



California Department of Housing and Community Development

It Failed to Expedite Access to Federal Funding
to Address the Impact of the COVID-19 Pandemic
on California's Homeless Population

August 2021

REPORT 2020-611





CALIFORNIA STATE AUDITOR

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August 24, 2021
2020-611

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 authorized by state law, my office conducted a state high-risk audit of the California Department of Housing and Community Development's (department) management of certain federal funds related to the COVID-19 pandemic. The department administers the Emergency Solutions Grant (ESG) program, which received \$316 million in federal funding to prevent, prepare for, and respond to the COVID-19 pandemic (ESG-CV) for individuals who are at risk of or experiencing homelessness. The following report details our conclusion that the department failed to expedite access to federal funding to address the impact of the COVID-19 pandemic on the homeless population.

The department's delays in providing access to this funding hampered the efforts of Continuum of Care entities (CoCs), which are groups of organizations and individuals that collaborate on homeless services and prevention for specified geographic areas. The department did not give most CoCs access to the first round of federal funding until December 2020, seven months after the federal government announced the funding. The department also only recently gave most CoCs access to the second, larger round of funding. These delays slowed the CoCs' abilities to contract with service providers and to expand services for the vulnerable homeless population.

Further hindering the CoCs' ability to effectively administer this funding was the department's delay in hiring a contractor to guide their design and administration of ESG-CV-funded activities. The department recognized in June 2020 that it lacked the capacity to manage the ESG-CV program and would need to work with a contractor to manage contracts with CoCs, monitor their spending, and provide them with such guidance. However, the department did not have a contractor in place for a full year; CoCs were left without necessary direction from December 2020, when they first received funds, until June 2021 when the contractor began managing the program.

The department's delayed actions undermined the intent of the ESG-CV funds to address the urgent needs of individuals experiencing homelessness during the pandemic, and they have increased the risk that the State may lose funding due to the September 2022 federal spending deadline that it could otherwise use to mitigate the homelessness crisis.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE, CPA
California State Auditor

Selected Abbreviations Used in This Report

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CDC	Centers for Disease Control and Prevention
CoC	Continuum of Care
ESG	Emergency Solutions Grant
GAO	U.S. Government Accountability Office
HDIS	Homeless Data Integration System
HUD	U.S. Department of Housing and Urban Development

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Summary

Results in Brief

As of January 2020, more than 161,000 Californians were homeless, a 16 percent increase since 2007,¹ and the COVID-19 pandemic poses a particular set of health risks for this vulnerable population. Individuals who are homeless often face an increased risk of serious illness from COVID-19, for reasons ranging from inadequate access to sanitation to a lack of health care resources. The homeless population also tends to be older or have underlying medical conditions, such as diabetes and hypertension, which are risk factors that complicate the effects of the virus. Moreover, the hardships resulting from the pandemic, such as job losses and evictions, may contribute to increases in the homeless population.

When Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020 to prevent, prepare for, and respond to COVID-19, it included funding through the Emergency Solutions Grant (ESG) program to help individuals who are at risk of or experiencing homelessness. The ESG program typically awards the California Department of Housing and Community Development (department) about \$12 million in annual funding for providing services, shelter, and housing to individuals and families experiencing homelessness and for preventing families and individuals from becoming homeless. The CARES Act increased this amount substantially: in total, the department has received \$316 million in additional ESG funding to address the pandemic (ESG-CV funds)—\$44 million in April 2020 and \$272 million in June 2020.

However, the department did not take critical steps to ensure that the \$316 million in ESG-CV funds promptly benefited the vulnerable population for which it was intended. The department does not itself provide direct services or housing to assist those experiencing homelessness: rather, it distributes ESG-CV funds through a reimbursement process to local Continuum of Care entities (CoCs), which are groups of organizations and individuals that collaborate on homeless services and homelessness prevention for a specified geographic area. These CoCs cannot access the ESG-CV funding until the department finalizes contracts with them. Although the department took steps to simplify its process for determining potential allocations of these funds to the CoCs, its failure to expedite its contracting process meant that most CoCs could not access the first round of ESG-CV funding until

Audit Highlights . . .

Our audit of the department's management of federal funds related to the pandemic, highlighted the following:

- » *Although the department received \$316 million in federal funding to address the impact on the homeless population, it did not take critical steps to ensure those funds promptly benefited that population.*
 - *Local CoC entities, which provide homeless services, did not have access to much of the funding during the height of the pandemic because the department took too long to finalize contracts.*
 - *Because CoCs did not have access to the funds in a timely manner, they may struggle to spend the full allocations within federally mandated time frames and may lose the funding.*
- » *Recognizing it lacked the capacity to manage this emergency funding, the department hired a contractor to manage the program although it did not do so until 14 months after the CARES Act passed.*
- » *The department is not collecting the information needed to measure the effectiveness of the State's use of these funds, and it does not have plans to evaluate the impact and value of the CoCs' projects in addressing or mitigating the homelessness crisis.*

¹ The January 2020 data, which were published in March 2021, are the most recent available. In recent years HUD has typically released homelessness data toward the end of the calendar year or the beginning of the following year.

December 2020—five months after they had submitted their applications for funding. Further, the department took four months longer to begin providing CoCs with access to the second, larger round of ESG-CV funds, finalizing the first contract amendments that would allow such access 11 months after the U.S. Department of Housing and Urban Development (HUD) announced the allocation of these funds. As a result, the CoCs did not have access to much of the ESG-CV funding during the height of the pandemic, the effects of which it was intended to mitigate, such as serious illness from COVID-19 or increased homelessness.

Moreover, because the CoCs have not been able to access the ESG-CV funds in a timely manner, they may struggle to spend their full allocations within federally mandated time frames. The State must spend at least 20 percent of its total \$316 million award, or \$63 million, by September 30, 2021. If it does not, the federal government may reallocate up to \$63 million of those funds elsewhere. Although the department recently reported total expenditures of \$55 million, the department relied on the CoCs to self-report estimated expenditures to reach this amount and has not yet validated or verified this information. Further, as of early August 2021, the federal government reported that the State had spent only \$2 million of the \$316 million it was allocated—less than 1 percent. The department's delays in completing the contracts undermines the intent of these funds to help individuals experiencing homelessness during the pandemic by slowing the CoCs' ability to expand their services to vulnerable homeless populations. The final deadline for the State to spend the remaining 80 percent of its award is September 30, 2022. If CoCs' spending does not increase significantly before the September 2022 federal spending deadline, the State risks losing funding that it could otherwise use to address its homelessness crisis.

The department recognized that it lacked the capacity to manage the ESG-CV program and in June 2021—14 months after the CARES Act passed—it entered into an agreement with a contractor to perform these duties. This contractor's tasks include managing the ESG-CV contracts with CoCs, developing an ESG-CV program manual, monitoring the CoCs' spending, and providing technical assistance. Although the department expects to rely significantly on the contractor to help it administer the program, it has not yet developed a formal plan or implemented any processes and procedures for how it will manage the contract. Given the importance of the work it has assigned to the contractor, the department must take steps to ensure that it properly manages the contract. Without a formal process, the department cannot ensure that the contractor will effectively support CoCs in their efforts to spend the ESG-CV funds allocated to them to provide shelter and other services, such as health care services, to protect individuals who are at risk of or experiencing homelessness.

Additionally, the department has not taken sufficient steps to collect the information necessary to measure the effectiveness of the State's use of ESG-CV funds. Although the federal government required the department to summarize how it intends to use ESG-CV funds and identify outcome measures for those uses, the department's established measures do not account for the effects the pandemic has had, for example, on the costs of delivering homeless services and the ability to do so. Further, the department's measures only track output information, such as the number of people served using ESG-CV funds, rather than outcome information, such as the percentage of people served who remained housed for more than 12 months. HUD and other homelessness organizations have identified several benefits to measuring outcomes instead of just outputs: *outcomes* indicate whether actions have affected the need or problem while *outputs* only provide the results of program activities.

Further, the department does not have plans to analyze outcome data to evaluate whether the projects that the CoCs support with ESG-CV funds perform well and whether the State has effectively used those additional funds to help individuals who are at risk of or experiencing homelessness. The State's Homeless Coordinating and Financing Council recently launched a statewide data warehouse—Homeless Data Integration System (HDIS)—with goals of determining the number of individuals experiencing homelessness in California, gaining insights into the characteristics of such people, determining patterns of services used, evaluating the impact of those services, and identifying gaps in services. Because HDIS is new, the department should determine whether the types of outcome information that the data warehouse collects and reports are sufficient to analyze the effectiveness of the ESG and ESG-CV programs. If not, the department should take steps to collect, analyze, and report its own outcome measures.

Taken as a whole, the department's delayed actions related to the ESG-CV funds raise serious concerns about its role as a statewide leader in addressing California's homelessness crisis. Including the ESG-CV program, the department oversees more than 10 programs that have administered billions of dollars to address homelessness over the last three fiscal years. As it states in its most recent strategic plan, one of the department's objectives is to lead efforts to *end*, rather than *manage*, homelessness. However, the department's delays in providing the CoCs access to the ESG-CV funds when the State was experiencing surging rates of COVID-19 infections, its failure to proactively anticipate challenges and act to address them, and its lack of efforts to measure the outcomes of the programs to which it provides funding raise serious concerns about its ability to provide the leadership the State needs to address its ongoing homelessness crisis.

Summary of Recommendations

To ensure that the State's CoCs are able to use their ESG-CV fund allocations effectively to address the impact of COVID-19 on California's vulnerable homeless population before the upcoming federal deadlines, the department should do the following:

- Work with its contractor to assist CoCs that are at risk of not spending their ESG-CV funds by the federally mandated deadlines. The department should also establish a contingency plan to reallocate ESG-CV funds among CoCs to ensure that the State maximizes the intended benefit of this funding.
- Develop a formal plan and procedures for how it will monitor the contractor's progress in completing contract tasks.

To ensure that it has the data necessary to measure the effect the ESG-CV program has in addressing homelessness, the department should immediately develop and implement a plan to collect outcome information either independently or through HDIS. Also, by March 2022, the department should begin reporting annually the outcome information it collects so that it can demonstrate the effectiveness of its ESG and ESG-CV programs and so that decision makers can use the reported data to inform budget and policy decisions.

Agency Comments

Although the department strongly disagrees with our findings, it plans to implement our recommendations.

Introduction

Background

According to the U.S. Department of Housing and Urban Development (HUD), California has the largest number of people experiencing homelessness in the United States and the problem has grown worse in recent years. In January 2020—when local entities throughout the State performed the most recent count—more than 161,000 individuals were experiencing homelessness in California, representing 28 percent of the total of such individuals in the nation.² Further, that count showed that homelessness in the State had increased nearly 7 percent since January 2019 and 16 percent since January 2007. The total number of people experiencing homelessness includes both individuals who are sheltered, meaning that they are staying in emergency shelters or transitional housing, and individuals who are unsheltered, meaning that they are living on the streets or in places such as parks or cars. In January 2020, more than 113,000 individuals in California were unsheltered. Moreover, researchers and organizations—such as the U.S. Government Accountability Office (GAO) and the National League of Cities—have concluded that the count of individuals experiencing homelessness is likely an undercount of the actual homeless population, particularly for unsheltered individuals.³

The economic impact of the pandemic has exacerbated California's housing crisis and will likely continue to contribute to an increased number of people experiencing homelessness. According to the National Coalition for the Homeless⁴ and the National League of Cities, unemployment, poverty, and lack of affordable housing are some of the primary causes of increases in homelessness.⁵ Even before the pandemic, rising rents and a shortage of affordable housing exacerbated a growing housing crisis in California. In January 2021, the Governor declared that the pandemic had affected every sector of California's economy and caused record-high unemployment. Similarly, the GAO indicated that job loss and evictions resulting from the COVID-19 pandemic may continue to contribute to increases in the size of the homeless population.

² The January 2020 data, which were published in March 2021, are the most recent available. In recent years HUD has typically released homelessness data toward the end of the calendar year or the beginning of the following year.

³ The National League of Cities is an organization composed of leaders from cities and towns with a mission to strengthen local leadership, influence federal policy, and drive innovative solutions.

⁴ The National Coalition for the Homeless is a national network of people who are currently experiencing or who have experienced homelessness, activists and advocates, community-based and faith-based service providers, and others with a mission to end and prevent homelessness as well as other efforts related to homelessness.

⁵ Other causes include domestic violence, mental health issues, and addiction disorders.

Although employers in some sectors are hiring, some individuals do not have the skills necessary for these jobs or are unwilling to switch to a new career. Many individuals are also unwilling or unable to begin working again for reasons related to COVID-19, including fear of getting or spreading the disease and the lack of available childcare. Federal and state laws have temporarily halted eviction filings for tenants who cannot pay rent during the pandemic; however, the federal eviction moratorium is currently scheduled to end on October 3, 2021, and the state moratorium will expire on September 30, 2021. Once these measures expire, many renters may be unable to stay in their current housing.

COVID-19 Poses an Increased Health Risk for Individuals Who Are Experiencing Homelessness

For a number of reasons, individuals who are homeless often face an increased risk of serious illness from COVID-19. According to the Centers for Disease Control and Prevention (CDC), these individuals are at high risk for COVID-19, in part because they may have more difficulty in consistently accessing the necessary resources to avoid contracting the disease. Particularly early in the pandemic—when the CDC published these findings—individuals experiencing homelessness may not have been able to avoid more crowded settings such as homeless shelters, or they may have lacked easy access to sanitary facilities for hand-washing. Moreover, according to various studies and research articles, the homeless population generally has limited access to health care resources, making early detection of COVID-19 unlikely. Early detection not only helps limit others' exposure but also can improve the prognosis of those infected. In addition, according to the CDC, many people experiencing homelessness are older or have underlying medical conditions that increase their risk of developing serious illness from COVID-19. According to HUD, almost a third of California's homeless population is chronically homeless and at increased risk of developing or having some of those medical conditions, such as hypertension and diabetes.⁶

Limited data exist on the number of cases of COVID-19 in the homeless population. Los Angeles County, a county that tracks this information, has reported numbers of COVID-19 cases among people experiencing homelessness that closely mirror the State's reported total COVID infection rates for the county and the State. However, the data reported by the Los Angeles County Department of Public Health and the State COVID Dashboard as of April 2021 show that the COVID-19 death rate for this population in the county was much higher than the

⁶ HUD defines a *chronically homeless individual* as an individual with a disability who has been continuously homeless for at least one year or has experienced at least four episodes of homelessness in the last three years where the combined length of time of the episodes is at least 12 months. It defines a *disability* as a physical, mental, or emotional impairment of long-continuing or indefinite duration that substantially impedes an individual's ability to live independently and something that could be improved by the provision of a more suitable housing condition.

total COVID-19 death rate for the county's and the State's general populations, underscoring the greater risk this illness poses for individuals experiencing homelessness.

