the project report does not list a historical average cost for comparable projects.

HCD prepared a report for each of the seven higher-cost projects that included a brief narrative description of the cause of the increased costs, but these descriptions did not explain how or whether HCD determined that the costs were reasonable. For instance, the project report for the East Leland Family Apartments attributed the higher cost to such factors as the inclusion of a child care center; significantly higher impact fees; noise attenuation measures, including upgrades to windows and exterior walls; and market-wide increases in development and construction costs. However, the report did not document an analysis of the reasonableness of the costs to indicate that HCD had determined that the higher costs were reasonable. Further, the project report for one of the seven higher-cost projects did not even describe the causes of the higher costs. HCD's branch chief for the Multifamily Housing Program stated that HCD recognizes the need to maximize the use of limited state resources, and HCD instructs staff to ensure reasonableness of a project's development costs during their review of proposed projects awarded funds from the Multifamily Housing Program and to obtain justifications from project applicants for any above-average costs. However, as we indicate above, the justifications documented by HCD do not by themselves explain the reasonableness of a project's proposed costs.

In addition, the usefulness of the historical cost spreadsheet that HCD uses in its cost comparisons may be limited by the fact that it contains outdated information. The program manager for the Multifamily Housing Program noted that HCD has not updated the historical cost spreadsheet since 2008; consequently, it likely does not reflect changes in market conditions, such as increases in labor costs or energy costs. The program manager for the Multifamily Housing Program stated that HCD did not update the historical cost spreadsheet because it awarded funds for most Multifamily Housing Program projects between 2000 and 2008. However, HCD has awarded funds to 71 projects since 2008, and it will continue to award funds as recipients repay awarded loans. Since HCD has not updated the historical cost spreadsheet in six years, the value of the cost comparisons it performed after 2008 is questionable.

Since HCD has not updated the historical cost spreadsheet in six years, the value of the cost comparisons it performed after 2008 is questionable.

When we discussed with the program manager for the Multifamily Housing Program HCD's efforts to determine the reasonableness of projects' costs, he noted that the Local Assistance Loan and Grant Committee (committee) also reviews proposed projects. The committee, which consists of an appointed panel of outside developers, lenders, and public officials, meets periodically to review most HCD staff recommendations for awards or disapprovals and to advise HCD's director on loan and grant decisions. According to the committee chair, the committee is responsible for advising HCD on the appropriateness of the development costs of a project after taking into consideration the public purpose of the program and the viability of the proposal to achieve that public purpose. However, the committee chair indicated that it relies on HCD to present the committee with the best projects available after factoring in their cost. Moreover, the committee's recommendations are only advisory, and HCD has final approval for Multifamily Housing Program projects.

HCD Improperly Awarded Housing Funds Through the Catalyst Program to Build an Outdoor Green Space

HCD awarded funds for one project that did not meet the statutory purpose of those funds. One component of the Affordable Housing Innovation Program is the Catalyst Program, and state law requires that HCD design the Catalyst Program to increase or maintain affordable housing opportunities for Californians with lower incomes. However, when we reviewed two of the awards HCD had made as of December 2013, we found that one was for a project that did not create or preserve affordable homeownership opportunities. Specifically, according to the project's 2010 application, the project created a "green living room" in Emeryville by transforming a marketplace's public area into an outdoor green space. The application stated that the project included installations, demonstrations, and public education about sustainable living. According to the project's submitted budget, the recipient planned to use all of the $1.35 million award from HCD toward building the "green living room," and it did not plan to use any of the funds for increasing or maintaining housing.

HCD's justification for funding the Emeryville project is inconsistent with the State's purpose for the Catalyst Program. According to the Catalyst Program manager, HCD justified the grant by noting that although the project did not directly increase or maintain housing units, it is part of a larger series of projects that includes housing developments in Emeryville and a homeownership program. However, according to the Catalyst Program manager, the program did not fund any of this portion of the larger series of projects relating to the housing developments or homeownership program. Instead, HCD awarded funds to construct an outdoor green space, violating the Catalyst Program's statutory purpose and reducing the availability of funding for projects that construct or preserve housing units.

As of July 2014, HCD had selected 10 communities to receive Catalyst Program funds, and, according to HCD, it had provided funding to three. HCD still has seven communities to which it intends to award funds, but some of the program's objectives do not relate directly to increasing or maintaining affordable housing, such as protecting natural resources. For that reason, it is critical for HCD to ensure that—before Catalyst Program funds go to these projects—the funds will be used to create or preserve affordable housing.

Before Catalyst Program funds are awarded for projects, it is critical for HCD to ensure that the funds will be used to create or preserve affordable housing.

Despite Our Previous Recommendations, HCD Still Is Not Adequately Monitoring Some of Its Housing Bond Programs

Despite concerns raised in our 2009 and 2012 audits, HCD has not fulfilled its obligation to monitor its recipients' use of housing bond funds. We reviewed 45 HCD awards within seven programs and again found significant monitoring problems in several areas. Without effective monitoring, HCD cannot ensure that recipients for these programs use funds appropriately or that the funds benefit targeted populations. Table 3 summarizes the results of our review of the seven HCD-managed programs.

Table 3
The California Department of Housing and Community Development's Monitoring of Seven Housing Bond Programs

PROGRAM	NUMBER OF PROJECTS WE REVIEWED	NUMBER OF REPORTS THAT RECIPIENTS WERE REQUIRED TO SUBMIT	NUMBER OF REPORTS NOT COLLECTED	NUMBER OF PROGRAM RECIPIENTS THAT DID NOT SPEND ADVANCED FUNDS WITHIN 90 DAYS	HCD USED AN ADEQUATE PROCESS TO SELECT RECIPIENTS FOR ON-SITE REVIEW*
Building Equity and Growth in Neighborhoods Program	10	192	79	4	Yes
CalHome Program	10	209	81	3	No
Joe Serna, Jr. Farmworker Housing Grant Program	10	136	45	NA†	Yes
Multifamily Housing Program	10	133	5	NA†	Yes
Affordable Housing Innovation Program‡: *Local Housing Trust Fund Matching Grant Program*	2	12	12	0§	NA‖
Golden State Acquisition Fund	1	5	0	NA†	NA‖
Catalyst Communities Grant Program	2	2	0	NA#	NA‖

Sources: California State Auditor's review of the California Department of Housing and Community Development's (HCD) program guidelines and project files, interviews with HCD program managers, and the California Health and Safety Code, various sections.

