

December 21, 2021

Lourdes M. Castro Ramirez, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Secretary Lourdes M. Castro Ramirez,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Housing and Community Development submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Edgar Rosas, Enterprise Risk Manager, at (916) 820-1543, Edgar.Rosas@hcd.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Department of Housing and Community Development (HCD) is a department within the Business, Consumer Services, and Housing Agency (BCSH) of the State of California. HCD awards loans and grants to public and private housing developers, nonprofit agencies, cities, counties, state, and federal partners. This money supports the construction, acquisition, rehabilitation, and preservation of affordable rental and ownership homes, rental assistance, disaster recovery, and provides permanent supportive housing options and stable, safe shelter for those experiencing homelessness. HCD also develops housing policy, building codes, and regulates manufactured homes as well as mobilehome parks.

Mission

Promote safe, affordable homes and vibrant, inclusive, sustainable communities for all Californians.

Vision

Every California resident can live, work, and play in healthy communities of opportunity.

Strategic Goals and Objectives

Goal #1: Lead the Policy Agenda – HCD is a statewide leader in the formation and implementation of policies and programs to address California’s diverse housing and community challenges.

- Lead efforts to end, rather than manage, homelessness.
- Execute on the state's climate change goals.
- Improve access to opportunity.
- Increase and preserve housing supply attainable across all income levels.

Goal #2: Improve Collaboration and Service with Our Stakeholders – HCD effectively serves California both in collaboration with our stakeholders and directly to our immediate customers through a range of valuable services.

- Communicate our successes and responsibly inform stakeholder expectations.
- Facilitate solutions for our customers to accomplish shared goals.
- Create and promote new opportunities to collaborate with our stakeholders.
- Improve our awareness of our customers' diverse goals and priorities.

Goal #3: Cultivate a Culture of Excellence – HCD purposefully cultivates excellent systems, operations, and processes that provide the highest and best use of our resources.

- Ensure continuous improvement through reflection and innovation.
- Promote knowledge sharing through cross-divisional communication.
- Integrate a performance and metrics-driven mindset.
- Develop and improve interactive systems and processes.

Goal #4: Prioritize a Diverse Learning Organization – HCD values the diverse talents of our team members and is committed to continuous learning at all levels.

- Intentionally educate our workforce to reflect the diverse communities that we serve.
- Imbed diversity, inclusion, and equity into all aspects of talent acquisition, development, and succession management
- Enhance the recognition of employees for their contributions.
- Implement workforce plan and succession management plan initiatives within each division to strengthen career development opportunities, fill workforce gaps, and diversity gaps.
- Instill a professional growth mindset within our organizational culture and inspire continuous development.

Goal #5: Strategically Invest Our Internal Resources – HCD strategically allocates our precious resources in alignment with our priorities to deliver the optimum level of performance, transparency, and accountability. Our internal resources include our people, time, money, tools, data, and facilities.

- Create and implement a sustainable facilities plan.
- Effectively recruit and onboard an expanded and diverse workforce.
- Enhance use of technology to optimize productivity.
- Strengthen governance systems and tools to prioritize, deploy, and track resources.

Core Business Functions

HCD is organized around four (4) operational divisions that execute the core business functions through which the Department fulfills its mission. The divisions are:

- Housing Policy Development
- State Financial Assistance
- Federal Financial Assistance
- Codes and Standards

Core business operations are supported by the Administration and Management Division.

Housing Policy Development Division (HPD)

HPD accomplishes its mission by engaging in a variety of outreach, planning, policy, and research activities with federal, state, regional, and local agencies and stakeholders. Examples of activities include identifying California's regional housing needs; determining regional and local government housing plans' compliance with State housing element law; developing housing policies; implementing community development and housing-related grant and loan programs; preparing federal and State plans and reports; and assisting governmental agencies, housing advocates, developers, and the public.

Division of Financial Assistance

The continued growth of funding to HCD to address housing and homelessness lead to the bifurcation of HCD's Division of Financial Assistance into two, distinct divisions focused and dedicated to the design and implementation of their respective programs in February 2021.

State Financial Assistance (DSFA)

DSFA administers State programs that award loans or grants for the construction, acquisition, rehabilitation, and preservation of affordable rental and ownership housing, homeless shelters, and transitional housing. DSFA designs and implements programs that finance housing, improve access to opportunity, address climate change, and homelessness including Homekey – a national model for homeless housing. Through asset management and compliance, DSFA monitors affordable developments that use HCD funding to ensure they remain affordable for 35-55 years and compliant with the requirements of each funding program.