The Department Manages a Variety of Programs to Address Homelessness in California

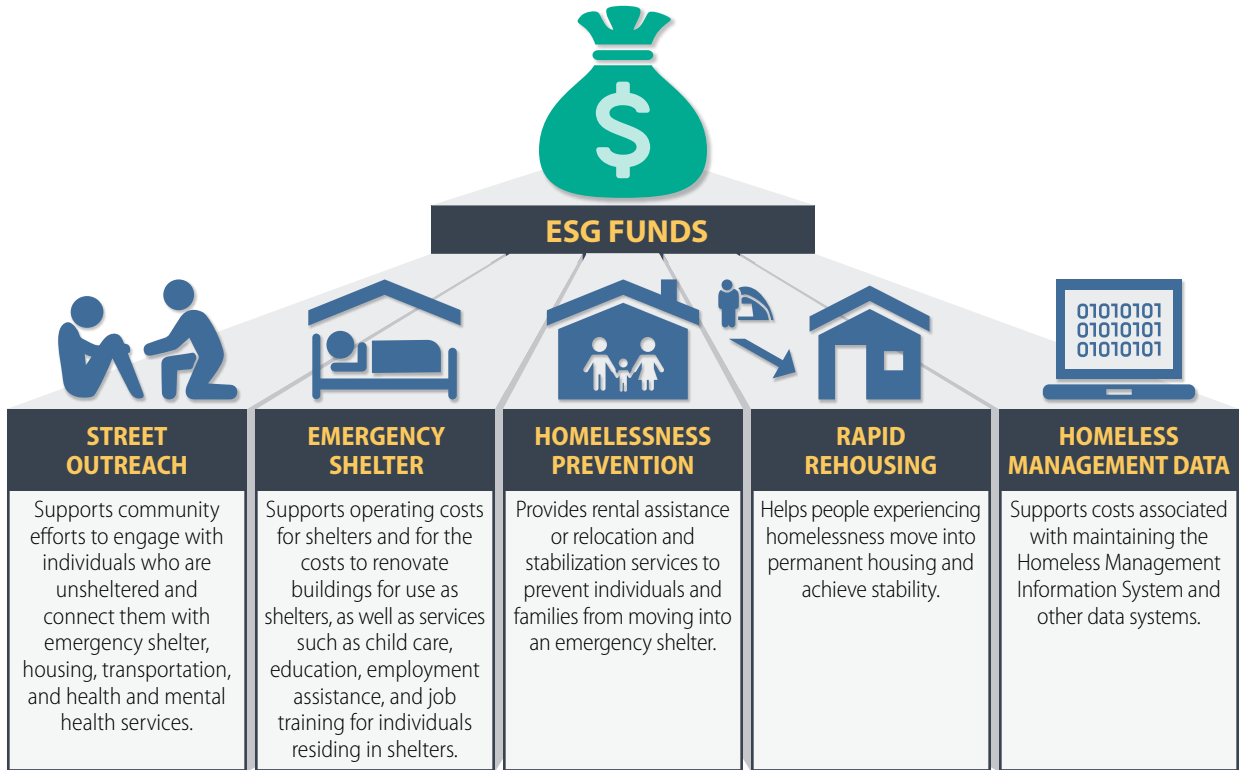
Because the California Department of Housing and Community Development's (department) mission is to promote safe, affordable homes and vibrant, inclusive, sustainable communities for all Californians, it plays a critical role in addressing homelessness. Its core functions are organized into three operational divisions: the Division of Codes and Standards, the Division of Housing Policy Development, and the Division of Financial Assistance. Through the Division of Financial Assistance, the department awards grants and loans for a number of programs, including those that improve communities, increase the supply of affordable housing, and help low-income households and other vulnerable populations secure housing. In addition, the department manages programs that assist individuals experiencing homelessness and prevent homelessness, such as the Emergency Solutions Grant (ESG) program. In fact, the department has overseen more than 10 programs aimed at addressing homelessness over the last three fiscal years—more than any other state agency. The department also conducts research and analysis of California's housing markets, identifies housing challenges, and develops policies to support housing and community development. The department's first strategic goal is to lead the policy agenda in the formation and implementation of policies and programs to address California's diverse housing and community challenges, and one of its objectives for this goal is to be the leader of statewide efforts to end, rather than manage, homelessness.

The Federal Government Provides Funding to Address Homelessness Through the ESG Program

HUD allocates annual federal funding under the ESG to states and other jurisdictions so that they can provide services, shelter, and housing to individuals and families experiencing homelessness and prevent families and individuals from becoming homeless. As Figure 1 shows, HUD specifies the five program components for which ESG funds may be used. The department manages the ESG funds the State receives, which have averaged \$12 million annually since 2015. HUD also allocates ESG funds directly to some of the State's local and county governments based on population, housing, and poverty data.⁷

⁷ These direct allocations fall outside the scope of this audit because the department does not manage them.

Figure 1
ESG Funds May Be Used for Five Program Components



Source: Federal law.

Organizations and Individuals That May Participate in a CoC

- Nonprofit homeless assistance providers
- Victim services providers
- Faith-based organizations
- Governments
- Businesses
- Homeless advocates
- Public housing agencies
- School districts
- Social service providers
- Mental health agencies
- Hospitals
- Universities or colleges
- Affordable housing developers
- Law enforcement agencies
- Organizations that serve veterans experiencing homelessness
- Currently or formerly homeless individuals

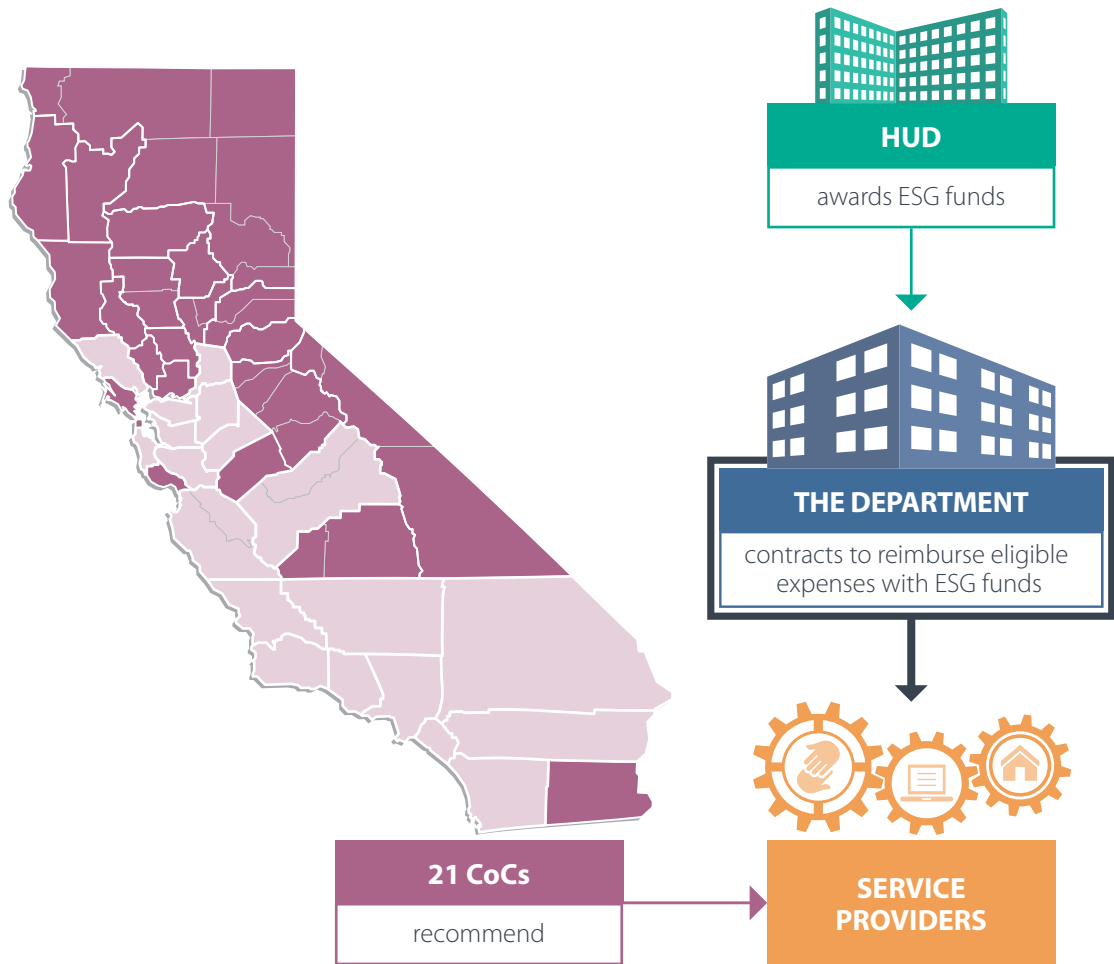
Source: Federal law.

The department allocates the ESG funding it receives from HUD to 40 of the State’s 44 Continuum of Care (CoC) service areas.⁸ As the text box shows, CoCs are groups of organizations and individuals that collaborate on homeless services and homelessness prevention for a specified geographic area. We use the term *CoC area* to refer to the geographic area that makes up each CoC. CoCs are managed by boards consisting of representatives of the member organizations. For the ESG program, the department places each CoC into one of two groups, depending on whether the CoC area contains a city or county that also receives ESG funds directly from HUD. Currently, of the 40 CoCs that receive ESG funds from the department, 19 CoC areas include a city or county that also received ESG funds directly from HUD and 21 CoCs do not.

⁸ Four CoCs—Glendale CoC, Long Beach CoC, Pasadena CoC, and San Francisco CoC—were outside the scope of this audit because they do not receive ESG funds from the department.

The department’s process for providing ESG funds to the 21 CoCs that do not receive funds directly from HUD is fairly straightforward. As Figure 2 shows, the department contracts directly with service providers in those CoCs and reimburses eligible expenses with ESG funds. Specifically, each CoC recommends service providers to the department, which must be private nonprofit organizations or local governments, and the department then contracts directly with those providers to perform allowable ESG activities. Once the service providers have spent funds on eligible expenses, they can submit those expenses to the department for reimbursement.

Figure 2
For 21 CoCs, the Department Contracts Directly With the Service Providers They Recommend



Source: Federal and state law, the department’s website, and the department’s notices of funding availability.

In contrast, the department's process for dispersing funds to the 19 CoCs that include a city or county that also receives ESG funds directly from HUD is more complex. Each CoC recommends to the department a local government entity (known as the *administrative entity*) within the CoC to administer the ESG funds that it receives from the department. The department then contracts with the administrative entity rather than directly with service providers. The administrative entity must collaborate with the CoC and use a competitive process to select and contract with service providers to conduct allowable ESG activities, which the department reimburses with ESG funds. Figure 3 shows the process through which these 19 CoCs receive ESG funding from the department.

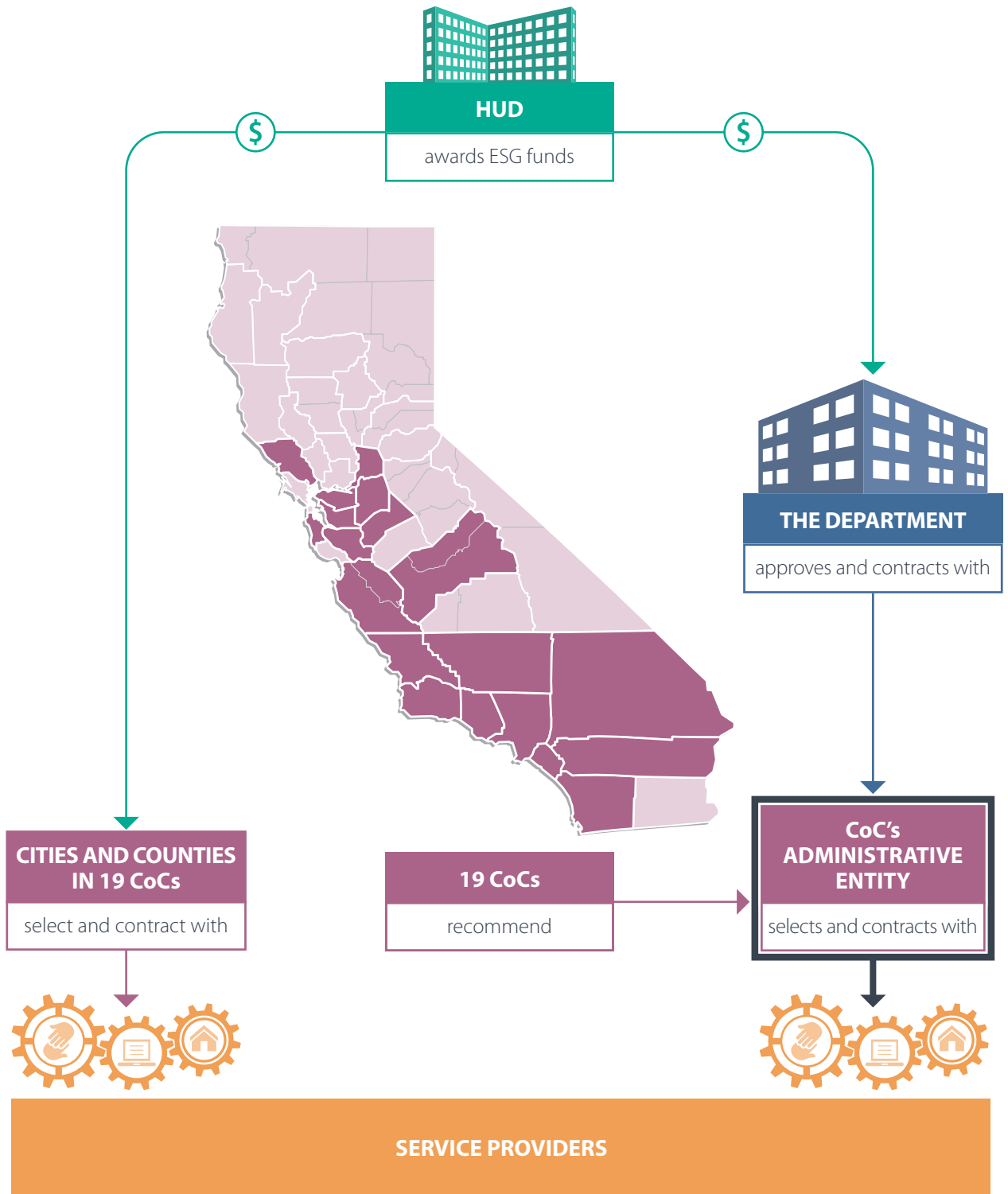
The CARES Act Allocated Significant Additional Funding to the ESG Program

In March 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the onset of the COVID-19 pandemic. The CARES Act allocated a significant amount of ESG funding—in addition to the amount the State usually receives—to address the impact of COVID-19 (ESG-CV funds), and it highlighted the urgent need for states to use these funds to provide services to individuals at risk of or experiencing homelessness during or because of the pandemic. Specifically, the CARES Act requires that states use the ESG-CV funds to prevent, prepare for, and respond to COVID-19 among individuals and families who are experiencing homelessness or receiving homelessness assistance, as well as for the five previously established ESG program components and limited administrative costs.⁹ The CARES Act makes the ESG-CV funds available until September 30, 2022.