* We determined that HCD's on-site review process was adequate if it included a method for selecting recipients to visit that addressed the risk of noncompliance with program requirements.

† These programs do not provide advances to recipients.

‡ The Affordable Housing Innovation Program contains three subprograms, all of which we reviewed.

§ None of the projects we reviewed received an advance.

‖ State law and program guidelines do not require on-site monitoring for these programs.

\# Only one of the two projects we reviewed had received funds as of the time we completed our fieldwork and we did not review whether that project received an advance because we determined that HCD improperly awarded funds to the recipient.

HCD Has Failed to Ensure That Recipients Comply With Reporting Requirements for Some of Its Housing Bond Programs

As Table 3 details, HCD failed to collect a significant number of status reports for many of the programs we reviewed. HCD's regulations or program guidelines for most housing bond programs require recipients to submit periodically to HCD reports—such as annual status reports, audits, or budget documents—that include information on projects' current and planned activities. The reports also describe problems or delays recipients have encountered and the courses of action they have taken to address these problems. Without this information, HCD's ability to monitor recipients effectively to ensure they spend funds appropriately is limited.

In our 2012 report we recommended that HCD ensure that it receives and centrally tracks required status reports for its Building Equity and Growth in Neighborhoods Program (BEGIN) and CalHome Program (CalHome). However, it has yet to fully implement this recommendation or ensure that it collects certain reports for other programs. Our current review found that recipients did not submit more than half of the status reports due since our last audit for the awards we reviewed for BEGIN and for the Joe Serna, Jr. Farmworker Housing Grant Program (Farmworker Housing). For example, HCD awarded funds to one BEGIN recipient in September 2011, yet HCD has never collected a status report from this recipient. Two Farmworker Housing recipients have not submitted annual reports and other items the program requires, such as operating budgets and schedules of rental income, for two years. Although HCD has collected most CalHome status reports since our recommendation in our 2012 report, it still has not collected reports for one of the 10 recipients we reviewed. For this CalHome recipient, HCD has not collected any reports since July 2007.

In addition, when recipients failed to submit required status reports, HCD did not follow up consistently with them. For example, HCD contacted one BEGIN recipient in June 2013 after the recipient failed to submit any status reports for more than a year. However, the recipient never provided the missing reports, and we found no evidence that HCD followed up after its June 2013 attempt to collect the reports. HCD has tools in place that it could use to ensure that it receives information from recipients. Specifically, the standard or regulatory agreement that HCD requires recipients to sign allows HCD to cancel awards or to seek remedies if recipients do not submit reports. However, of the four HCD programs we reviewed that had monitoring problems, only Farmworker Housing's documents showed evidence that HCD considered seeking a remedy for a recipient not submitting required reports. The section chief over BEGIN and the CalHome program managers stated that they have not considered cancelling awards for recipients who rarely submitted reports.

Of the four HCD programs we reviewed that had monitoring problems, only one program showed evidence that HCD considered seeking a remedy for a recipient not submitting required reports.

Although HCD provided various reasons for missing status reports, these reasons did not adequately justify its failure to monitor recipients appropriately. The CalHome program manager indicated that the program is understaffed. In addition, according to the BEGIN program manager, staff did not always document that they had contacted recipients regarding missing reports. Finally, the assistant deputy director of Asset Management and

Compliance, the section that monitors Farmworker Housing, indicated in a March 2014 management memo to staff that the program has historically been understaffed and has suffered from high turnover, leading to a large monitoring backlog. He also indicated that prolonged delays in the process of transferring files from the underwriting group to his monitoring group and a lack of communication between the groups has exacerbated the backlog. The co-section chief of Asset Management and Compliance stated that the program has been unable to hire additional staff because of budgetary constraints. However, unless HCD ensures that it receives the required status reports, it cannot know whether recipients use housing bond funds in accordance with award requirements to achieve the program's various goals.

Further, the files we reviewed for two projects for the Local Housing Trust Fund Matching Grant Program, a part of the Affordable Housing Innovation Program, did not contain any monitoring reports, and the former manager of this program could not locate any such reports. The former manager indicated that HCD is lax in monitoring the submission of the required reports because the disbursement requests submitted by recipients furnish status updates that inform HCD about recipients' activities; consequently, HCD considers the submissions of disbursement requests as meeting the reporting requirement. However, the former manager acknowledged that the recipient for one of the two awards we reviewed had not submitted a request for funds in the 2.5 years since it received the award. By not collecting required status reports, HCD limits its ability to monitor recipients effectively to ensure they spend funds appropriately.

By not collecting required status reports, HCD limits its ability to monitor recipients effectively to ensure they spend funds appropriately.

HCD Allowed Some Recipients to Hold Advances of Program Funds for Years

HCD does not monitor advances of program funds appropriately, and, as a result, some recipients of BEGIN and CalHome held advanced funds for excessive lengths of time. HCD provides funds to recipients of the programs on either an advance or reimbursement basis. For example, BEGIN program guidelines allow recipients to obtain an advance of funds 90 days before the close of escrow on homes for which the recipient provides down-payment assistance to first-time, low- and moderate-income homebuyers. Therefore, it is reasonable to assume that recipients are likely to spend the advanced funds within 90 days. HCD has not established a policy suggesting a similar time frame for funds advanced to CalHome recipients. Nonetheless, for both programs, HCD should minimize the time that recipients hold advanced funds so that it can redirect unused funds to other recipients.