Federal Financial Assistance (DFFA)

DFFA administers funding primarily from the U.S. Department of Treasury (UST) and the U.S. Department of Housing and Urban Development (HUD). DFFA implements activities in support of emergency rental relief, federal community development, disaster recovery, infrastructure, economic revitalization, multi-family housing programs, disaster response and operations. These programs include HOME, National Housing Trust Fund, Community Development Block Grant, and Emergency Solutions Grant. DFFA monitors and completes federal reporting requirements to ensure compliance. DFFA also prepares and submits the federal Consolidated Planning and Performance Report, which is required by U.S. Department of Housing and Urban Development (HUD) to ensure California's receipt of millions in federal housing and community development dollars.

Division of Codes and Standards (C&S)

C&S' mission is to develop, administer, adopt, and enforce uniform statewide housing standards to ensure the health and safety of Californians, to protect buyers from fraud and abuse, and safeguard the affordability of housing through the enforcement of the California Health and Safety Code, including:

- State Housing Law
- Employee Housing Act
- Mobilehome Parks Act
- Special Occupancy Parks Act
- California Factory-Built Housing Law

- Manufactured Housing Act of 1980
- Mobilehome Residency Law Protection Act

C&S also enforces federal and State standards for the construction, safety, sales, and registration and titling of manufactured homes, mobilehomes, commercial modular, and floating homes.

Administration and Management Division (AMD)

AMD provides support to all business operations within HCD. AMD includes the following areas:

- Accounting Office
- Business & Contract Services Branch
- Financial Management Branch
- Information Technology Branch
- Human Resources Branch

AMD provides HCD with its operational infrastructure and often creates single points-of-contact by which business is conducted with other state agencies. Most, if not all of these agency-to-agency interactions are governed by state-established policies and procedures (e.g., State Administrative Manual, State Contracting Manual, Budget Letters, etc.)

Control Environment

HCD adopted the following core values as part of its Strategic Plan:

- Innovation: Empowered to apply creative solutions.
- Professionalism: Demonstrate a willing attitude, open-mindedness, competence, and respect at all levels.
- Accountability: Responsible, thoughtful ownership and acknowledgment of actions and performance.
- Mission-Driven: Determined and focused on achieving HCD's purpose.
- Integrity: Direct, honest, transparent, and ethical in every action.
- Diversity: Support, strengthen, and foster diverse and inclusive teams, programs, and partnerships.

HCD's oversight and organizational structure is documented in the HCD Strategic Governance Charter. The purpose of the charter is to clarify and integrate the structures, roles, and responsibilities for HCD's leaders to empower efficient collaboration on department-wide goals, initiatives, policies, and issues. The existing governance structure creates a foundation for engagement on department-wide efforts in a manner that leverages the right people, on the right topics, at the right time.

HCD distinguishes between two types of leadership teams: vertical and horizontal. Vertical leadership describes the responsibility to ensure the unique divisions, programs, and functions plan and execute effectively. Horizontal leadership describes the responsibility to ensure collaboration across our plans and implementations on department-wide goals and priorities.

The major governance entities are as follows:

- Executive Leadership Team (ELT) – highest level of leadership that unifies all vertical and horizontal responsibilities with a cohesive and strategic focus.

- Senior Leadership Team (SLT) – expanded version of the ELT most responsible for the performance, culture, and organizational health for the entire department.
- Division Leadership Team (DLT) – vertical leadership teams within each division who create and track actionable work plans to deliver their services and contribute to the overall Department Strategic Goals.
- Goal Steward Teams (GST) – horizontal leadership teams organized around the Strategic Plan Goals, one team for each Strategic Goal.
- Individual Project Management Teams – all projects have or will have a designated sponsor, project manager, and relevant internal and external stakeholders. Each team is independently responsible for the project management of the initiate, plan, execute, and control phases for their specific scope.

The Human Resources Branch (HRB) in collaboration with the Organizational Development Division (ODD) lead efforts for establishing and maintaining a competent workforce. The Training Office within HRB works to provide HCD employees with learning opportunities to develop and apply new skills and embrace professional excellence for continuous self-improvement. The OD division also takes a department-wide approach in developing leadership, mentoring, and networking programs at all levels to strengthen career development opportunities and ladders to benefit the employee as well as the department.