In total, HUD allocated \$316 million in ESG-CV funds to the department: \$44 million in April 2020 and \$272 million in June 2020. As Figure 4 shows, the department began accepting applications from CoCs for the first round of ESG-CV funds in June 2020. It finalized contracts with the CoCs for that funding from November 2020 through February 2021. The department opened its applications process for the second round of funding in October 2020, and it began finalizing amendments to its contracts in mid-May 2021. We discuss the awarding and contracting processes in more detail in the Audit Results.

⁹ On July 19, 2021, subsequent to our fieldwork, HUD issued a notice of changes to the requirements for ESG-CV activities. This notice lifted previous limitations to certain costs and announced new eligible ESG-CV activities, such as costs to loan cell phones with wireless plans to program participants to conduct activities necessary for obtaining and maintaining housing, provide laundry services to individuals and families living in unsheltered locations, and provide furniture and household furnishings to program participants while they are receiving rapid rehousing or homelessness prevention assistance.

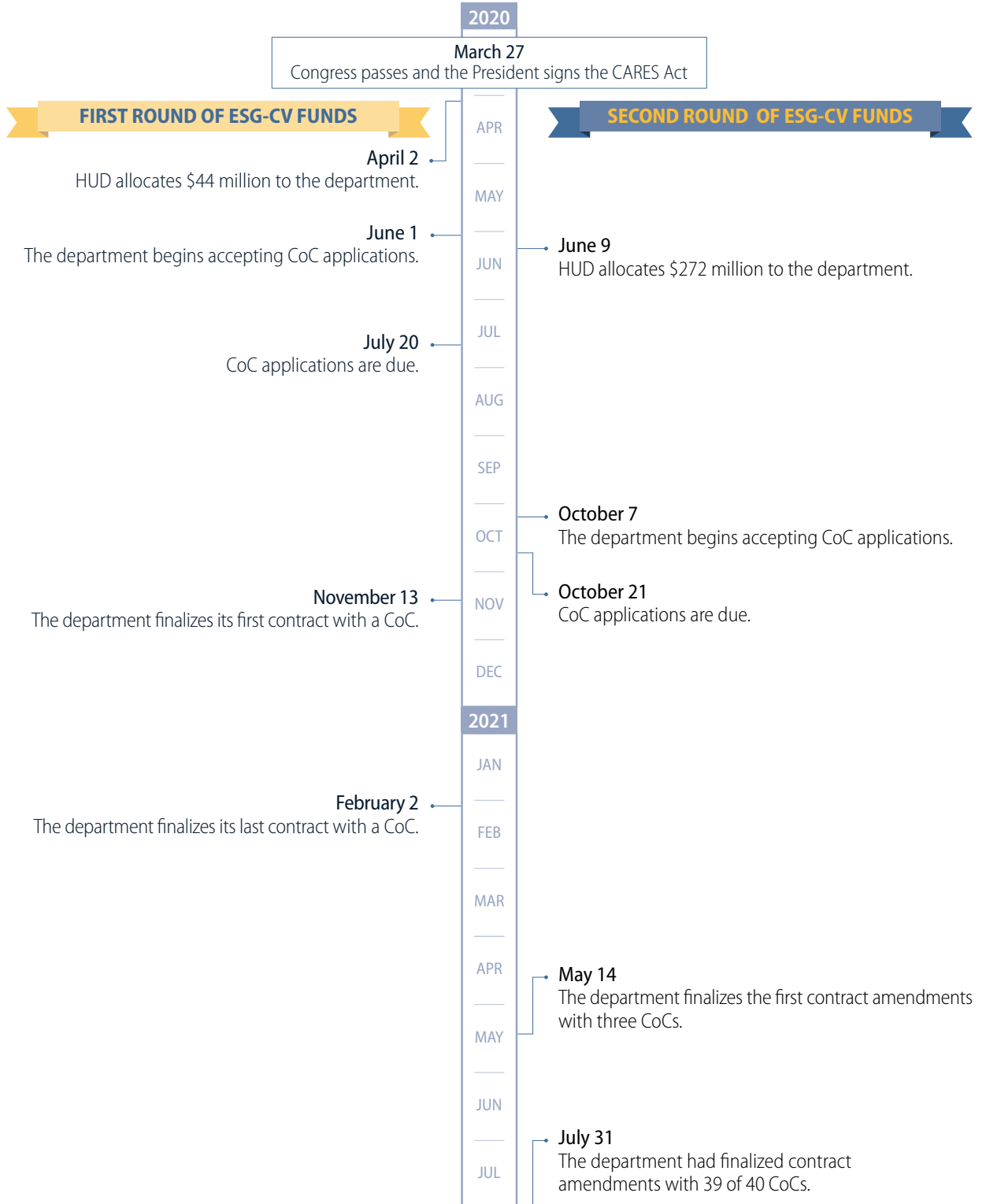
Figure 3
For 19 CoCs, the Department Contracts With Each CoC's Administrative Entity, Which Then Contracts With Service Providers



Source: Federal and state law, the department's website, and the department's notices of funding availability.

In August 2020, our office issued a report designating the State's management of federal funds related to COVID-19 as a high-risk statewide issue. As part of that report, we noted that the department was responsible for managing two programs that received federal COVID-19 funds, including funding for Community Development Block Grants and for the ESG-CV program. Moreover, the department was also responsible for managing the grant program commonly known as Homekey, which received funding from the Coronavirus Relief Fund. The department has also been tasked with administering federal funding the State received for the Emergency Rental Assistance program, which Congress included as part of the Consolidated Appropriations Act, 2021, in December 2020. Because of the significant amount of ESG-CV funds the State received and the potential for the impacts of the pandemic to exacerbate the State's existing homelessness crisis, this audit was essential to determine whether the department is adequately managing the State's ESG-CV funds. Poor management of these funds could negatively affect Californians experiencing homelessness and result in more people becoming seriously ill from COVID-19 or experiencing homelessness because of other impacts of the pandemic.

Figure 4
Timeline of Allocating, Awarding, and Contracting the ESG-CV Funds



Source: U.S. Government Publishing Office, HUD documents, the department’s notices of funding availability, and analysis of the department’s contracts with CoCs.

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Audit Results

The Department Failed to Expedite CoCs' Access to ESG-CV Funds During the Pandemic

The department's failure to accelerate CoCs' access to ESG-CV funds has hampered the State's efforts to rapidly rehouse individuals experiencing homelessness and to promptly provide essential services in emergency shelters during the pandemic. In response to the emerging crisis, HUD allocated \$316 million of ESG-CV funds to the department in 2020—\$44 million in April and \$272 million in June. However, the department did not complete any contracts with the CoCs for the first round of this funding until November 2020, and the majority of the contract amendments for the second, larger round of funding until May 2021. Although the department shortened the time to complete ESG-CV contracts during the pandemic compared to the extremely lengthy time it took to complete regular ESG contracts, it missed critical opportunities to make the funds available to CoCs sooner, such as amending existing ESG contracts rather than creating new ones. These department delays limited CoCs' resources during the pandemic when the homeless population was most in need of emergency services to help reduce the spread of COVID-19.

The Department's Allocation Process for ESG-CV Funds Added Unnecessary Delays and Created Additional Work for Some CoCs

For the fiscal year leading up to the pandemic, the department was extremely slow at providing CoCs access to regular ESG funds. Specifically, for fiscal year 2019–20, the department took between eight months and 19 months to review applications and finalize its contracts with CoCs for the regular funds. When Congress passed the CARES Act in March 2020, HUD acted to ensure states' quick access to the ESG-CV funding by allocating the first round of those funds on April 2, 2020, six days after Congress passed the CARES Act. Because Congress intended ESG-CV funds to help individuals experiencing homelessness during the pandemic and it approved the federal funding quickly, it would have been unreasonable for the department to follow its usual time-consuming processes for allocating and distributing ESG funds.

In fact, both the federal government and the Governor took steps to enable the department to quickly provide CoCs with access to ESG-CV funds. Specifically, federal regulations for the ESG program require states to prepare an action plan each year that describes how they intend to distribute the ESG funds to address their priority needs and specific objectives. For the ESG-CV funds, however, HUD required states to amend their most recently

approved ESG action plans to include the ESG-CV funds or to include the ESG-CV amounts in their fiscal year 2019–20 annual action plan submissions. In response, the department amended its fiscal year 2019–20 plan in mid-April 2020. Similarly, in late May 2020, the Governor issued an executive order that eliminated a requirement that the department follow its regular complex process for allocating ESG funds. Because of the executive order, the department was able to determine each CoC's potential allocation of ESG-CV funds by using a formula that considered factors such as homeless data, poverty rates, and COVID-19 infection rates throughout the State. The Governor's executive order also eliminated other administrative requirements, including the requirement that the department distribute some of the funds competitively. With its alternate process, the department also told CoCs that it would review their applications as soon as it received them and issue awards on a first-come, first-served basis.

The department failed to take steps that would have ensured the CoCs' ability to quickly access the allocations of ESG-CV funds.

However, the department failed to take steps that would have ensured the CoCs' ability to quickly access their allocations. Although the department could have amended its existing contracts with CoCs and service providers for fiscal year 2019–20 ESG funds to add the ESG-CV funds, it instead chose to enter into new contracts with each CoC. As we describe in detail in the next sections, this time-consuming process unnecessarily delayed the CoCs' access to the funds during critical periods when the State was experiencing high numbers of COVID-19 cases.

Moreover, the process that the department chose for distributing the ESG-CV funds also created additional work for some CoCs. As we explain in the Introduction, the department usually contracts directly with service providers when providing ESG funding to 21 of the CoCs, while for the other 19 CoCs, it contracts with an administrative entity within the CoC. However, for the ESG-CV funds, the department entered into contracts with all 40 CoCs. As a result, the CoCs had to in turn allocate their ESG-CV funds by contracting with service providers—a task that 21 of the CoCs typically have not conducted under the department's regular ESG process. The extra step of entering and managing these contracts creates additional work for the CoCs at a time when they are already faced with the significant task of determining how to best use the ESG-CV funds to help mitigate the effects of the pandemic on the homeless populations they serve.