When we reviewed four BEGIN awards and three CalHome awards that had received advances between 2006 and 2013, we found that none of the recipients provided HCD with documentation that they had spent all of the advanced funds within 90 days. Two of the CalHome recipients held advanced funds for more than a year without providing documentation to HCD, and three of the BEGIN recipients held advances for more than three years. In fact, HCD advanced one BEGIN recipient $450,000 in 2008 and allowed it to hold the funds for nearly six years without requiring evidence that it had spent all of the funds for program purposes. When HCD finally followed up in 2014, the recipient could only show that it had provided $321,000 of the advance to homeowners for down-payment assistance. When HCD attempted to recover the remaining $129,000, the recipient responded that it could not return the funds because of financial difficulties, in effect admitting that it could not document spending the money on BEGIN. The recipient agreed that it would make monthly payments to HCD over the next two years, a situation that HCD could have avoided had it ensured that the recipient held the advanced funds no longer than 90 days.

HCD has allowed recipients to hold advances for excessive lengths of time because it lacks an effective tool to track advances and has weak policies for ensuring that recipients spend advances promptly. Our 2012 report recommended that HCD require CalHome staff to follow its procedures related to centrally tracking advances. HCD reported that it had implemented this recommendation and that CalHome is tracking advances using an electronic spreadsheet. However, the CalHome program manager admitted that the data on the tracking sheet might not be accurate because HCD does not review and reconcile it against other data.

HCD has allowed recipients to hold advances of program funds for excessive lengths of time because it lacks an effective tool to track advances and has weak policies for ensuring recipients spend advances promptly.

Moreover, neither CalHome nor BEGIN has policies identifying the actions staff should take if recipients do not spend funds promptly. For example, although BEGIN guidelines allow recipients to request advances of funds 90 days prior to the close of escrow on BEGIN housing, they do not explain the steps HCD staff should take if recipients do not spend the funds during this time frame. As a result, recipients may hold advanced funds for unreasonable amounts of time, increasing the risk that the recipients will use the funds for unauthorized activities that do not support targeted populations.

HCD Still Does Not Use a Risk-Based Process to Select CalHome Recipients for On-Site Monitoring

Despite our 2012 recommendation to develop an adequate process for considering risk when deciding which CalHome recipients to review on-site, HCD has not yet done so. The CalHome program manager acknowledged that on-site monitoring is a critical component of its monitoring plans. On-site monitoring allows HCD to confirm information that recipients provide, ensure that recipients' expenditures are for eligible purposes, and verify that recipients are following reporting requirements. According to information provided by the CalHome program manager, HCD conducted on-site reviews during each of the last three years for a relatively small number of awards; thus, HCD should ensure that it reviews recipients that are most likely to be experiencing problems.

Although CalHome has a risk assessment tool to help staff decide which recipients to visit, the staff do not use it for this purpose. HCD stated that CalHome modified its risk assessment tool in response to our 2012 recommendation. However, this modification appears inadequate to meet the program's needs. Specifically, the risk assessment tool is a form that staff complete before deciding which awards to monitor on-site. However, the tool only includes five questions and does not identify the scale of risk for each recipient. For example, one question asks whether the recipient has received any funds. Although this question is important, the form does not consider whether a recipient has received $1 million or $1,000, despite the significant difference in risk between the amounts. Consequently, according to the CalHome program manager, many of the recipients tie for highest risk based on the form's scoring system. Although CalHome staff filled out the risk assessment form for most of the 10 awards we reviewed, the CalHome program manager stated that HCD staff judgmentally select which recipients to visit rather than relying on the form.

HCD has never visited one of the recipients we reviewed even though the recipient received $1 million but has not submitted any required monitoring reports since 2007.

Although we agree that CalHome's risk assessment form is not an effective tool for identifying high-risk recipients, HCD cannot be certain that it visits the recipients with the highest risk if it relies on staff judgments and does not provide a structured approach for identifying the risk. For example, HCD has never visited one of the recipients we reviewed even though the recipient received $1 million but has not submitted any required monitoring reports since 2007. If HCD had developed a risk assessment form that considered the relative risk of the amounts it disbursed to recipients and the number of reports that the recipients failed to submit, HCD likely would have selected this recipient for an on-site review, and it could have taken steps to bring the recipient into program compliance.

HCD Has Yet to Address Key Weaknesses in Its Housing Bond Database

In 2007 HCD implemented its Consolidated Automated Program Enterprise System (CAPES), which it currently uses for monitoring and managing its loans and grants. However, according to HCD's information technology branch chief, HCD has encountered significant issues with the system since its implementation. In addition, a problematic transfer of data from its previous system led to CAPES containing inaccurate and incomplete data. According to HCD, it has taken many steps to try and fix the problems with CAPES; for example, it attempted to improve the accuracy of CAPES data by adding a function that allows staff to reconcile CAPES with its accounting system. HCD's initial 2005 contract for CAPES was for just over $1 million, and, according to its bond fiscal manager, HCD spent an additional $4.3 million on CAPES through 2013. However, HCD's information technology branch chief indicated that CAPES still has many issues, including the need for HCD staff to follow complex steps to access information and CAPES' limited ability to generate reports.

According to HCD's information technology branch chief, because HCD lacks an effective system for its program managers to use in tracking each aspect of their programs, some program managers rely on other methods to monitor their programs. These methods undoubtedly contribute to HCD's inadequate monitoring of recipients. For example, according to the CalHome program manager, CAPES cannot distinguish between payments that HCD makes as advances and those that it makes as reimbursements. Therefore, the CalHome program manager had to use other, informal methods to track advances, such as electronic spreadsheets. Further, according to the BEGIN program manager, CAPES cannot track status reports that recipients submit, a situation that similarly forces program managers to develop informal methods to track these required documents. In addition, as of May 2014, HCD's information technology branch chief indicated that much of the pre-2007 data in CAPES are likely inaccurate and other data that should be in CAPES are missing; thus, data from this period should not be relied upon. In a 2007 letter to HCD and in our 2009 and 2012 audit reports about housing bonds, we noted issues regarding the accuracy and completeness of data transferred from HCD's old system into CAPES. HCD's lack of accurate, complete data negatively affects its ability to manage and monitor its housing bond awards.

HCD's lack of accurate, complete data in its housing bond database negatively affects its ability to manage and monitor its housing bond awards.