HCD recognizes the importance of a diverse and inclusive workforce. HCD participated in the Government Alliance on Racial Equity (GARE) to promote inclusion, race, and cultural equity. HCD's EEO Advisory Committee/Disability Advisory (EEOAC/DAC), Cultural Diversity, and LGBTQ+ Committee were created to further incorporate racial equity and inclusion initiatives throughout the department. HCD's representation for people with disabilities is 18.3 percent, almost double the average for the State (9.9 percent statewide). HCD's HR Branch is a member of the Statewide Diversity, Equity and Inclusion (DE&I) Steering Committee who are drafting a statewide guidebook for DE&I. Announced on June 23, 2021, HCD entered a 3-year membership contract with Race Forward to deepen the Department's understanding of DE&I through webinars, discussion groups, and member groups. In August 2021, HCD reorganized to create the Organizational Development Division, which now includes a Diversity, Equity, and Inclusion branch.

The HCD IT Governance Executive Committee (ITGEC) meets on a quarterly basis to review the Department's project portfolio including highest urgency and priority IT projects, new intakes, and security and infrastructure improvements needed for HCD to effectively leverage its technological footprint.

The HCD Audit Committee is charged with enforcing accountability and assisting all levels of HCD operational management with their oversight responsibilities for legal, ethical, and regulatory compliance, and performance obligations by:

- Evaluating and assuring that the internal audit function is meeting the performance standards included in the Internal Audit Activity Charter.
- Engaging deputies on performance accountability and in maintaining adequate operational internal controls.
- Overseeing the preparation, presentation, and integrity of HCD's financial statements and financial reporting processes, policies, and practices.

- Overseeing HCD's internal accounting systems, enterprise risk management initiatives, and financial and operational controls.
- Monitoring HCD's compliance with legal, ethical, and regulatory requirements.

Information and Communication

HCD actively reduces risks in our daily business operations through ongoing monitoring. The Department issues enterprise-wide emails, memorandums, and individually tailored meetings to address vulnerabilities and resolve emerging and existing issues. Staff receive information vital to the effectiveness and efficiency of established internal controls through routinely scheduled meetings (virtual and in person) and other communication forums.

The Month Ahead Report (MAR) includes critical and sensitive issues compiled by the Executive Leadership Team and reported externally to the California Business, Consumer Services and Housing Agency. Staff are encouraged to notify management when they discover issues that should be addressed to assist HCD in fulfilling its mission, vision, and objectives. When new policies and procedures are established or updated, changes are communicated by email to HCD staff. Information is reiterated and shared amongst employees in group staff meetings, on an individual basis as needed, and during new employee onboarding processes.

The Administration and Management Division (AMD) compiles and distributes monthly financial and performance management reports that further promote transparency into the operational health of HCD.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Department of Housing and Community Development monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Gustavo Velasquez, Director.

The information included here discusses HCD's continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that HCD's monitoring practices are implemented and functioning as expected. The responsibilities as the executive monitoring sponsor(s) have been given to Zack Olmstead, Chief Deputy Director.

HCD continuously monitors efforts to address risks leveraging Goal Steward Teams (GST). One GST is created for each of HCD's five strategic goals. Each GST is made up of 3-6 members (consists of members from the Senior Leadership Team, one or two mid-level representatives, and analyst support) who meet monthly to evaluate and monitor ongoing risks, while strengthening internal controls. The teams serve three major roles: 1) Performance Management for each goal using Key Performance Indicators (KPIs), 2) Portfolio Management to clarify, prioritize, align, monitor, and resolve impediments that relate to that goal, and 3) Relationship Management to provide an opportunity to build trust, collaboration, mentoring, and development among current and emerging leaders. The five GSTs meet quarterly with all managers and supervisors to report key performance indicators within each division to understand the effectiveness of internal operations and monitor the overall performance of the department in achieving its mission.

The Executive Leadership Team (ELT) consists of the Director, Chief Deputy, and top tier level executives that unifies all vertical and horizontal responsibilities with a cohesive and strategic focus. The ELT is the highest point of escalation within HCD for major decisions on goals, strategies, policies, and budgets. ELT meets weekly to discuss risks brought forward by deputy directors from meetings held with their divisions. Each division holds regular meetings for management to review performance measures, discuss operations and potential controls issues, and make recommendations for improvements based on data derived from performance measures.

Additionally, HCD's Legal Affairs Division (LAD) houses the Internal Audits Unit. The Internal Audits Unit shares audit reports to assist the department in developing internal controls and monitors the ongoing status of audit findings to corrective action plan implementation. HCD's Housing Policy Division is launching a Housing Accountability Unit (HAU) comprised of specialists devoted to supporting HCD's efforts with housing accountability and enforcement. This unit will increase HCD's capacity to work with local municipalities and provide even more technical assistance to aid their efforts to comply with state legislation mandating housing creation, including zoning and permitting, and affirmatively furthering fair housing.