The Department Took From Four to Seven Months to Provide CoCs With Access to the First Round of ESG-CV Funds

The department's delays in providing CoCs' access to ESG-CV funds has hampered the State's efforts to provide prompt assistance to the homeless population to mitigate the impacts of COVID-19, such as

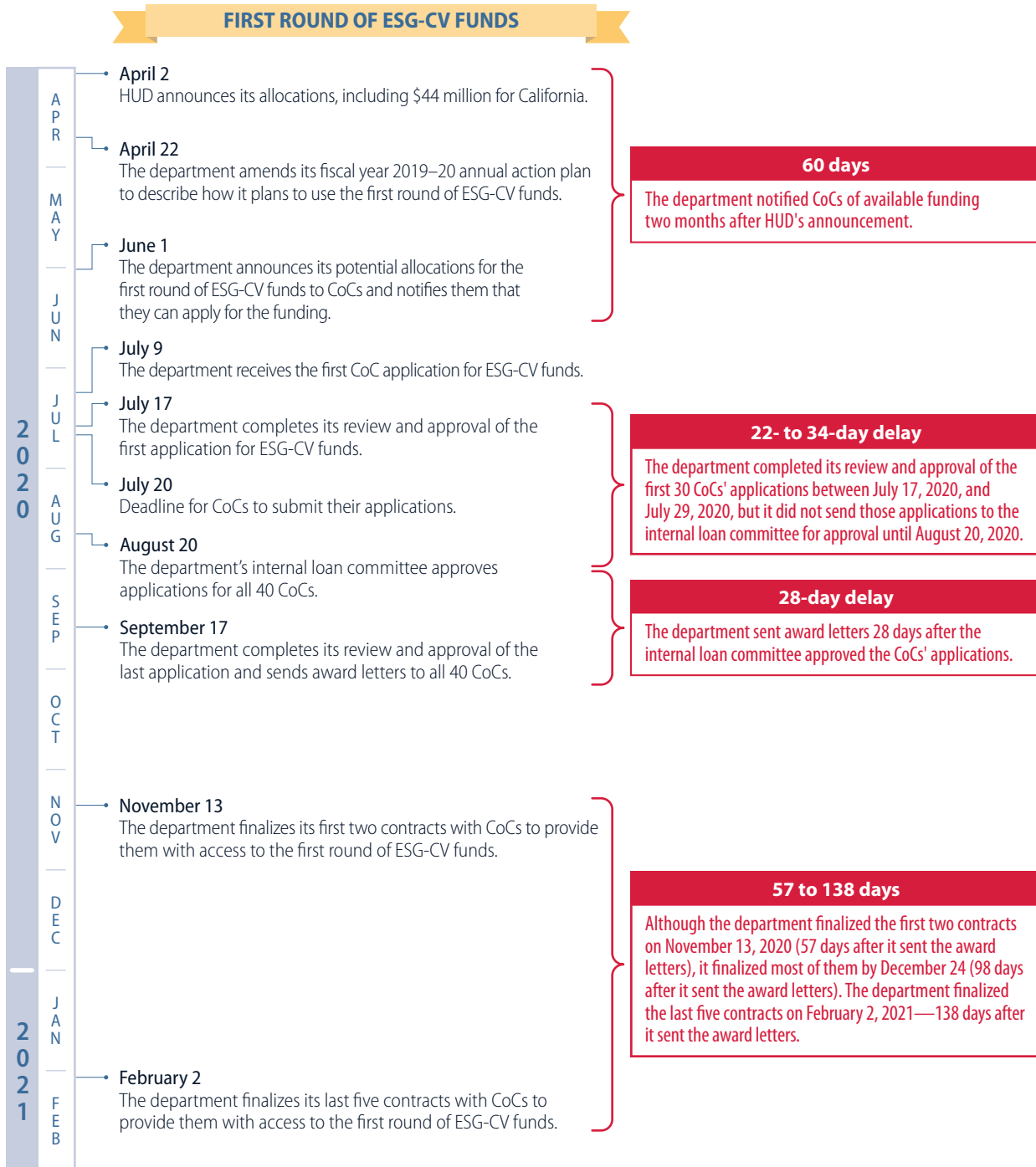
rapidly rehousing individuals and providing essential services in emergency shelters. Although the department completed the ESG-CV contracts more quickly than it completed the regular ESG contracts for fiscal year 2019–20, it missed opportunities to further expedite the process. The department provided four CoCs access to ESG-CV funds in November 2020—roughly four months after they submitted their applications, but most CoCs did not receive access to these funds until December 2020—five months after submitting their applications. Moreover, six CoCs did not receive access to ESG-CV funds until January 2021 and five CoCs did not receive access until February 2021, seven months after they submitted their applications.

As Figure 5 shows, on June 1, 2020, the department announced its allocation of the first round of ESG-CV funds to CoCs and notified them that they could apply for the funding. The department’s program staff began reviewing applications as it received them. However, the program unit that conducted the review and approval of applications did not immediately send the approved applications to the next step in the process, which was review by the department’s internal loan committee. Instead, it held the applications until it had approved nearly all of them. This decision delayed the processing of the earlier applications it received for between 22 and 34 days, as Figure 5 shows. The department’s program staff stated that it did not send the applications to the internal loan committee sooner because it was updating the language in the contract template to meet the requirements of ESG-CV funds, although they could not remember the details of why updating the language in the contract template took almost four months to complete. In part, program staff explained that it was waiting for guidance from HUD on flexibilities provided by the CARES Act in order to amend the language in its contract template, yet that guidance was available in May 2020. Further, program staff explained that the department used a linear approach in which it went from one unit to the other—contracts, legal, accounting, and program—to make revisions to the contract template. The lengthy processes and unexplained delays conflict with the department’s own guidance to CoCs, which strongly encouraged them to submit their applications early because the department would review and approve the applications and award ESG-CV funds on a first-come, first-served basis.

Further, there were also delays after the next step in the department’s review and approval process—review by its internal loan committee. Although the internal loan committee approved the CoCs’ applications in late August 2020, the department did not notify CoCs through award letters that it had approved their applications for nearly a month—a 28-day delay that it was unable to explain.

The department missed opportunities to further expedite the process of completing ESG-CV contracts.

Figure 5
The Department Took 10 Months to Make the First Round of ESG-CV Funding Available to All CoCs



Source: Analysis of the department's contracts with CoCs, and information from the department and HUD's websites.

After it sent the award letters, the department also did not take any steps to expedite its regular contracting process to make the ESG-CV funds available more quickly to CoCs. As Figure 5 shows, the department's process to finalize these contracts took between 57 and 138 days. As described earlier, the department's contract approval process includes review and approvals by several units; however, the department has not established time frames for how long each unit should take to approve contracts. When we asked why the department's process to finalize contracts after sending the award letters to CoCs took so long, program staff explained that this was a normal length of time to complete the contracting process. Again, this delay in making funds available to the CoCs was unreasonable given the circumstances. Congress intended these funds to help individuals experiencing homelessness during the pandemic, yet the department did not take steps to streamline its processes so that the CoCs could access and use these funds promptly. As we discuss later, most of the CoCs we spoke with indicated that the department's delays hampered their efforts to contract with providers to begin delivering services to individuals experiencing homelessness who were at high risk of contracting and spreading COVID-19.

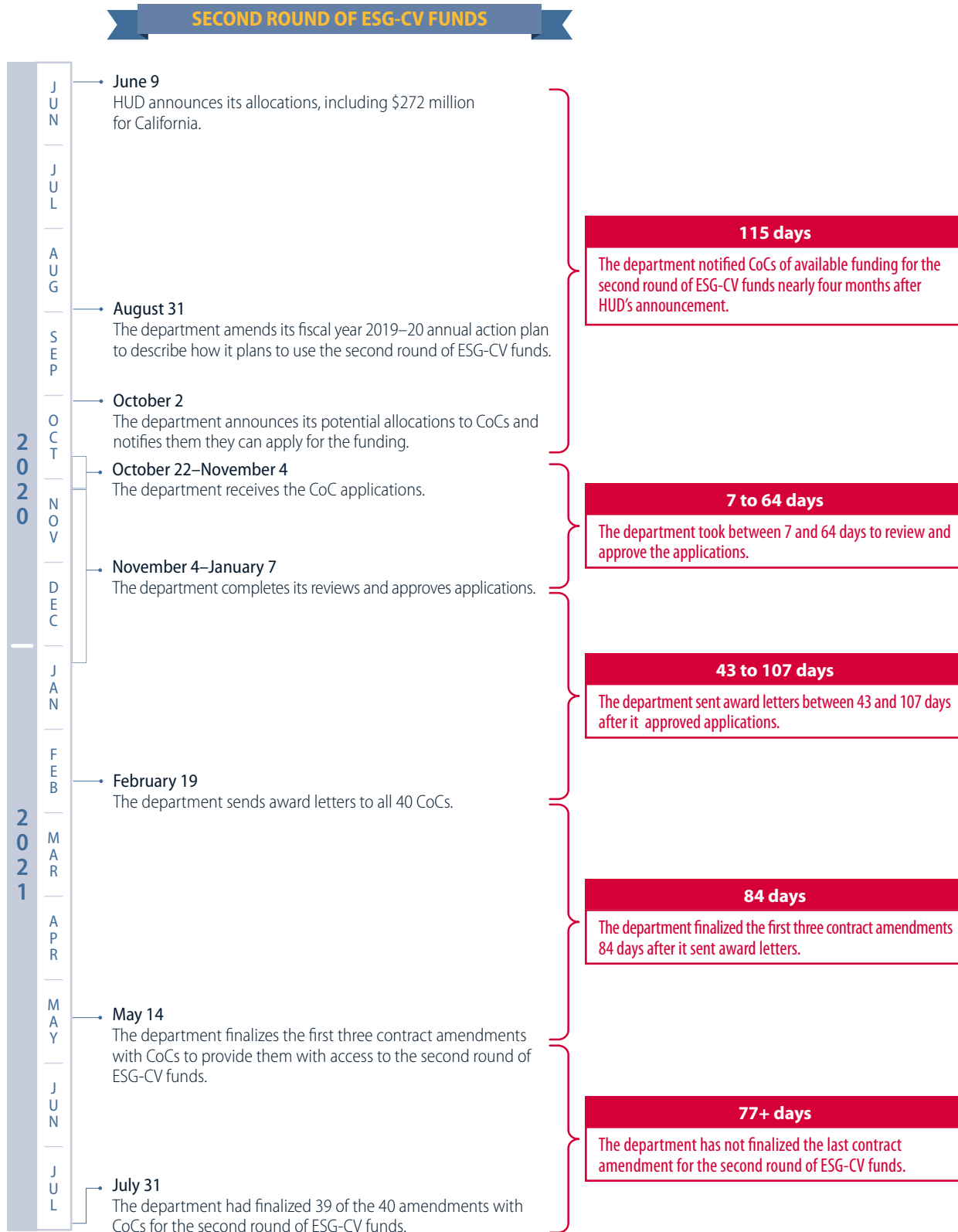
The department did not take steps to streamline its processes so that the CoCs could access and use the ESG-CV funds promptly.

The Department Only Recently Provided CoCs With Access to the Second Round of ESG-CV Funds

In early June 2020, HUD announced the second round of ESG-CV funds, with an allocation of \$272 million to the department. Of this amount, the department designated \$253 million for the CoCs and \$19 million for its own administration of the program. The chief of the Federal Programs Branch (federal programs branch chief), who is responsible for managing the ESG program, stated that the department decided to amend its ESG-CV contracts with CoCs to include the second round of ESG-CV funds because it thought it would be an effective way to manage the contracts. However, the department took four months longer to begin amending the contracts than it did to complete the initial ESG-CV contracts because of delays in various steps of the contracting process.

For example, as Figure 6 shows, the department did not notify the CoCs of available funding and invite them to apply until early October 2020—nearly four months after HUD announced its allocation to the department and almost two months longer than it took the department to announce the first round of funding. The department's program staff indicated that it took longer to issue its announcement because it was in the process of amending its annual action plan to include the second round of ESG-CV funds. Program staff also stated that the department needed to incorporate new language into its notification letter to the CoCs

Figure 6
The Department Took a Year to Make the Second Round of ESG-CV Funding Available to CoCs



Source: Analysis of the department's contract amendments with CoCs, and information from the department and HUD's websites.

to invite them to begin submitting applications for the second round of ESG-CV funding. Specifically, unlike the first round of ESG-CV funds, the notification for the second round included information about the requirement for CoCs to consider racial equity when contracting with service providers. However, we believe that at least part of the four months the department spent updating its notification letter was unreasonable because HUD provided guidance on considering racial equity beginning in March 2020.

The department was also slower to review and approve the CoCs' applications for the second round of ESG-CV funds. Similar to its process in the first round of funding, the department encouraged CoCs to submit their applications early because it said it would review and approve the applications on a first-come, first-served basis. However, the department again waited until it had approved all 40 CoCs' applications before it sent any award letters to the CoCs. After receiving the CoCs' applications, the department took between three and four months to send award letters to CoCs, which was one to two months longer than it took to send these letters for the first round of funds. Although the department approved nine applications in November 2020, another 30 in December 2020, and one in early January 2021, it did not send the award letters to the CoCs until more than a month later, on February 19, 2021. When asked about the delays, the department's program staff stated only that it may have been because of increased workload as it was also managing first round ESG-CV contracts at the same time. Had the department processed the applications as it received them, many of the CoCs would have received notification of their award amounts months earlier so they could begin their processes to identify and contract with eligible service providers.

Moreover, the department did not complete any contract amendments, which provided the CoCs with access to the second round of ESG-CV funding, until mid-May 2021. As of the end of July 2021, it had completed amendments for 39 of the 40 CoCs. The department's program staff stated that it was unsure of the specific reasons for its delays in completing these amendments. However, they explained the department's increased workload in completing contracts for other programs may have contributed to the delays. For example, in December 2020, Congress passed the Consolidated Appropriations Act, 2021, that included \$25 billion for the Emergency Rental Assistance program and required the funding to be spent before December 31, 2021.¹⁰

The department did not complete any contract amendments, which provided the CoCs with access to the second round of ESG-CV funding, until mid-May 2021.

¹⁰ The American Rescue Plan Act of 2021 passed in March 2021 and extended this deadline to September 30, 2022.

Had the department taken additional steps to ensure that it completed the contracts and contract amendments more quickly, the CoCs would have had access to the ESG-CV funds during the height of the pandemic.

The department is responsible for administering the \$1.5 billion that the State received for this program. We believe that the increased workload from this competing priority supports our conclusion that the department should have taken steps to expedite processing the contract amendments for the ESG-CV funds. Specifically, had the department expedited its processes and ensured that the CoCs had access to the ESG-CV funds sooner in 2020, it would have been able to avoid some overlapping priorities, such as the Emergency Rental Assistance program. Most importantly, however, had the department taken additional steps to ensure that it completed the contracts and contract amendments more quickly, the CoCs would have had access to the ESG-CV funds when they needed them most: during the height of the pandemic, when the need to provide emergency housing and support for the homeless population and those at risk of homelessness was at its peak.

The Department's Missteps and the CoCs' Slow Spending May Cause the State to Miss the Final Federal Deadline

Congress moved quickly to make ESG-CV funds available to states, and we expected to see the department act with the same urgency to get the funds to the State's CoCs. According to the State's COVID-19 dashboard, the number of new daily reported cases of COVID-19 in California began to increase in June 2020, reaching more than 12,000 cases by July 2020. This first spike of increased COVID-19 cases should have spurred the department to expedite its processes to provide CoCs with access to ESG-CV funds as quickly as possible. Instead, the department's delays prevented the CoCs from accessing even the first round of ESG-CV funds until the last months of 2020. New cases of COVID-19 rose to more than 40,000 a day between mid-December 2020 and mid-January 2021. Nonetheless, the department only began completing the amendments to allow CoCs to access the second, larger round of ESG-CV funds in mid-May 2021.