HCD's strategy documents for CAPES outline its goals for improving the system but do not provide a concrete action plan. According to these documents, HCD plans first to increase the accuracy and completeness of CAPES' system data and to boost staff confidence in CAPES. Specifically, HCD's application development section manager stated that the department plans to complete its review of the accuracy and completeness of CAPES data by March 2015. HCD then plans to build staff efficiency and effectiveness in the use of CAPES by identifying bottlenecks and redundant data entry and then adjusting CAPES for anticipated changes in business requirements. HCD also would like to increase staff confidence in CAPES and eliminate the need for other tools, such as electronic spreadsheets. However, HCD does not have an action plan with measurable objectives and timelines for achieving the goals in its strategic documents and for making CAPES an integral part of its business processes.

HCD needs a clear strategic plan that contains timelines and measureable goals—especially in light of the fact that HCD has struggled to ensure CAPES' effectiveness since the system's 2007 implementation and that HCD anticipates needing years to add all needed functionality. Without this sort of detailed plan, HCD risks continued weaknesses in its monitoring efforts.

HCD's Policies Are Not Adequate to Ensure That It Does Not Exceed Statutory Limits on Its Programs' Administrative Costs

Although the Legislature placed statutory limits on the amount HCD can spend to administer several of the housing bond programs, HCD does not have sufficient policies to ensure that it does not exceed these limits. For 11 of the 21 housing bond programs HCD manages, state law restricts the amount it may charge for administrative costs to 5 percent of bond funds available. The text box describes a program's typical administrative costs. As of December 2013 HCD had spent a total of $111 million on administrative costs for the 21 programs and anticipates spending $258 million over the lifetime of the housing bond programs.

Types of Administrative Costs for Housing Bond Programs

Awarding: Administrative costs for awarding typically include costs such as those for developing program guidelines, issuing notices of funding availability, and reviewing project applications.

Monitoring: Administrative costs for monitoring awards typically include costs such as those for providing technical assistance to recipients, reviewing information on the status of project implementation, and conducting site visits.

Source: California State Auditor's analysis of the California Department of Housing and Community Development's awarding and monitoring documents.

However, until recently, HCD's process for tracking administrative costs for its housing bond programs did not account for statutory limits on such costs by determining the percentages of available bond funds that administrative costs represent for each program. After we brought this issue to HCD's attention, HCD revised the tool it uses to track administrative costs so that it calculates its limits on such costs. However, HCD still lacks policies identifying how it will ensure that it does not exceed its administrative cost limits.

If it stays on its current course, HCD risks spending more on administrative costs from bond funds than allowed by state law. In fact, according to its own tracking tool, HCD projects that its administrative costs in two of its programs will exceed their respective cost limits. For example, HCD projects it will spend $23.9 million administering its Emergency Housing and Assistance Program, an amount that is approximately $5.8 million more than the program's statutory limit. HCD's deputy director for administration stated that HCD uses the projections to identify programs that it needs to streamline or for which it will seek additional funding. Further, she stated that HCD's goal is to spend less than the limit for each program. However, without policies identifying the steps it should take to ensure that it does not exceed its administrative cost limits, HCD could have difficulty meeting this goal.

Recommendations

To ensure that it complies with state law and maximizes the public benefits that its Multifamily Housing Program provides, HCD should improve its current process for awarding program funds by documenting its determination of whether the costs of proposed projects are reasonable.

To assure the validity of its cost comparisons for Multifamily Housing Program projects, HCD should update the program's historical cost spreadsheet either by including projects it approved after 2008 or by adjusting the tool's data to current values.

To meet the intent of the law, HCD should approve and fund for the Catalyst Program only those projects that more directly create or preserve housing opportunities.

To ensure that recipients submit required status reports, HCD should develop and implement strategies to better monitor these reports. For example, program management could review a central tracking spreadsheet of status reports and require staff to contact recipients that are not complying with requirements. After six months of noncompliance by recipients, HCD should send warning letters to recipients that it will cancel their awards or seek remedies and require them to return the funds unless they provide the reports within a specified time.

To ensure that recipients spend advanced funds promptly and that it has accurate information about outstanding advanced funds, HCD should do the following:

- Develop a thorough process to track and monitor advances.

- Reconcile advances to its accounting records and to documentation to ensure that recipients spent all of the advances that HCD made previously.

- Clarify when recipients must return unspent advances either by revising its policies and procedures or by seeking regulatory change, if needed. For example, HCD could consider requiring recipients to return advanced funds held more than 90 days, to pay an interest penalty on the outstanding funds, or to face other corrective action.

To maximize the benefits of its on-site review for CalHome, HCD should revise its current risk assessment tool or develop a new tool to identify the recipients that are at high risk of noncompliance with program requirements. For example, HCD could identify recipients as high risk that have received large amounts of funds and have not submitted required status reports for two consecutive periods. Once it has an effective risk assessment tool in place, HCD should establish a process to ensure that it consistently uses the tool to select the recipients at highest risk for on-site monitoring.

To ensure that its data system is a useful tool for managing its housing bond programs, HCD should revise its strategy documents to clearly outline the steps it will take to address CAPES' current weaknesses. It should include specific timelines and activities within its strategy documents.

Before July 2015 HCD should adopt policies identifying the steps it should take to ensure that it does not exceed statutory administrative costs limits from bond funds and follow those polices when warranted.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

Appendix

PROGRAMS FUNDED BY THE HOUSING AND EMERGENCY SHELTER TRUST FUND ACTS OF 2002 AND 2006

Table A presents key details of programs that receive funds from the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46) and the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C). The programs are categorized into five core areas: multifamily housing programs, homeownership programs, farmworker housing programs, development programs, and other programs. The table provides a brief description of each program, the name of the agency that manages it, and its funding allocation under each proposition as of December 31, 2013.

The California Department of Housing and Community Development (HCD) administers 16 of the 23 programs funded under Proposition 46, while the California Housing Finance Agency (CalHFA) manages the other seven. HCD is responsible for managing 12 of the 14 programs funded by Proposition 1C, while CalHFA and the California Pollution Control Financing Authority each manage one.