The Organizational Development Division (ODD) houses the Enterprise Risk Management Office (ERM) which consults HCD's staff and leadership on risk management principles. ERM meets on a bi-monthly cadence with HCD's division leadership teams to ensure active, continuous risk monitoring remains consistent. These ongoing consultations with management build a more risk-aware culture and lead the department's process for identifying, analyzing, and monitoring key risks through mitigation.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Housing and Community Development risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

Risk Identification

- Divisional Risk Register Consultations: HCD's division leadership teams meet with the Enterprise Risk Management Office to review the existing risk register as well as document any ongoing mitigation plans.
- Questionnaires/ Surveys: HCD staff is regularly surveyed through a risk assessment questionnaire to help evaluate and assess business processes and threats to goals and objectives.
- Prior Audit Reports: The Enterprise Risk Management Office encouraged executive and middle managers to consider various factors, including prior internal audit findings and external audit findings from vendors, 3rd parties, and the California State Auditor.

Risk Ranking

- Evaluated the results of the risk and threat assessments with each Division leadership teams.
- Conducted a thorough analysis of the probability, likelihood, and impact of each risk through the risk register.
- Determined the ranking of each risk based on probability, likelihood, and impact analysis.
- Compilation of all departmental risks are published on a bi-monthly cadence by the Enterprise Risk Management Office. Risks are presented in order of severity, along with descriptions and existing corrective action plans to address high urgency risks.

RISKS AND CONTROLS

Risk: Data Integrity, Availability and Usability

Inadequate automated systems, interoperable data sources, and timely availability of key housing data poses a significant risk to the department's ability to preserve affordable housing, effectively monitor the progress of statewide housing plans, and identify the most effective policies and programs that protect residents and increase the production of affordable homes. Use of disparate systems, manual tracking through spreadsheets, and the inability to automate workflows may lead to data inaccuracies and reduced ability to ensure progress along the housing pipeline and eliminate displacement risk. Broader data needs are not feasible in the existing enterprise systems leading to gaps in reports compiled through tracking, monitoring and compliance data. HCD must strategically address concerns related to broader data needs across the enterprise that includes the consideration for an overhaul of existing enterprise system usage, training, and adoption.

Control: A - Consolidated Housing Accountability Application Procurement Project (CHAAPP)

HCD is currently working on the Consolidated Housing Accountability Application Procurement Project (CHAAPP) to implement an integrated enterprise system which will automate the workflows associated with housing grants and funding and improve the integrity, accuracy, usability and reliability of housing financial and performance data.

Control: B - Streamlining Data through Stakeholder Engagements

HCD is also working with various other state and local government entities and housing advocates and developers to identify, develop and implement policies, procedures, and standards to streamline data collection and improve the quality, timeliness, and breadth of housing data to accurately identify the statewide land use, housing pipeline, displacement risk, and assess progress with respect to the statewide housing plan. Improvements to the statewide housing data integrity, availability and usability require standard data definitions, standard electronic data interchange formats, improvements to the systems and databases used by local governments, and automated workflows across multiple state entities. These desired improvements will potentially need state level policies and funding of automated solutions within and outside HCD.

Risk: Enterprise Compliance Office

HCD currently has a decentralized framework/governance structure to oversee the development, adoption, review, and maintenance of all departmental policies and procedures, mandated state and

federal reporting requirements, conflicts of interest, mandatory training, and delegations of authority. The current decentralized approach creates ambiguity and inconsistencies in the processes and defining roles and responsibilities. These efforts are intensified by the growth of the department and increased oversight and reporting requirements.

Control: A - Governance and Leadership

Policies are shared, discussed, and communicated through HCD's Goal Steward, Executive, and Senior Leadership Teams. Additionally, the Human Resources Branch reinforces the need to give a notice period to employee represented unions, prior to implementation, if a new or updated policy will have a consequence or impact to HCD staff.

Risk: Recruitment and Retention of a Diverse Workforce

HCD's overall vacancy rate as of September 30, 2021, is at 19 percent. It is important to note that the department has recently grown by an additional 162 authorized positions since July 1, 2021. HCD does not currently offer higher level classifications or pay differentials to become more competitive with local government or private sector salaries.