The department's delays not only hindered CoCs from providing critical services to the most vulnerable populations earlier in the pandemic, but they also created the risk that the CoCs may not be able to use all the ESG-CV funds by the September 2022 federal spending deadline. To ensure that recipients spend ESG-CV funds quickly to address the public health and economic crises caused by the pandemic, HUD established progressive spending deadlines. The first of these deadlines is September 30, 2021. If the State does not spend at least 20 percent of its total \$316 million award, or \$63 million, by that date, HUD may recapture up to that amount and reallocate it to other eligible entities. The State then has until March 31, 2022, to spend \$253 million—80 percent

of its total \$316 million award—or face a similar penalty. On June 17, 2021, HUD emailed the department to remind it about the September 2021 expenditure deadline and that it could meet the deadline through the accrual of ESG-CV costs reported in its quarterly reports.¹¹ In late July 2021, HUD also sent a letter to the department expressing its concern that it would not meet the expenditure deadline for its ESG-CV allocation. According to the federal government, the State had spent only \$2 million in ESG-CV funds through July 2021. This amount is a tiny fraction—less than 1 percent—of the \$316 million in ESG-CV funds allocated to the State. In contrast, the five states that received the next highest amounts of state ESG-CV funding after California had spent between 8 percent and 19 percent of their funds. Further, through July 2021, the department had reimbursement requests from only 25 CoCs, totaling just \$11 million, but the department had not processed most of those requests, which are therefore not yet reflected in the federal spending data.

In July 2021, the department requested CoCs to include in their reported expenditures any expenditures they or their service providers had incurred, including accruals. At the end of July 2021, the department reported to HUD total expenditures through June 30, 2021, of \$55 million, including \$35 million in accruals. Because the department's reported expenditures include a large amount of accruals and the department has not yet verified or validated the information CoCs reported, there is risk that the expenditures are overstated.

Although the department's most recent reported expenditures indicate that the State will likely meet the September 2021 spending deadline, there is still a risk that the CoCs may not spend all of their funds before the final deadline of September 30, 2022, as established by the CARES Act. The department's delays in completing the contracts for ESG-CV funds have in turn slowed the CoCs' ability to expand their services to the vulnerable homeless population. The department must have contracts with CoCs before providing reimbursement for their eligible expenses. Further, some of the CoCs will not begin processing contracts with service providers until their contracts with the department are finalized. The completion of these steps has delayed the provision of services and the beginning of the reimbursement process. In fact, five of the six CoCs we spoke with noted that the department's delays in finalizing contracts for these funds hampered their ability to contract with providers to begin delivering services, and one of the six CoCs expressed concerns about its ability to spend all of its allocated ESG-CV funds.

Because the department's reported expenditures include a large amount of accruals and the department has not yet verified or validated the information CoCs reported, there is risk that the expenditures are overstated.

¹¹ An accrual is an accounting term for an expense that has been incurred but not yet paid.

CoCs may also struggle to spend all of their ESG-CV funds because the department allocated the second, larger round of funding to the CoCs based on limited information about their ability to spend the funds. As part of their applications for the first round of ESG-CV funds, the department asked each CoC to estimate the amount of additional funding—beyond the allocation for which it was applying—that it could use before July 30, 2022, and to describe how it would use the additional funding. When HUD subsequently awarded the second round of ESG-CV funds to the State in June 2020, the department generally allocated the CoCs all or nearly all of the funding they had requested in their first-round applications.

We reviewed the information eight CoCs provided to the department before it allocated the second round of funding and found that the department did not require the CoCs to include cost estimates. Likely as a result, only one of the eight CoCs provided such cost estimates. The other seven CoCs merely indicated the activities they planned to support with the funding, such as emergency shelter and rapid rehousing. Further, in subsequent interactions with the department, some CoCs eliminated activities from their plans but did not adjust the total amounts they were requesting nor did the department require the CoCs to explain why these plan changes did not result in revisions to the total amounts of funding they were requesting. Specifically, in August 2020, the department sent the CoCs an email asking them to reevaluate the amount and justification information they had previously provided. The department also encouraged the CoCs to prioritize the second round of funding for emergency shelter and rapid rehousing activities rather than for homeless prevention. Although three of the eight CoCs indicated they were no longer planning to fund homeless prevention activities, they did not revise the amount of funding they requested to correspond with the activities they were eliminating, nor did the department ask for clarification from these CoCs to explain the unchanged amounts or to get assurance that the CoCs would be able to use all of their requested funding.

The department does not have a formal process for monitoring the CoCs' spending to ensure that they meet the final federal spending deadline.

Compounding the concerns about whether the CoCs will be able to spend all of their allocations, the department does not have a formal process for monitoring their spending to ensure that they meet the final federal spending deadline. The CoCs' ESG-CV contracts require them to submit expenditure detail with all of their requests for reimbursement and to retain supporting documentation for each expenditure. However, program staff explained that their processes for monitoring and tracking the CoCs' spending of ESG-CV funds are informal. They stated that they have had some meetings with CoCs to discuss their spending plans and have sent emails to CoCs requesting their estimated spend-down rates to meet the expenditure deadlines. The staff further stated that if CoCs report they will not meet the deadlines, the department will

require them to meet to discuss and collaborate on their spending plans. Program staff also stated that after these meetings, the department will develop a contingency plan to ensure that the State can spend all the ESG-CV funds by the September 2022 federal deadline. However, this informal approach may not provide the level of monitoring necessary to identify potential problems. As we discuss in the next section, the department recently hired a contractor to formally track and monitor CoCs' spending, among other tasks. However, until more formal monitoring of the CoCs' spending begins and the department develops a contingency plan to ensure that the State spends all of the funds HUD awarded to it, the risk will remain that it will not spend the ESG-CV funds by the federal deadline.

Until more formal monitoring of the CoCs' spending begins, the risk will remain that the State will not spend the ESG-CV funds by the federal deadline.

The Department Lacks a Formal Plan and Processes to Monitor the Contractor It Hired to Manage the ESG-CV Program

To expand its capacity to manage the State's ESG-CV funds, the department hired a contractor to provide expertise and technical assistance both to its own staff and to the CoCs. The contract lists several tasks that the contractor is responsible for completing, such as developing the department's policies and procedures to manage the ESG program, tracking and monitoring the CoCs' spending of the ESG-CV funds, and monitoring the CoCs' compliance with federal program requirements. In June 2021, the department awarded the contract—with a total value of \$7.6 million—to a firm with expertise in administering federal programs.

Although we recognize the need for due diligence when contracting, we do not believe that the department displayed the necessary urgency in hiring this contractor. The federal programs branch chief stated that the department knew in June 2020—when HUD announced the second round of funding amounts—that it needed a contractor to manage the ESG-CV program and to ensure that the State could use all of the ESG-CV funds by September 30, 2022. Because of the size of the contract, the federal programs branch chief believed it was essential that the department follow a clear and thoughtful protocol to develop its request for proposals. However, we question why it took eight months from the department recognizing the need in June 2020 to issuing its request for proposals in February 2021. The federal programs branch chief stated that the department's ESG program unit, along with its legal and administrative divisions, evaluated staffing and program needs, CoCs' needs, and overhead costs before seeking funding approval from the Department of Finance to hire a contractor. The branch chief also stated that the department did not have enough staff to simultaneously develop the request for proposals and to amend its annual action plan for how it would use the second round of

Given the September 2022 deadline for spending the ESG-CV funds, taking a year to get a contractor in place seems particularly problematic.

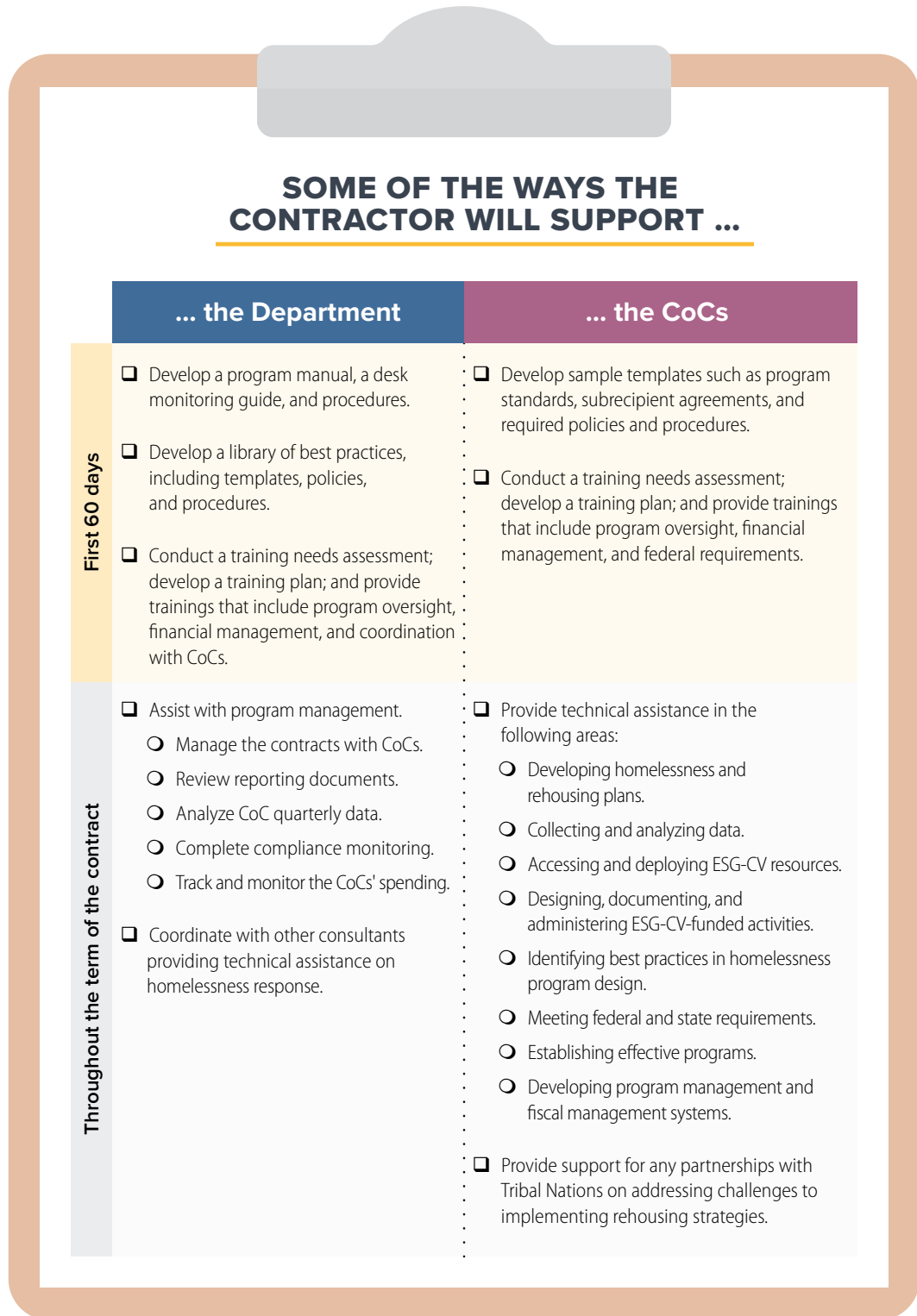
ESG-CV funds, and amending the annual action plan took priority. Finally, she explained that the department sought guidance from HUD to develop the scope of work included in the request for proposals. Further, it took another four months to complete the contracting process. Given the September 2022 deadline for spending the ESG-CV funds, taking a year to get a contractor in place seems particularly problematic, leaving the department and the CoCs without the additional support that the department knew in June 2020 would be needed to manage the ESG-CV program.

The scope of work for the contract includes many tasks. As Figure 7 shows, one of the contractor's key responsibilities will be monitoring the CoCs' spending to ensure that they are spending funds appropriately. Other key responsibilities include monitoring compliance with federal requirements for the ESG-CV program and supporting CoCs by providing technical assistance on their design, documentation, and administration of ESG-CV-funded activities.

Some of the key tasks for which the department has made the contractor responsible are deficiencies the department has known about for at least two years and should have already addressed. In particular, to ensure that the State complies with federal regulations for use of the ESG-CV funds, the department has tasked the contractor with updating or developing a number of its guiding documents, including a program management manual; a desktop monitoring guide; and other guidelines, policies, and procedures that HUD requires. These tasks are critical because the department generally lacks guidance documents for its ESG program. In fact, in a 2019 monitoring review report, HUD identified the department's lack of written policies and procedures for meeting ESG programmatic, fiscal, and administrative requirements as a deficiency. Without policies and procedures, the department cannot ensure that it is properly guiding CoCs on compliance with program requirements and is at risk of not receiving federal funds in the future if it does not comply with federal requirements to have such policies and procedures.

HUD identified the causes of the deficiency in documentation at the department as reductions in staff levels, staff turnover, and a staff reorganization that limited its capacity to generate these guiding materials. The department confirmed it still has not developed certain policies and procedures for the ESG or the ESG-CV program because it did not have enough staff to do so and therefore assigned these tasks for the contractor to complete. Because the department has lacked policies and procedures since at least 2019, it was not prepared to update them to adequately manage the ESG-CV funds.

Figure 7
The Department Has Tasked the Contractor With Critical Activities Related to the ESG and ESG-CV Programs



Source: The department's contract with the contractor hired to manage the ESG-CV program.

The department had not yet developed a formal plan or reporting mechanism for how it will track the contractor's progress and review its work products.

Given the importance of the tasks that the department has assigned to its new contractor, we are concerned that the department does not yet have a formal plan or reporting mechanism for tracking the contractor's progress and reviewing its work products to ensure that it meets federal program requirements. As we previously describe, the department has known since June 2020 that it would need a contractor to manage the ESG-CV funds. However, the department only recently began preparing to manage and evaluate the contractor's work. The *State Contracting Manual* requires state agencies to assign internal staff who are responsible, among other things, for monitoring progress of work to ensure that the services are performed according to the quality, quantity, objectives, time frames, and manner specified in the contract. The department will rely on the contractor to a significant degree to ensure that the State uses ESG-CV funds effectively and efficiently; thus, the department must take steps to ensure that it properly manages the contract.