Table A
Key Details for Programs Funded by the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006

PROGRAM MANAGER	PROGRAM NAME	DESCRIPTION OF PROGRAM	PROPOSITION 46* ALLOCATION	PROPOSITION 1C† ALLOCATION
		Multifamily Housing Programs		
California Department of Housing and Community Development (HCD)	Downtown Rebound Program	Loans, grants, or both for rental housing development projects located within one-quarter mile of an existing or planned major transit node. This program gives funding priority to projects developed within walking distance of schools; major employment centers; or public amenities, including shopping, parks, and major entertainment venues.	$15,000,000	
	Exterior Accessibility Grants for Renters Program	Grants for exterior modification to rental housing to accommodate low-income renters with disabilities.	5,000,000	
	Local Housing Trust Fund Matching Grant Program	Matching grants to local housing trust funds that provide loans for the construction of rental housing projects or units within rental housing projects for low-income persons and families earning less than 60 percent of the area median income.	25,000,000	
	Multifamily Housing Program—General	Deferred-payment loans for the development and construction of new, and for the rehabilitation or acquisition and rehabilitation of existing, transitional or rental housing developments.	800,000,000	$383,042,415
	Multifamily Housing Program—Governor's Homeless Initiative	Funds for an interagency effort between HCD, the California Housing Finance Agency, and the California Department of State Hospitals aimed at reducing the number of persons with severe mental illness who are chronically homeless by developing permanent supportive housing.	39,581,540	
	Multifamily Housing Program—Homeless Youth	Loans to facilitate and support the development and operation of housing for homeless youth.		41,957,585

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PROGRAM MANAGER	PROGRAM NAME	DESCRIPTION OF PROGRAM	PROPOSITION 46* ALLOCATION	PROPOSITION 1C† ALLOCATION
		Multifamily Housing Programs		
California Department of Housing and Community Development (HCD)	Multifamily Housing Program—Nonresidential Space for Supportive Services	Grants for nonresidential space for supportive services that provide job training, health services, and child care within or immediately proximate to projects funded under the Multifamily Housing Program.	$20,000,000	
	Multifamily Housing Program—Supportive Housing Program	Loans for supportive housing for individuals and households moving from emergency shelters or transitional housing or for those at risk of homelessness. Recipients may use the loans for rental units linked to supportive services.	195,000,000	$195,000,000
California Housing Finance Agency (CalHFA)	Preservation Opportunity Program	Loans for at-risk units that will likely convert to market-rate housing.	10,418,460	
	Residential Development Loan Program	Low-interest-rate loans to local governments for site acquisition and predevelopment expenses related to affordable owner-occupied infill housing developments.	44,578,555	
Subtotals			**$1,154,578,555**	**$620,000,000**
		Home Ownership Programs		
HCD	Building Equity and Growth in Neighborhoods Program	Grants to cities, counties, or cities and counties to use for down-payment assistance to first-time, low- and moderate-income homebuyers purchasing newly constructed homes within a Building Equity and Growth in Neighborhoods project.	$56,000,000	$74,278,290
	CalHome Program	Grants and loans to private nonprofit and local government agencies that aid households with low and very low incomes. Recipients may use the grants for first-time homebuyer down-payment assistance; home rehabilitation, including installation or retrofitting of ignition resistant exterior components on existing manufactured homes and mobile homes; homebuyer counseling; self-help mortgage assistance programs; or technical assistance for self-help home ownership. Recipients may use the loan funds for purchase of real property, site development, predevelopment and construction period expenses incurred on home ownership development projects, and permanent financing for mutual housing or cooperative developments.	134,000,000	340,721,710
	California Self-Help Housing Program	Provides assistance to persons and families of low to moderate income who are owner-builders or self-help rehabilitators.	10,000,000	10,000,000
CalHFA	California Homebuyer's Downpayment Assistance Program	Down-payment assistance, including deferred-payment low-interest loans to reduce principal and interest payments and make financing affordable for first-time, low-to moderate-income homebuyers.	153,553,542	200,000,000
	Extra Credit Teacher Home Purchase Program	Federal mortgage credit certificates and reduced-interest loans funded by mortgage revenue bonds to eligible teachers, principals, vice principals, assistant principals, and classified employees who agree to teach or provide administration or service in high-priority schools.	23,050,000	
	Homebuyer Downpayment Assistance Program—School Facility Fee	Assistance to qualified homebuyers in the form of partial or full rebates of the school facility fees on affordable housing.	50,000,000	
	Homeownership in Revitalization Areas Program	Down-payment assistance to first-time low- and moderate-income homebuyers who are purchasing a residence in a community revitalization area as documented by a nonprofit organization. Down-payment assistance may include loans to provide deferred-payment subordinate loans to borrowers to use for down payments or closing costs, totaling up to 6 percent of a home's purchase price.	9,150,000	
Subtotals			**$435,753,542**	**$625,000,000**

