

The California State Auditor released the following report today:

## California Department of Housing and Community Development

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

### BACKGROUND

In an effort to aid low- to moderate-income and homeless populations in securing housing and shelter, the Legislature proposed and voters approved in November 2002 and 2006, nearly \$5 billion in housing bonds—the Housing and Emergency Shelter Trust Fund Act bonds. These bond funds provide for the development of affordable rental housing, emergency housing shelters, and down-payment assistance to low- to moderate-income homebuyers. The California Department of Housing and Community Development (HCD) directly administers the majority of the housing bond programs and the California Housing Finance Agency (CalHFA) and the California Pollution Control Financing Authority manage the remainder. We previously conducted audits of these bond funds in 2007, 2009, and 2012.

### KEY FINDINGS

During our most recent review of these housing bond funds, we noted the following:

- Although HCD and CalHFA had awarded nearly all of the initial housing bond funds to recipients, some housing bond programs still had additional funds available. HCD had \$486 million to award through the 21 housing bond programs it manages and CalHFA had yet to award approximately \$54 million for one program.
- HCD does not have an adequate process for determining whether the costs of proposed projects for the Multifamily Housing Program are reasonable and may be funding projects with unnecessarily high costs—we found that seven of 10 projects funded by this program had higher development costs than the average costs of comparable projects in the same area.
- HCD improperly awarded funds for one project that did not meet the statutory purpose of those funds.
- Despite concerns raised in our 2009 and 2012 audits, HCD still does not adequately monitor how recipients use housing bond funds—we found significant monitoring problems in the 45 projects we reviewed, including failure to collect status reports for many programs.
  - ✓ HCD does not consider risk when deciding which recipients to review for one program—it never visited one recipient we reviewed even though the recipient received \$1 million and did not submit required status reports.
  - ✓ Because it inappropriately monitors advances of program funds, some recipients held such funds for excessive lengths of time—HCD took six years to ask one recipient to provide support for how it spent those funds.
- HCD's housing bond database lacks accurate, complete data that negatively affects HCD's ability to manage and monitor its housing bond awards.
- Although the Legislature placed statutory limits on the amount HCD can spend to administer several of the housing bond programs, HCD's policies do not ensure that it will not exceed these administrative cost limits.

### KEY RECOMMENDATIONS

We made various recommendations to HCD, including that it accomplish the following:

- Improve its current process for awarding program funds by documenting whether the costs of proposed projects are reasonable and approve and fund only projects that meet the intent of state law.
- Develop a process to track and monitor advances and reconcile those advances to its accounting records and to documentation supporting that recipients spent the advances.
- Revise its current risk assessment tool or develop a new tool to identify the recipients that are at high risk of noncompliance with program requirements to maximize the benefit of on-site reviews.
- Develop strategies outlining steps to address the housing bond database's current weaknesses and establish timelines and activities to ensure its database is an effective tool for managing its housing bond programs.
- Adopt policies to ensure that it does not exceed statutory limits for administrative costs.