According to the federal programs branch chief, the department plans to use the contractor's scope of work as the basis for a plan for tracking the contractor's progress and for reviewing work products to ensure that the contractor meets federal program requirements. She also stated that the department's new contract manager, hired in April 2021, has started developing a contract monitoring plan spreadsheet. However, when we spoke with the new contract manager, she stated that the department had not yet developed a formal plan or reporting mechanism for how it will track the contractor's progress and review its work products. For example, the department had not determined how it would review the various task deliverables and ultimately determine whether the deliverables met the department's needs and expectations. In the absence of such a plan, we are not able to evaluate the adequacy of steps the department plans to take to ensure that the contractor provides the services and deliverables necessary for the State's ESG-CV program to comply with federal guidelines and to provide the maximum benefit possible to the homeless population it is intended to serve.

Measuring the Impact of ESG-CV Funds on the State's Homelessness Crisis Would Enable the Department to Improve Its Homelessness Programs

The first goal in the department's strategic plan is to be a statewide leader in the formation and implementation of policies and programs to address California's diverse housing and community challenges, with an objective of leading the effort to end—rather than manage—homelessness. In the past three fiscal years, the department has overseen more than 10 programs to address and prevent homelessness, including the ESG and ESG-CV programs. According to its chief deputy director, the department's main focus—and the policy area where it has the greatest impact on homelessness—is the construction of new housing for those experiencing homelessness.

The regular ESG program provides funding for activities that often bridge the gap between individuals who are experiencing homelessness and long-term solutions. As we discuss in the Introduction, the ESG program provides funding for street outreach, which involves connecting individuals living on the street with available resources, such as emergency shelter, housing, transportation, and health and mental health services. The ESG program also provides funding to support emergency shelters and housing for individuals who are experiencing homelessness or are at risk of becoming homeless. According to the deputy director who oversaw the ESG program until February 2021, the ESG program is the first important step in getting individuals off the street, sheltered, rapidly rehoused, and brought into a continuum of resources, such as transportation and emergency health services, in order to regain stability through permanent housing. The ESG-CV funds support the same activities as the regular ESG program, with the additional requirement that they be used to prevent, prepare for, and respond to COVID-19 among individuals and families who are experiencing homelessness or receiving homelessness assistance.

The regular ESG program has provided a consistent amount of funding to the department over the last five fiscal years. The department has, in turn, provided most of this funding through contracts to the same CoCs and many of the same service providers each fiscal year. However, the large amount of additional federal funding provided through the ESG-CV program from the CARES Act creates a meaningful opportunity for the department to evaluate how effectively various new and existing projects are working to address homelessness throughout the State. For example, one CoC we spoke with stated that it was using ESG-CV funds to implement a new program with a local university to provide health screening to large encampments of unsheltered people. Additionally, some of the CoCs we spoke with were able to award ESG-CV funds to service providers that do not typically receive regular ESG funding. By measuring the impact of this additional funding on the State's homelessness crisis, the department could identify the approaches and programs that make a meaningful difference in addressing homelessness.

Although HUD required the department to summarize the priorities and specific objectives it intends to initiate or complete using ESG-CV funds and to identify outcome measures for those priorities and objectives, the department has not established realistic outcomes to measure the effect that the ESG-CV funds have on homelessness. The outcome estimates the department did develop are unreasonable because they use pre-pandemic cost assumptions that do not account for the effects the pandemic has had on the costs of homelessness services and the ability to deliver them. For example, the department reported that the State provided overnight shelter to 10,000 people before the pandemic at an average cost of \$257 per person. Using this

Although required, the department has not established realistic outcomes to measure the effect that the ESG-CV funds have on homelessness.

pre-pandemic cost per person, the department estimated that the ESG-CV funds would allow the CoCs to provide emergency overnight shelter to almost 500,000 people. However, the department did not account for additional pandemic-related costs to operate shelters, such as costs to purchase and provide personal protective equipment to people in emergency shelters. Moreover, the estimates do not consider the costs associated with any decreased capacity in emergency shelters related to social distancing requirements or closures because of positive cases of COVID-19.

Output Versus Outcome Measures

Output: The direct products of program activities. They are usually presented in terms of the volume of work accomplished (for example, the number of participants served), but they do not describe whether the program is meeting its goal.

Outcome: Benefits or changes among clients during or after participating in program activities. Outcomes indicate how the need or problem is affected by the actions and demonstrate whether the program works (for example, the percent of participants who remained housed for more than 12 months).

Source: National Alliance to End Homelessness, *What Gets Measured, Gets Done: A Toolkit on Performance Measurement for Ending Homelessness and HUD, Adopting an Outcomes-Based Approach for Lasting Impact*.









Most importantly, the department's current outcome measures focus only on output information, such as the types of services the CoCs have provided and the number of people they have served. HUD and other homelessness organizations differentiate between outcomes and outputs and identify several benefits to measuring outcomes instead of just outputs. As indicated in the text box, outcomes identify whether actions have made a difference while outputs provide the context to explain results. Both outputs and outcomes are necessary to measure performance. However, as Figure 8 shows, the department has developed only the output measures it expects the State to achieve with ESG-CV funds.

Further, the department has not historically collected or analyzed data to determine the effectiveness of the CoCs' spending of ESG funds

in addressing homelessness through outcome measures, like the potential ones in Figure 8, and it currently does not have plans to do so. The deputy director responsible for overseeing the federal programs acknowledged that there is a cultural shift toward tracking long-term outcome and impact information. However, he also stated that doing so is not currently a federal requirement. Nonetheless, we believe taking steps now to measure outcomes is critical not only for understanding how well the State uses the ESG-CV funding but also to inform its future efforts to reduce or eliminate homelessness.

The department does not report outcome information for any of its homelessness programs. It issues an annual report that describes its accomplishments during the previous fiscal year; the most recent report covered fiscal year 2019–20. The department reported a number of outputs related to fighting homelessness, such as total amounts awarded and the number of apartments and homes that funding preserved, created, or rehabilitated. However, it did not report outcome measures that describe whether its actions were effective in reducing the number of individuals who are homeless or at risk of becoming homeless.

Figure 8
Because the Department Measures Only Output Information, It Is Missing an Opportunity to Understand the Effectiveness of the ESG-CV Program

OUTPUT MEASURES	POSSIBLE OUTCOME MEASURES
 Number of households assisted through rapid rehousing.	 Percentage of households experiencing homelessness that remain in permanent housing for a designated length of time.
 Number of people served through emergency shelter.	 Reduction in average length of stay (number of nights) in shelters.
 Number of people who received street outreach services.	 Reduction in number and percentage of people who reappear in the homeless services system within a specified period of time after exiting the system.
 Number of people who received homelessness prevention services.	 Percentage of individuals who avoided becoming homeless because they received rental assistance or other housing.

Source: The department’s fiscal year 2019–20 annual action plan’s third amendment, and guidance on measuring outcomes from HUD and the National Alliance to End Homelessness.

We noted that the State of Washington, on the other hand, collects and analyzes several output and outcome data points about each of its homelessness projects throughout the state. For example, it collects output information on the number of people served through each of the state’s funded projects and outcome information on the number of people served who moved to permanent housing as well as the percentage of those who return to homelessness after six months, one year, and two years. Further, it analyzes this information and issues report cards for each county, which include goals for performance and whether each county is meeting or exceeding those goals. One of its goals is to transition at least 50 percent of the individuals in emergency shelters into permanent housing and to prevent more than 10 percent of individuals in emergency shelters from returning to homelessness. Finally, the report card shows the cost per day or costs per exit from homelessness for various activities, such as emergency shelters, rapid rehousing, and homelessness prevention. The data Washington collects and analyzes allow it to understand the impact its programs have towards addressing homelessness throughout the state and towards meeting its goals.

Knowing which program activities are most effective—instead of just how many people they served—could help inform the State’s future use of resources to address homelessness.

California could benefit from collecting, analyzing, and reporting similar outcome information. This type of information would allow the department to identify specific activities and programs that are effective at addressing homelessness to help make effective policy and funding decisions. Moreover, the Legislature and other policymakers could also use the data to inform their future policy decisions. According to HUD guidance, the annual reporting it requires as part of its programs provides the State with an opportunity to evaluate the effectiveness of programs and can offer insight and lessons learned that the State can use in future cycles to improve program performance. Analyzing activities that result in long-term outcomes, such as tracking the percentage of those served by ESG-CV funds who subsequently maintain permanent housing for more than a year and determining the types of programs that have the highest success rates, would allow the department to identify which approaches are most effective. Knowing which program activities are most effective—instead of just how many people they served—could help inform the State’s future use of resources to address homelessness.

According to the department, a project that the State’s Homeless Coordinating and Financing Council (homeless council) recently implemented could help to address California’s lack of outcome data for the ESG and ESG-CV programs. As we discussed in our February 2021 report, the lack of a statewide system to collect data on the homelessness services the State provides through various agencies has impeded its ability to determine whether it is effectively addressing the problem.¹² To address this gap, the homeless council recently launched a statewide data warehouse—the Homeless Data Integration System (HDIS)—with the goals of producing an unduplicated count of those experiencing homelessness in California, gaining insights into the characteristics of people experiencing homelessness, determining patterns of service use, evaluating the impact of services, and identifying gaps in services. According to the chief deputy director of the department, the department is one of many state agencies represented in the homeless council and it worked with the homeless council to develop HDIS.

The chief deputy director believes that HDIS—which became available to the public in April 2021—may result in the collection of the types of outcome information that we identify above. He stated that HDIS pulls some information from CoCs’ federally required data systems to present outcomes, and it will include the ESG and ESG-CV information that the CoCs enter into their data systems.

¹² *Homelessness in California: The State’s Uncoordinated Approach to Addressing Homelessness Has Hampered the Effectiveness of Its Efforts*, Report 2020-112, issued February 2021.

He also stated that HDIS will be a tool that the department can use to assess the outcomes of its federal homelessness programs, including ESG and ESG-CV, so that it can make effective, data-driven policy and funding decisions in the future.

However, based on the information available, it is unclear whether HDIS will have the types of outcome information necessary for the department to make informed decisions, particularly about specific programs. When we reviewed the available information on the homeless council's website, we found limited outcome information that was not generally differentiated by program. As a result, we could not identify outcome information for the ESG or ESG-CV programs. Because HDIS is new, the department should determine whether the types of outcome information that it collects and reports are sufficient to analyze the effectiveness of specific programs, including the ESG and ESG-CV programs. If not, the department should take steps to collect, analyze, and report its own outcome measures.

The Department's Lack of Leadership Related to the ESG-CV Funds Raises Concerns About Its Role in Addressing the State's Homelessness Crisis

If California hopes to address its homelessness crisis, the department must play a significant role. Including the ESG-CV program, the more than 10 programs that the department oversees have administered billions of dollars to address homelessness over the last three fiscal years. As we previously describe, one of the department's objectives is to lead efforts to end, rather than manage, homelessness. However, its actions related to the ESG-CV program during the pandemic raise serious concerns about its ability to provide the leadership necessary to promote safe and affordable homes for all Californians.

The pandemic presented a significant challenge for the department and many other state agencies to quickly perform unprecedented work under difficult circumstances. That said, when Congress passed the CARES Act in March 2020, the department should have moved quickly to address any potential issues that would hinder its ability to lead the State's efforts to protect the vulnerable homeless population from the potentially devastating impact of COVID-19. Even before the department knew in June 2020 the full amount of ESG-CV funds California would receive, it should have anticipated that the State's share of these funds would be significant, given the annual amount of ESG funding it generally receives. Further, because of how quickly the federal government provided the State with access to the ESG-CV funding, the department knew—or should have known—that it, in turn, needed to provide CoCs with prompt access to the funding so that they and homeless service

The department should have moved quickly to address any potential issues that would hinder its ability to lead the State's efforts to protect the vulnerable homeless population from the potentially devastating impact of COVID-19.

providers could mitigate the effects of the pandemic. In the weeks and months following the passage of the CARES Act, we expected the department to have taken every step possible to ensure that timely access and it did not.

Because of the department's failure to show the leadership and readiness the pandemic required of it, there is a risk that the State may not spend all of the ESG-CV funding it was awarded. The department's delays resulted in CoCs being unable to begin accessing these funds during the height of the pandemic, which hampered their ability to contract with service providers to shelter and provide other services to the most vulnerable populations when they most needed those services. Moreover, the department has not provided the leadership necessary to ensure that the CoCs will be able to use this funding effectively. Also, as we describe earlier, the department shifted the responsibility for managing ESG-CV funds to many CoCs that are not normally responsible for this task. The department expects the contractor it recently hired to develop the program guidance that the department should have developed earlier, including a program management manual, to provide technical assistance to these CoCs, and to work with them to ensure that they meet the federal expenditure deadlines. However, the department did not obtain the services of this contractor until June 2021—14 months after the passage of the CARES Act. Because the department delayed getting CoCs access to the ESG-CV funds and delayed hiring a contractor to manage the program, it has not demonstrated the leadership needed to ensure that the State spends all of its ESG-CV funds effectively before the September 2022 federal deadline.

The department has not demonstrated the leadership needed to ensure that the State spends all of its ESG-CV funds effectively before the September 2022 federal deadline.

As we state in our February 2021 report on homelessness in California, the State provided more than \$4 billion to address aspects of homelessness in each of the last three fiscal years. However, the number of Californians experiencing homelessness continues to grow. Although the ESG-CV is only one program among many to help address homelessness, the department's struggles to administer the ESG-CV funds effectively raise concerns about its leadership role in addressing the State's homelessness crisis. For the department to fulfill its strategic goal to lead efforts to end homelessness, it will need to do more to anticipate challenges proactively and act to address them. It will need to effectively measure the outcomes of the programs and efforts to which it provides funding. Finally, in the face of a crisis like the pandemic, the department must ensure that it leads efforts to quickly protect the vulnerable homeless population by streamlining CoCs' and service providers' access to the funding they need.

Recommendations

To ensure that CoCs are able to use their ESG-CV funds before the September 2022 deadline, the department should prioritize completing the one remaining contract amendment for the second round of funding.