PROGRAM MANAGER	PROGRAM NAME	DESCRIPTION OF PROGRAM	PROPOSITION 46* ALLOCATION	PROPOSITION 1C† ALLOCATION
		Farmworker Housing Programs‡		
HCD	Joe Serna, Jr. Farmworker Housing Grant Program— General	Grants and loans for construction or rehabilitation of housing for agricultural employees and their families. This program also includes loans and grants for the acquisition of manufactured housing as part of a program to address and remedy the impacts of current and potential displacement of farmworker families.	$155,000,000	$135,000,000
	Joe Serna, Jr. Farmworker Housing Grant Program— Migratory Agricultural Workers	Funds projects that serve migratory agricultural workers and includes grant funds reserved for development of housing for migrant farmworkers.	25,000,000	
	Joe Serna, Jr. Farmworker Housing Grant Program—Family Wellness Program	Funds for health services to advance comprehensive strategies for improving the health status of agricultural workers and their families.	20,000,000	
Subtotals			**$200,000,000**	**$135,000,000**
		Development Programs		
HCD	Infill Incentive Grant Program	Grants for selected capital improvement projects related to qualifying infill projects or areas. Legislation in 2007 established this program and appropriated $240 million of the $850 million to be used for this program in fiscal year 2007–08.		$790,000,000
	Housing-Related Parks Program	Grants for the creation, development, or rehabilitation of park and recreation facilities to cities, counties, and cities and counties that meet certain criteria. Legislation in 2007 established this program.		200,000,000
	Transit-Oriented Development Implementation Program	Assistance to cities, counties, cities and counties, transit agencies, and developers to establish higher-density uses within close proximity to transit stations.		300,000,000
California Pollution Control Financing Authority	California Recycle Underutilized Sites Program	Grants and loans to projects that clean up environmentally contaminated sites and also promote infill residential and mixed-used development, consistent with regional and local land use plans. Legislation established this program in 2007 and appropriated funding for it from the Regional Planning, Housing and Infill Incentive Account in fiscal year 2007–08.		60,000,000
Subtotals				**$1,350,000,000**
		Other Programs		
HCD	Affordable Housing Innovation Program	Creates pilot programs to demonstrate innovative, cost-saving approaches to creating or preserving affordable housing. Legislation in 2007 established several programs, including the Affordable Housing Revolving Development and Acquisition Program, for the purpose of funding loans to applicants to purchase real property for the development or preservation of housing that is affordable.		$70,000,000
	Code Enforcement Incentive Program	Grants for capital expenditures dedicated to local building code enforcement efforts.	$5,000,000	
	Emergency Housing and Assistance Program—Capital Development	Capital development grants for programs that acquire, lease, construct, or rehabilitate sites for emergency shelter and transitional housing for homeless persons.	195,000,000	50,000,000
	Workforce Housing Reward Program	Capital grants to provide local assistance for the construction or acquisition of capital assets for cities, counties, and cities and counties that provide land-use approval to affordable housing developments.	100,000,000	
CalHFA	Mortgage Guaranty Insurance Program	Bond and loan insurance to facilitate housing opportunities for low- and moderate-income households by reducing risk to the lender.	9,667,903	

continued on next page . . .

PROGRAM MANAGER	PROGRAM NAME	DESCRIPTION OF PROGRAM	PROPOSITION 46* ALLOCATION	PROPOSITION 1C† ALLOCATION
Subtotals			**$309,667,903**	**$120,000,000**
Totals			**$2,100,000,000**	**$2,850,000,000**

Sources: California Health and Safety Code, Division 31, various parts; and HCD's *Cumulative Proposition 46 and 1C Bond Awards Report Through December 31, 2013*; and documents provided by CalHFA.

Notes: The amounts shown in the funding columns represent the bond allocations to the programs as of December 31, 2013; and as a result, these amounts may not agree with the original funding levels for the programs established in the law. Funding for the following programs changed due to mandated reversions, transfers from existing programs to new programs, or program discontinuation:

	Original Allocation by Proposition 46 in 2002 (in Millions)	Change (in Millions)	Current Allocation (in Millions)
California Homebuyer's Downpayment Assistance Program	$117.5	$36.1	$153.6
Multifamily Housing Program—Governor's Homeless Initiative	0.0	39.6	39.6
Residential Development Loan Program	0.0	44.6	44.6
Preservation Opportunity Program	50.0	(39.6)	10.4
Building Equity and Growth in Neighborhoods Program	75.0	(19.0)	56.0
CalHome Program	115.0	19.0	134.0
Homeownership in Revitalization Areas Program	12.5	(3.3)	9.2
Extra Credit Teacher Home Purchase Program	25.0	(2.0)	23.0
Mortgage Guaranty Insurance Program	85.0	(75.3)	9.7

	Original Allocation by Proposition 1C in 2006 (in Millions)	Change (in Millions)	Current Allocation (in Millions)
California Recycle Underutilized Sites Program	0.0	$60.0	$60.0
Multifamily Housing Program—General	$345.0	38.0	383.0
Multifamily Housing Program—Homeless Youth	50.0	(8.0)	42.0
Building Equity and Growth in Neighborhoods Program	125.0	(50.7)	74.3
CalHome Program	290.0	50.7	340.7
Infill Incentive Grant Program	850.0	(60.0)	790.0
Affordable Housing Innovation Program	100.0	(30.0)	70.0

* Housing and Emergency Shelter Trust Fund Act of 2002.

† Housing and Emergency Shelter Trust Fund Act of 2006.

‡ Proposition 1C allows HCD to use funds allocated to the Joe Serna, Jr. Farmworker Housing Grant Program on any of the programs listed under *Farmworker Housing Programs*; however, HCD has chosen to use the funds for the general program exclusively.

STATE OF CALIFORNIA - BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY EDMUND G. BROWN JR., *Governor*

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
OFFICE OF THE DIRECTOR
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August 20, 2014

Ms. Elaine M. Howle, State Auditor*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

Please find enclosed the Department of Housing and Community Development's (Department) response to the California State Auditor's (CSA) periodic audit of the Proposition 46 and Proposition 1C housing bond programs. The Department continues to improve processes to ensure that bond funds are awarded in a timely manner and housing and infrastructure bond programs are administered effectively. Several of the CSA recommendations are either an enhancement to standard practice or already in the process of being implemented.

While the Department respects and supports the work completed by CSA to highlight the need to improve business practices and has no issue with the recommendations 1
provided, we find the audit report title and several of the report's subtitles provide a characterization of the issues that is not reflective of the report's narrative, final recommendations, and overall condition of the Department's administration of the bond programs. The enclosed document provides further clarification on observations made during the audit, as well as details of the actions that have been and will be taken to comply with the recommendations.

I am available should you have any questions or need additional clarification. To make arrangements as necessary, please contact Marc Wilson, Deputy Director, Audit and Evaluation Division at (916) 263-3397.

Sincerely,

Claudia Cappio
Director

Enclosure

* California State Auditor's comments begin on page 37.

California State Audit Report 2014-037
HCD Audit Response

Recommendation 1: To ensure that it complies with state law and maximizes the public benefits that its Multifamily Housing Program provides, HCD should improve its current process by documenting its determination of whether the costs of proposed projects are reasonable.