To ensure that the CoCs use their allocated ESG-CV funds by the March 2022 and the September 2022 deadlines, the department should immediately work with its contractor to establish a process for and begin monitoring CoCs' spending. It should use projections to identify those CoCs that are at risk of not spending their funds by the deadlines, and the department should work closely with its contractor to develop a plan to assist those CoCs. In addition, by October 2021, the department should establish a contingency plan to reallocate unspent ESG-CV funds among the CoCs to ensure that the State maximizes the intended benefit of this funding.

To ensure its ability to more quickly provide CoCs with access to emergency funding that the federal government allocates to the State in the future, such as additional ESG-CV funding, the department should, by December 2021, develop a strategy that it can use in emergency situations to more efficiently complete or amend contracts and make funding available to recipients.

To ensure that the contractor it hired to manage the ESG-CV program effectively performs the numerous critical tasks contained in its contract, the department should immediately develop a formal plan and processes to track the contractor's progress and to verify that the contractor's work products comply with ESG-CV federal requirements.

To ensure that it has the data necessary to measure the effect the ESG-CV program has in addressing homelessness, the department should immediately develop and implement a plan to collect outcome information either independently or through HDIS. Also, by March 2022, the department should begin reporting annually the outcome information it collects so that it can demonstrate the effectiveness of its programs and so that decision makers can use the reported data to inform budget and policy decisions.

We conducted this performance audit in accordance with generally accepted government auditing standards and under the authority vested in the California State Auditor by Government Code sections 8543 et seq. 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 the audit objectives. 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, CPA
California State Auditor

August 24, 2021

Appendix

Scope and Methodology

State law authorizes the California State Auditor to establish a program to audit and issue reports with recommendations to improve any state agency or statewide issue that we identify as being at high risk for the potential of waste, fraud, abuse, and mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness. In August 2020, we amended the state high-risk list to add the State’s management of federal COVID-19 funding as a high-risk statewide issue. Because the department is responsible for a portion of the State’s management of federal funds related to COVID-19, we performed this audit of its management and oversight of the ESG-CV funds. We list the objectives we developed and the methods we used to address them in the following table.

Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Reviewed federal and state laws, rules, regulations, and executive orders related to COVID-19 relief funding and the ESG program.</p>
<p>2 Assess the department’s efforts to allocate ESG-CV funds to CoC agencies and to expedite CoCs’ access to these funds in order to address the urgent need to prevent, prepare for, and respond to the effect of the pandemic on homelessness, and to support additional homeless assistance and homelessness prevention activities to mitigate the pandemic’s impact.</p>	<ul style="list-style-type: none"> • Reviewed and evaluated key dates to determine how quickly the department made ESG-CV funds available to CoCs. We assessed the reliability of application receipt and review dates by performing data set verification procedures, and conducting accuracy and completeness testing. We determined the data were sufficiently reliable for audit purposes. • Determined whether the process the department used to allocate ESG-CV funds was faster than the process for 2019 ESG funds. • Identified and assessed the steps the department took to expedite contracts related to ESG-CV funds. • Interviewed department staff to identify options for the department to facilitate CoCs’ prompt use of ESG-CV funds. • Reviewed efforts by the department to expedite the use of ESG-CV funds. • Reviewed five other state’s action plans and other relevant documentation to determine other ways to expedite the allocation and use of ESG-CV funds.

continued on next page...

AUDIT OBJECTIVE	METHOD
<p>3 Evaluate how the department is monitoring CoCs to ensure that they use ESG-CV funds in an effective and efficient manner to offset the pandemic's impact on homelessness and to provide long-term solutions for individuals and families experiencing homelessness or at risk of becoming homeless during the pandemic.</p>	<ul style="list-style-type: none"> • Interviewed a selection of six CoCs to obtain their perspectives regarding ESG-CV contracting process and spending of the funds. • Reviewed the department's amendments to its annual action plan submitted to HUD related to ESG-CV funds to determine to what extent the department established and implemented outcome metrics for the funding. • Interviewed department staff and reviewed relevant documentation to determine how the department plans to monitor and report on the effectiveness of the ESG-CV funds. • Interviewed department staff and reviewed available documentation to determine whether the department has policies and procedures for monitoring CoCs, including approving reimbursement requests. • Reviewed the department's efforts to hire a contractor to help with the oversight of the ESG-CV funds.
<p>4 Review and assess any other issues that are significant to the audit.</p>	<p>We did not identify any other issue of significance.</p>

Source: Audit workpapers.



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GAVIN NEWSOM, Governor

July 29, 2021

Elaine M. Howle, CPA*
California State Auditor
1621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Emergency Solutions Grant Program (ESG-CV)

Dear Ms. Howle,

The Department of Housing and Community Development (HCD) acknowledges receipt by the Business, Consumer Services and Housing agency of the California State Auditor's (CSA) examination of HCD's implementation of the Emergency Solutions Grant (ESG-CV) program in its draft report titled "The 2020-611 State High Risk Audit regarding COVID-19 funding for the Emergency Solutions Grant program prepared on July 23, 2021." ①

HCD takes these audit findings very seriously and we are committed to adequately and expeditiously addressing all concerns identified by the CSA. HCD recognizes no one program can solve homelessness, though we believe a coordinated, collaborative, and data-informed effort across the spectrum of State activities can. At the time of this response, the High-Risk Audit focuses too narrowly on the use of the ESG-CV program, without fully discussing the dynamic nature of the funds themselves and not accounting for the larger context in which these funds are integrated in the totality of the State's COVID-19 response. The federal government and funding recipients across the country have continuously worked together to adapt to and modify program guidelines and requirements for serving the homeless population according to the evolving and unprecedented nature of this emergency. The State of California has undertaken a broad, holistic, and data-informed response to homelessness during the pandemic and HCD has played a pivotal role in this comprehensive and coordinated emergency response. ② ③

Many of the State of California's programs have been held up as a national model, including Project Roomkey and Homekey. HCD led the Homekey effort which now serves as the conceptual basis for the \$5 billion national HOME-American Rescue Plan program. These efforts have been successful due to the speed of the State's and HCD's response. ④

In response to some of the main findings of this audit, at the time of this response the California ESG-CV program and HCD are:

- **On track to exceed the 20 percent expenditure requirement on September 30, 2021 by already successfully expending 19 percent of funds as of June 30, 2021;** ⑤
- **Continuously coordinating ESG-CV funds with other resources and other state entities to maximize impact and ensure the highest and best use of all funding; and**
- **Leading efforts to address homelessness throughout the state in partnership with the federal government and local partners.** ⑥

* California State Auditor's comments begin on page 45.



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- ⑦ HCD appreciates the recommendations of the CSA and is in the process of implementing them, but also disagrees with the overarching representation that the department “failed to take critical steps to ensure that the \$316 million in ESG-CV funds benefited the vulnerable populations for which they were intended.”

BACKGROUND:

Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020. The California Department of Housing and Community Development received over \$800 million in U.S. Treasury funds from the CARES Act, as well as \$460 million for the HUD Community Development Block Grant (CDBG-CV) program and \$316 million in HUD ESG-CV funding. The ESG-CV funding that was allocated to HCD is equivalent to almost 25 years of annual allocation.

While ESG is an established program, such a large infusion of funding required significant coordination prior to deployment. The award of ESG-CV brought numerous waivers and requirements that have changed over time as HUD, in partnership with recipients, has worked to ensure the effective deployment of these important resources. As such, HUD has continued to provide critical guidance on the use of ESG-CV funds, to include:

1. On March 31, 2020, issuing a memorandum entitled “Availability of Waivers for Community Planning and Development (CPD) Grant Program and Consolidated Plan Requirements to Prevent the Spread of COVID-19 and Mitigate Economic Impacts Caused by COVID-19,” containing a waiver to expedite planning and waive certain programmatic limitations; and
2. Issuing additional guidance, over time, in Notices that clarify or modify requirements, including Community Planning and Development (CPD):
 - a. Notice 20-08 on September 1, 2020; and
 - b. Notice 21-08 on July 19, 2021.

Nothing regarding the response to the pandemic has been static, which means there is not only an urgency to respond, but an urgency to respond in a manner that accounts for all the actions being undertaken to not duplicate effort, fail to address any service gaps, or be unresponsive to changing conditions.

- ② It is within this context that prior to the award of ESG-CV, other state actions must be accounted for in the evaluation of the deployment of ESG-CV funding. On March 18, the Governor signed Executive Order N-32-20, which provided additional flexibility to use \$500 million of Homeless Emergency Aid Program (HEAP) funds and \$650 million of Homeless Housing and Prevention Program (HHAP) funds that had previously been distributed to cities, counties and Continuums of Care to prepare for and address the impacts of the COVID-19 pandemic on homeless individuals, including through expanding shelter and housing services and capacity. Additionally, on March 23, 2020, Executive Order 19/20-128 provided \$100 million in support of the Homeless Coordinating and Financing Council (HCFC) to help protect homeless Californians and reduce the spread of COVID-19 by safely getting individuals into shelter and providing immediate housing options. These funds were required to be encumbered by June 30, 2020 and fully expended by June 30, 2022. Furthermore, these funds can be used to support the acquisition/lease of isolated housing placements; emergency shelter operations; support increasing shelter capacity; supplies and equipment to support street outreach; and transportation of those experiencing homelessness to and from shelters and medical assistance. These eligible uses mirror much of



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the allowable uses under the ESG-CV program and required full commitment prior to the deployment of ESG-CV funds. The deployment of these funds and others provided an infusion of resources to local partners that were better situated to immediately support efforts in response to the pandemic while programs that are reimbursable in nature, such as ESG-CV, were deployed in support of these initial efforts with the ability to maintain or expand responses based on need.

While the State and its partners were mobilizing to program, commit, and administer the HCFC funding, on April 2, 2020 the state received an award letter for \$43,990,603 for the ESG-CV program. Utilization of this funding required that HCD amend the 2015 – 2020 Consolidated Plan through a Substantial Amendment to the 2019-2020 Annual Action Plan. The Substantial Amendment on April 16, 2020 described, at a high level, how HCD would distribute and utilize the funding. To deliver the funding more rapidly an Executive Order was required to waive specific state regulatory requirements to allow for an allocation method to be used instead of a much longer multiple Notice of Funding Availability (NOFA) process. The Governor signed EO-N-66-20 on May 29, 2020. Simultaneously, HCD staff began to develop the NOFA and application.

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DEPARTMENTAL RESPONSE:

Below, please find detailed responses, addressed by findings, to the audit report:

Finding 1: HCD “failed to expedite access by Continuums of Care (CoC) to ESG-CV funds:”

> **HCD STAFF IMMEDIATELY INITIATED KEY CHANGES TO ENSURE EFFECTIVE DELIVERY OF ALL AVAILABLE FUNDING.**

9

The California State Auditor Report does not fully account for the dynamic nature of the funding and the fact that as more information became available it required adjustments, including adjustments to requirements that aided program delivery and effectiveness.

2

The ESG-CV NOFA was released on June 1, 2020 with applications due on July 20, 2020. HUD approved the Annual Action Plan, and a grant agreement was issued by HUD on June 25, 2020. Awards were made in mid-September and within six weeks contract issuance began. This is all at the same time local partners were receiving \$100 million in funding through the State Homeless Coordinating and Financing Council (HCFC), additional flexibility for previous homeless emergency aid allocations, and direct federal allocations throughout the state - notably the unlimited 75% reimbursement for shelter and temporary housing from FEMA Public Assistance which largely funded local non-congregate shelter capacity through Project Roomkey.

9

To ensure stakeholders understood the ESG-CV program, available waivers, and HCD’s implementation plan, HCD developed an outreach strategy. HCD began and continues to hold weekly office hours where grantees obtain the latest updates and ask questions. Presenters have included HCD staff, HUD Technical Assistance (TA) providers, and HUD staff.

During the period that the initial ESG-CV NOFA became available, on June 9, 2020, HCD was awarded an additional \$271 million in ESG-CV funding. While working on the review and awarding of previous funding, staff began planning for the award of this new allocation of funding, including discussions with grantees about their



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funding needs considering previous awards and any ongoing gaps. This significant increase necessitated another amendment to the Annual Action Plan which was done on August 31, 2020. HUD issued the contract for the additional funds on November 25, 2020. Due to clarifications and additional requirements from HUD, after the initial agreements were being executed and prior to the next set of agreements being awarded, HCD determined that the Standard Agreement boilerplate needed to be revised. Notably, HCD incorporated specific funding milestones with the ability for HCD to disencumber funds if grantees did not reach specific targets to ensure the overall success of the program, including meeting the expenditure requirements.

With the second allocation of ESG-CV funding, HUD rightfully placed racial equity at the heart of the program and provided critical guidance on how to center such a lens in the delivery of the program. Accordingly, HCD staff supported this effort and gathered significant information to help inform HCD's incorporation of this guidance. This language was included in the NOFA and as part of the revised application for ESG-CV2. While staff were working on ESG-CV2 they were also working with grantees on ESG-CV1 grant awards. The ESG-CV2 NOFA was issued on October 2, 2020 with applications due by early November. Applications were reviewed, approved, and award letters issued in mid-February 2021. The amended Standard Agreements were issued in April and May 2021, fully aligning both rounds of funding and coordinating all ESG-CV resources. This included working closely with recipients on integrating racial equity into the delivery of their programs. To date, all Standard Agreements have been fully executed except for two that are currently with the grantee awaiting return to HCD.

Finding 2: "Missteps and the CoC's slow spending may cause state to miss federal deadlines:"

5 } **HCD IS ON TRACK TO EXCEED THE SEPTEMBER 30, 2021 EXPENDITURE REQUIREMENT.**

HUD released guidance on June 17, 2021, which states "Recipients may meet the 20 percent expenditure requirement by drawing down at least 20 percent of their ESG-CV funds from the Integrated Disbursement and Information System (IDIS). However, recipients may also meet the expenditure requirement through the accrual of ESG-CV costs as reported in ESG CV Quarterly Progress Reports (QPR) submitted in Sage HMIS Reporting Repository." An accrual is a charge against the program, reported in the QPR, that has not been invoiced yet.