Department's Response: The Department agrees it is important to examine high cost projects to ensure affordable housing is being produced and financed efficiently. The Department currently has processes in place to analyze and report to the loan committee the factors driving
2 development costs of higher cost projects. On numerous occasions, the Department has subsequently rejected high cost line items that are deemed unreasonable or unnecessary to project development. Due to the diversity of construction costs, land acquisition costs, amenities required or provided, and geographic considerations, expenditures vary considerably across the State and from project to project. Given the complexity this variability presents to the question of what is "reasonable", the Department agrees the current documentation process could be improved and will take additional steps to more clearly document the analysis of these costs in comparison to comparable data and will include a written conclusion documenting the reasonableness of the per-unit cost of the project. This will be implemented with the next MHP Notice of Funding Availability round which is expected in the Fall of 2014 with project reports completed in early 2015.

Recommendation 2: To ensure the validity of its cost comparisons for Multifamily Housing Program projects, HCD should update the program's historical cost spreadsheet either by including projects it approved after 2008 or by adjusting the tool's data to current values.

Department's Response: The Department agrees with the recommendation and will complete an annual update of the historical cost data and possibly other recognized cost indexes to reflect current reasonable costs in time for this upcoming MHP round.

Recommendation 3: To meet the intent of the law, HCD should only approve and fund Catalyst Program projects that more directly create or preserve housing opportunities.

3 Department's Response: The Department's allocation of Catalyst funds is consistent with statutory requirements and complementary to and consistent with the policy objectives of the program including the primary objective of implementing sustainable affordable communities. The Catalyst Program is designed to challenge applicants to consider holistically the obstacles to homeownership that exist within a given community, including those challenges experienced by workforce and lower-income households. These obstacles may include competing public priorities such as the need to protect natural resources, reducing toxic threats, and reducing greenhouse gas emissions. Each of these public policy goals is integral to developing sustainable affordable homeownership opportunities within their respective communities. Applicants to the Program are required to describe the homeownership component of the Catalyst Project including:

- A description of the number of homeownership units planned within the designated Catalyst Project including type of unit (condo, townhouse and or single-family detached) and affordability level; and

- A description of the innovative approaches to create homeownership opportunities within the Catalyst Project. Examples could include co-operative housing, live-work spaces, multi-generational housing, community land trusts, adaptive re-use programs, lease to purchase programs, enhanced homebuyer education, first-time homebuyer assistance programs, programs targeted to school district or safety employees, reverse mortgage education and partnerships, foreclosure prevention programs.

In the situation where the identified Catalyst Project does not have a homeownership component, the applicant is required to describe innovative approaches used by the jurisdiction in general to create or maintain homeownership opportunities. The Department will increase the level of analysis of direct causation and nexus of Catalyst awards to creating or preserving housing opportunities.

We will improve the application review process by requiring that eligible applications that do not directly fund the homeownership units, will be reviewed with more scrutiny to ensure that funded projects contribute to the development of a sustainable community, increasing investment and development opportunities, including housing development, which will provide affordable housing opportunities for a range of income levels. Department staff will incorporate the monitoring and evaluation application outcomes of the final reporting requirements under the standard agreement to ensure that affordable homeownership opportunities are being provided. 4

Recommendation 4: To ensure that recipients submit required status reports, HCD should develop and implement strategies to better monitor these reports. For example, program management could review a central tracking spreadsheet of status reports, and require staff to contact recipients that are out of compliance. After six months of non-compliance, HCD should send warning letters to recipients that it will cancel their awards or seek remedies and require them to return the funds unless they provide the reports within a specified period of time.

Department's Response: The Department already routinely and consistently employs a variety of options to encourage compliance with reporting requirements including, but not limited to: 1) assessing negative points against a sponsor in future rounds of funding, and 2) not allowing changes that are subject to approval by the Department until reporting deficiencies are corrected. The Department has fully implemented the Auditor's previous recommendations in this area by ensuring thorough processes to monitor the receipt of status reports. The Department is willing to evaluate other opportunities to consistently improve current processes, and it agrees additional strategies are needed to improve follow-up on those that are not in compliance. HCD will work during the current fiscal year to enhance the existing monitoring processes by improving the documentation of collection efforts and exploring the viability of current or new actions the Department can take to assure compliance, appropriate for the corresponding program. . 5

Recommendation 5: To ensure recipients spend advanced funds promptly and that it has accurate information about outstanding advanced funds, HCD should do the following:

a) Develop a thorough process to track and monitor advances

Department's Response: The Department will refine its current processes to efficiently monitor and track advances as required by applicable statutes and regulations by December 31, 2014.

b) **Reconcile all advances it made previously to its accounting records and to documentation supporting that recipients spend the funds**

Department's Response: The Department will evaluate available processes to determine how to better reconcile advances to project files and accounting records by December 31, 2014.

c) **Clarify when recipients must return unspent advances and the penalties for not doing so, either by revising its policies and procedures or by seeking regulatory change, if needed. For example, HCD could consider requiring recipients to return advance funds held over 90 days, face an interest penalty on the outstanding funds, or take other corrective action.**

Department's Response: The Department agrees with the recommendation to clarify certain parameters on unspent advances. However, it is important to note that the few bond programs that allow advances have different requirements for the length of time recipients have to spend or return advanced funds. Staff is researching regulatory and guideline options to address the audit concern.

Recommendation 6: To maximize the benefits of its on-site review for its CalHome program, HCD should revise its current risk assessment tool or develop a new tool to identify the recipients that are at higher risk of noncompliance with program requirements. For example, HCD could identify recipients as high risk that have received large amounts of funds and have not submitted required status reports for six months. Once it has an effective risk assessment tool in place, HCD should establish a process to ensure it consistently uses the tool to select the highest risk recipients to monitor on-site.

Department's Response: The Department developed and implemented a risk assessment tool based on CSA recommendations from previous audit reports. The tool developed to assess risk has been beneficial in identifying the highest risk recipients. However, as currently constructed, the number of recipients that fall into the highest risk category exceed the Department's capacity for monitoring. In order to establish the final list of recipients for monitoring, Department staff used their knowledge and familiarity of the recipients and the status of the award to identify which represented the best use of scarce monitoring visits. Examples of these less quantifiable factors include knowledge of high recipient employee turnover and contact with the recipient about issues that may indicate that the recipient could benefit from greater technical assistance. Although the Department maintains the perspective that these types of less formulaic factors are valuable in identifying where to focus its limited capacity, the Department agrees with the recommendation to revise the current risk assessment tool for the CalHOME Program in order to focus monitoring efforts on a workable list of identified recipients that meet highest risk criteria. The Department will expand the assessment tool by considering some of these additional factors before the next round of risk assessment analysis:

1) Percentage of grant amount drawn;
2) Amount of award;
3) Timeliness of report submission: and
4) Number of contract extensions.

<u>Recommendation 7</u>: To ensure that its housing bond database is a useful tool for managing its housing bond programs, HCD should revise its strategy documents to clearly outline the steps it will take to address CAPES' current weaknesses. It should include specific timeframes and activities within its strategy documents.

<u>Department's Response</u>: The Department reviews and evaluates CAPES on a regular basis to ensure its usefulness in managing housing bond programs. The Department constantly analyzes strategies to ensure success of the system, as well as opportunities for improvement. HCD concurs with the recommendation and will create a CAPES Project Plan by July 2015, to be re-evaluated annually, clarifying activities and timelines necessary to enhance the CAPES system.

<u>Recommendation 8</u>: Before July 2015 HCD should adopt policies identifying the steps it will take to ensure that it does not exceed statutory administrative costs limits and follow those polices when warranted.

<u>Department's Response</u>: The Department has recently enhanced its internal program cost tracking to identify the total projected administrative costs for each of the bond programs. In addition, the Department will create policies to clarify the processes necessary to prevent exceeding administrative cost limits in the future, by July 2015.

Comments

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

To provide clarity and perspective, we are commenting on the California Department of Housing and Community Development's (HCD) response to our audit. The numbers below correspond to the numbers we have placed in the margin of HCD's response.

1 We strongly disagree with HCD and stand by our report title and subtitles that are fully supported by the numerous issues we describe throughout the report. We conducted our audit in accordance with generally accepted government auditing standards, which require that we obtain sufficient and appropriate evidence to support our audit conclusions. For example, as indicated on pages 16 and 17, HCD demonstrated inconsistent oversight by failing to collect more than half of the status reports due to it for the Building Equity and Growth in Neighborhoods Program (BEGIN) and the Joe Serna, Jr. Farmworker Housing Grant Program (Farmworker Housing). We also report multiple instances of HCD's questionable use of housing bond funds. For example, as we discuss on page 15, HCD improperly awarded funds to a project. Further, as indicated on pages 18 and 19, HCD allowed some recipients of BEGIN and the CalHome Program (CalHome) to hold advances for years resulting in one recipient being unable to return the unspent advance to HCD. Therefore, we stand by our report title and subtitles as written.

2 Contrary to HCD's contention that "on numerous occasions [it] subsequently rejected high cost line items that are deemed unreasonable or unnecessary," we found no evidence that it rejected costs for any of the 10 Multifamily Housing Program projects that we reviewed. In fact, as described on pages 12 and 13, HCD awarded funds for seven of these projects even though they had higher development costs than the average costs of comparable projects and the files contained no evidence that HCD had determined the higher costs were reasonable.

3 We disagree with HCD's assertion that it allocates funds for the Catalyst Communities Grant Program (Catalyst Program) consistent with statutory requirements. As indicated on page 15, state law clearly requires that HCD design the Catalyst Program to increase or maintain affordable housing opportunities for Californians with lower incomes. Although HCD goes to great lengths to describe its policies, objectives, and goals for the Catalyst Program as well as the application requirements, it still fails to explain how the project described on page 15—creating an outdoor

green space—either directly increased or maintained affordable housing opportunities for Californians with lower incomes, as the law requires. Thus, as stated on page 15, because it still intends to award funds to seven communities, it is critical that HCD ensure that the funds will be used as required by state law.

4 We commend HCD for its willingness to improve the application review process for the Catalyst Program. However, as we already mentioned, the improvements it makes need to ensure that approved funding for projects meet the statutory requirements to create and preserve affordable housing. If HCD uses Catalyst Program funds for any purpose other than maintaining or improving affordable housing, it will violate state law. We look forward to assessing HCD's progress in implementing this recommendation during the next year.

5 We disagree with HCD's assertion that it has fully implemented our previous recommendations by ensuring thorough processes to monitor the receipt of status reports. As Table 3 on page 16 shows, HCD still failed to collect a substantial number of status reports for many of the programs we reviewed during the current audit. Further, as noted on page 17, it has not collected more than half of the required reports for BEGIN and Farmworker Housing since our previous report in 2012. Thus, we concluded that HCD needs to develop and implement strategies to better monitor its status reports.

State of California

CalHFA California Housing Finance Agency

August 20, 2014

Anna Caballero, Secretary
Business, Consumer Services & Housing Agency
915 Capitol Mall, Suite 350A
Sacramento, CA 95814

Re: CALIFORNIA STATE AUDITOR REVIEW OF PROPOSITION 46 AND PROPOSITION 1C FUNDS

Dear Secretary Caballero,

The California State Auditor has completed its most recent review of the Housing and Emergency Shelter Trust Fund Acts of 2002 (Proposition 46) and 2006 (Proposition 1C). The report has been reviewed and there were no audit findings or recommendations for CalHFA. The only comments CalHFA provided to the California State Auditor were to clarify the description of CalHFA's administration of the CHDAP program.

CalHFA employees are dedicated to ensuring that these funds are used as efficiently and effectively as possible. We would like to thank the California State Auditor for its diligence and hard work in completing the audit, in particular the efforts of John Billington, Nathan Briley, Michael Henson and Kurtis Nakamura.

Sincerely,

Tia Boatman Patterson
Executive Director

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