For the State of California ESG-CV program, HCD is utilizing the reported accruals in the ESG-CV QPRs submitted in Sage HMIS Reporting Repository. As a result, the ESG-CV program has **19 percent of its funds expended** as of June 30, 2021. The 4th Quarter QPR still needs to be collected and reported before any final determination of expenditure can be defined. Over the next quarter, the ESG-CV program needs to show an additional **\$8,459,570.87** in expenditures to fully meet the expenditure requirement by the deadline. This \$8.46 million is the total amount of funding that could be at risk of recapture, however that risk is extremely low given there is another quarter of accruals to still be reported and the previous quarter had more than two times the expenditures than what needs to be completed in the coming quarter. This is also at the same time expenditures overall are accelerating.



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Finding 3: There was a “lack of a formal plan and process to monitor the contractor hired to manage the ESG-CV program.”

- › **UPON CONTRACT EXECUTION, HCD ASSIGNED A SENIOR FEDERAL PROGRAM SPECIALIST TO MANAGE THE CONTRACT AND DEVELOPED A MONITORING PLAN AND REPORTING TOOL FOR MANAGEMENT OF THE CONTRACT.**

⑪

HCD recognizes all ESG-CV funding needs to be utilized by September 30, 2022. Due to this very short timeline for the expenditure of this funding, **HCD is utilizing contracted assistance to implement the HUD awards.**

To accomplish this, HCD staff worked very closely with HUD technical assistance providers to develop the scope of work for the contract for technical assistance (TA) and contracted grant administrators. With the alignment of ESG-CV resources and the amendment of Standard Agreements underway, on February 12, 2021 a Request for Proposals was issued for staffing and technical assistance to support grantees. The final submission date for proposals was March 12, 2021. Proposals were evaluated with the contract awarded to ICF, a firm that is also contracted with HUD to provide TA nationally on the ESG program. The contract was kicked off in early June 2021. HCD meets with the ICF contract manager daily and is very engaged in contract administration.

⑪

To ensure overall compliance, in addition to daily meetings, ICF submits an invoice and report monthly for the previous month’s work through eCivis. HCD utilizes eCivis, a grant management system and cost allocation software, to capture regular reporting and monitor compliance. The HCD contract manager reviews invoices and monthly reports to ensure accuracy and compliance with the Contract. The HCD Contract Manager leverages this software to work closely with the ICF contract manager until all needed corrections have been made. There is also a quality assurance process across the division as the HCD Branch Chief also reviews invoices in eCivis.

⑪

Finding 4: “Measuring the impact of ESG-CV funds would enable the department to improve its homeless programs.”

- › **HCD IS DEDICATED TO MEASURING IMPACT ACROSS FUNDING SOURCES AS A CRITICAL COMPONENT IN EVALUATING EFFECTIVENESS.**

HCD is focused on coordinating all funding sources and finding the highest and best use of each. This was a central component to HCD’s deployment of ESG-CV funding and why the context of the \$100 million in HCFC funding and other resources is so critical in the overall discussion of the deployment of ESG-CV. **Failing to account for all funds does not allow for a true measure of a particular funding source since the absence of what other funding allows might lead to duplication of effort, unanticipated gaps in coverage, and overall inability to serve segments of the intended target population.**

②

For this reason, HCD has worked closely with HCFC which just launched the California Homeless Data Integration System (HDIS) in April of this year. HDIS compiles data from 44 Continuums of Care (CoC) throughout the State into a single repository. HDIS will help the state and CoCs determine which homeless services are being provided across the state, who is accessing those services, and which interventions are the most effective.



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Finding 5: “A lack of leadership related to the ESG-CV funds raises concerns about HCD’s role in addressing homelessness:”

- › **HCD’S LEADERSHIP IN ADDRESSING HOMELESSNESS IS NATIONALLY RECOGNIZED AND CONTINUES TO ENSURE OUR DEPARTMENT ADAPTS TO MEET CHALLENGES FACING OUR STATE.**

⑫ HCD takes the responsibility of managing federal funds very seriously and recently established an entirely new division, the division of federal financial assistance (DFFA), to ensure the state continues to deliver results that serve all Californians.

Bifurcating HCD’s Division of Financial Assistance into distinct divisions devoted to deploying and monitoring funding across state and federal allocations indicates our Department’s commitment to excellence. The newly established DFFA has its own Deputy Director assigned to oversee and manage all operations related to federal programs. HCD management has been committed to strong interdivisional cooperation and the ESG-CV funds were no exception to this standard.

④⑥ **HCD’s leadership in addressing homelessness is nationally recognized.**

In record time and during the height of the COVID-19 pandemic, HCD designed and implemented Homekey where \$750 million in federal Coronavirus Relief Fund dollars was allocated to 51 applicants for 94 projects. Homekey utilized \$846 million to rapidly purchase and subsidize 6,029 units of interim and permanent housing in less than six months from start to finish. HUD recently invited Deputy Director of DFFA, Geoffrey Ross to highlight Homekey and present to more than 1,500 grantees during a national webinar to inform grantees on best practices and key insights as they begin to envision the deployment of HOME-ARP. Furthermore, the National Alliance to End Homelessness just published a case study on Homekey so that other communities can apply the successful lessons learned by HCD and its partners.

⑦ In closing, HCD strongly disagrees with the findings in your report and has moved expeditiously, but with appropriate due diligence, to implement the ESG-CV program. We welcome continued recommendations that allow us to improve our programs and services, but also urge the CSA to consider this response in the final draft of the audit report.

Thank you for this opportunity to respond. Should you have any questions, please contact HCD’s Chief Internal Auditor, Michael Mock, Michael.Mock@hcd.ca.gov.

Sincerely,

Gustavo F. Velasquez
Director

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 department's response to our audit. The numbers below correspond to the numbers we have placed in the margin of the department's response.

The correct title of our report is *The California Department of Housing and Community Development: It Failed to Expedite Access to Federal Funding to Address the Impact of the COVID-19 Pandemic on California's Homeless Population*.

①

The department makes several statements in its response that this audit focuses too narrowly on the ESG-CV program and does not account for other sources of funding related to the pandemic. State law authorizes the California State Auditor (State Auditor) to develop a state high-risk government agency audit program for the purpose of identifying, auditing, and issuing reports on any agency of the State or statewide issue that the State Auditor identifies as being high risk. As we state on page 12, in August 2020, our office issued a report designating the State's management of federal funds related to COVID-19 as a high-risk statewide issue because of the significant amount of funds the State received, and we specifically identified the department as responsible for a portion of this issue—the \$316 million in federal COVID-19 funds allocated to the ESG-CV program. Therefore, this audit was essential to determine whether the department is adequately managing the State's ESG-CV funds. We also acknowledge in the report that the department was tasked with management of other pandemic related programs. For example, on page 12 we state that the department was responsible for managing four programs that received federal COVID-19 funds: the Community Development Block Grants, the ESG-CV program, the grant program known as Homekey, and the Emergency Rental Assistance program. We state on page 33 that the pandemic presented a significant challenge for the department, as well as many other state agencies, to quickly perform unprecedented work under difficult circumstances. However, the department is not relieved of its responsibility to effectively manage the ESG-CV funds because it also managed other funds.

②

Despite the department's claim of playing a pivotal role in what it describes is California's broad, holistic, and data-informed response to homelessness during the pandemic, our audit found evidence to the contrary. As we describe on pages 29 and 30, the department has not established realistic outcomes to measure the effects that the ESG-CV funds have on homelessness. For example, the department's measures do not account for the effects the pandemic has had on

③

the costs of homelessness services and the ability to deliver them. Moreover, on page 30, we state that the department's current outcome measures focus only on output information, such as the types of services the CoCs have provided and the number of people they have served. Further, the department does not have plans to collect or analyze data to determine the effectiveness of CoCs' spending of the significant influx of ESG-CV funds because it is not currently a federal requirement to do so. However, as we state on page 29, the large amount of additional federal funding provided through the ESG-CV program from the CARES Act creates a meaningful opportunity for the department to evaluate how effectively various new and existing projects are working to address homelessness throughout the State. Therefore, it is critical that the department immediately take steps to collect and measure outcome data on the ESG-CV program not only to understand how well the State uses the ESG-CV funding but also to inform future efforts to reduce or eliminate homelessness.

- ④ The programs the department mentions were not part of this audit. Our focus was on the department's administration of the ESG-CV program, and as we state on page 15, the department failed to expedite CoCs' access to ESG-CV funds during the pandemic. Additionally, on page 22 we state that the department's delays not only hindered CoCs from providing critical services to the most vulnerable population earlier in the pandemic, but also created the risk that the CoCs may not be able to use all of the ESG-CV funds by the September 2022 federal spending deadline.
- ⑤ Although the department states that it is on track to exceed the 20 percent expenditure requirement on September 30, 2021, we have concerns, as we describe on page 23, that the department's total reported expenditures through June 30, 2021 include a large amount of accruals the CoCs reported that the department has not yet verified or validated. Therefore, there is risk that the expenditures are overstated. Moreover, there is still a risk that the CoCs may not spend all of their funds before the final deadline of September 30, 2022, established by the CARES Act. Specifically, the department's delays in completing the contracts for ESG-CV funds have in turned slowed CoCs' ability to expand their services because some of the CoCs will not begin processing contracts with service providers until their contracts with the department are finalized. In fact, five of the six CoCs we spoke with noted that the department's delays in finalizing contracts for these funds hampered their ability to contract with providers to deliver services, and one CoC we spoke with expressed concerns about its ability to spend all of its allocated ESG-CV funds.
- ⑥ In several places in its response, the department asserts having shown strong leadership in efforts to address homelessness during the pandemic. However, the department's actions related to the ESG-CV program during the pandemic raise serious concerns about its ability

to provide the leadership necessary to promote safe and affordable homes for all Californians and to address the growing homelessness crisis in California. Specifically, as we discuss on page 34, in the weeks and months following the passage of the CARES Act, we expected the department to have provided the leadership necessary to ensure that CoCs had prompt access to the funding so that they and homelessness service providers could mitigate the effects of the pandemic. However, the department did not ensure that prompt access to funding, which hampered CoCs' ability to contract with service providers to shelter and provide other services to the most vulnerable populations when they most needed those services. Further, as we discuss on pages 25 and 34, the department hired a contractor to manage the ESG-CV program, but did not obtain the services of this contractor until 14 months after the passage of the CARES Act. Finally, as we state on page 30, the department has not historically collected or analyzed data to determine the effectiveness of the CoCs' spending of ESG funds in addressing homelessness through outcome measures. The critical weaknesses we found in its management of the ESG-CV program raise serious concerns about its ability to provide the leadership the State needs to address the ongoing homelessness crisis.

We stand by our statement in the report, which is supported by sufficient, appropriate evidence, that the department did not take critical steps to ensure that the \$316 million in ESG-CV funds promptly benefited the vulnerable population for which it was intended.

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We acknowledge on page 16 that in late May 2020 the Governor issued an executive order eliminating requirements that the department otherwise had to follow in its regular complex process for allocating ESG funds and that it distribute some of the funds competitively. However, the department failed to take steps to ensure the CoCs were able to quickly access ESG-CV funds. As we describe on page 16, although the department could have amended its existing contracts with CoCs and service providers for fiscal year 2019–20 ESG funds to add the ESG-CV funds, it instead chose to enter into new contracts with each CoC, creating an unnecessary delay. This time consuming process unnecessarily delayed the CoCs' access to the funds during critical periods when the State was experiencing high numbers of COVID-19 cases. Specifically, most CoCs did not receive access to ESG-CV funds until December 2020—seven months after the Governor issued the executive order.

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The department asserts that its staff immediately initiated key changes to ensure effective delivery of all available funding and reiterates some of the key dates that Figure 5 on page 18 shows but does not acknowledge the lengthy time frames for completing certain activities. For example, the department completed its review and

⑨

approval of most of the CoCs' applications between July 17, 2020, and July 29, 2020, but did not send those applications to its internal loan committee for approval until August 20, 2020—creating a 22- to 34-day delay. Figure 5 also shows that the department did not send award letters until September 17, 2020, creating an additional 28-day delay. Further, the department's response asserts it began issuing contracts within six weeks of sending award letters. However, as Figure 5 shows, the department did not finalize the first two contracts until November 13, 2020—57 days or nearly two months after sending award letters—and did not finalize the last five contracts until three months later in February 2021. As a way of minimizing our concerns with its delays, the department's response also indicates that CoCs were inundated with managing funding from other sources, suggesting that CoCs may have had difficulty managing ESG-CV funds had the department provided them access to those funds earlier. However, because Congress moved quickly to make ESG-CV funds available to states, the department should have acted with the same urgency to get the funds to the CoCs.

- ⑩ The department does not acknowledge the lengthy time frames for completing certain activities and incorrectly states that it started issuing amended standard agreements in April 2021. Figure 6 on page 20 shows the key dates and highlights the department's lengthy time frames for making the second round of ESG-CV funding available to CoCs. For example, we found that the department completed its review and approval of applications between November 4, 2020, and January 7, 2021, and could have sent award letters sooner than mid-February 2021. Figure 6 also shows that the department finalized the first three contract amendments for CoCs on May 14, 2021.
- ⑪ Contrary to the department's assertion that it is very engaged in administration of its contractor that manages the ESG-CV program, we found that it lacks a formal plan or reporting mechanism for tracking the contractor's progress and reviewing its work products. As we indicate on page 28, because the department will rely heavily on the contractor to ensure the State uses ESG-CV funds effectively and efficiently, it must take steps to properly manage the contract. Therefore, as we recommend on page 35, the department needs to immediately develop a formal plan for how it will oversee this contractor. Although the department indicates that its staff are reviewing invoices and monthly reports to ensure accuracy and compliance with the contract, it did not substantiate these assertions.
- ⑫ The department does not describe how the new division of federal financial assistance will address the problems we found in the department's management of the ESG-CV program. We look forward to reviewing the department's 90-day response to our recommendations so that we can assess the division's progress to address the problems we found.