Control: A - Workforce Evaluation

HCD has increased recruiting efforts statewide by advertising with 100 percent telework opportunities. Department specific exams were also reassessed to remove unnecessary eligibility barriers. Additionally, job analysis for all department specific classifications have been completed; identifying updated essentials tasks, functions, knowledge, skills and abilities needed for each housing position.

HCD continues to leverage data from job applications, recruitment surveys, and employee demographics to determine what recruitment efforts are effective and to monitor employee demographics to ensure HCD continues to hire a diverse workforce.

Control: B - Commitment to Diversity

Staff participated in 14 career fairs for veterans, college students, and other organizations, promoting HCD's effort of being a diverse and inclusive department. The department's commitment to diversity expands beyond external recruitment. The Human Resources Branch ran a diversity campaign through LinkedIn, increasing candidate awareness of HCD's commitment to diversity. Interview panels play a pivotal role in the selection process. HCD now requires all interview panels to be composed of a diverse group, reflecting multiple aspects of the diversity within our workforce. All interviews include a minimum of one interview question dedicated to diversity, ensuring future employees are committed to diversity as well.

Control: C - Support and Development

Additionally, HCD has added continuous services to increase engagement, while ensuring staff have all the tools and resources to be successful in their positions. Career counseling and upward mobility options have been reinforced and aligned in addition to establishing a monthly Supervisory Discussion Group Forum and a Management Development Network. New training for leaders was

successfully rolled out in 2021 to go over best practices and timely completion of well-written reports.

Risk: Implementation of COVID-19 Relief Funding

After the onset of the pandemic, HCD received large augmentations of state and federal funding to administer COVID-19 response and recovery programs, including but not limited to:

- Emergency Solutions Grant (ESG) - CARES Act Augmentation: \$315.7 million
- Community Development Block Grant (CDBG) - CARES Act Augmentation: \$150 million
- HOME Investment Partnership Program – American Rescue Plan Augmentation: \$157.7 million
- 2020 Homekey (Coronavirus Relief Funds): \$800 million
- 2021 Homekey: \$2.75 billion
- Regional Early Action Planning Program (REAP): \$600 million
- Housing Accelerator: \$1.75 billion
- Excess Sites: \$45 million
- HCD Preservation: \$300 million
- HCD Foreclosure Prevention and Preservation: \$500 million
- Emergency Rental Assistance Program: \$5.2 billion allocated to California (state and local jurisdictions)

Because of the acute risk that the pandemic poses to health and safety, the economy, and housing stability, it is imperative that HCD design and implement multiple programs to deploy funding expeditiously, efficiently, and effectively. HCD faces administrative challenges, including limited delegated authority to procure services and IT support, as well as quickly hiring and onboarding new staff to support these programs. As part of its overall strategy, HCD must work in close partnership with state, federal, and local partners and navigate the statutory landscape to administer funding while maintaining compliance with all relevant state and federal laws, regulations, and policies.

In addition, with an increased focus from the Governor on housing and homelessness before and during the pandemic, HCD faces potential scrutiny from external parties, including the media.

Control: A - Divisional Reorganization and Collaboration

In February 2021, HCD split its Division of Financial Assistance into two distinct divisions devoted to deploying and monitoring funds across state and federal allocations. This step completed a reorganization that began in 2019, largely taken in anticipation of resources aimed to reduce homelessness and create affordable housing. HCD has recruited additional senior leadership and focused on streamlining processes and procedures to gain efficiencies. As a result of these efforts, on July 31, 2021 HUD recognized California's HCD as ranking #1 among States in getting funding to communities in need relevant to CDBG program funds.

To quickly design and implement pandemic relief programming, HCD developed multi-disciplinary, cross-functional project teams with subject matters in the areas of policy, communications, procurement, information technology, and financial functions to achieve efficiencies and identify and mitigate issues and risks. HCD has relied on the Coronavirus Proclamation of a State of Emergency, issued on March 4, 2020, to conduct streamlined procurements for service contracts under the emergency procurement framework established by the Department of General Services.

Risk: Out of Date Fee for Service Structure

The Division of Codes & Standards (C&S) provides a variety of services to the public that are funded through fees that have remained unchanged since inception. Without an updated fee structure, C&S will be unable to maintain its services levels, risking the health and safety of mobile home park residents.

Control: A - Regulatory Changes

C&S will develop a proposal to align fees and services and create long-term revenue stability and an equitable fee structure for C&S customers. C&S will continue to perform workload analyses to support the proposal through the rulemaking process with updated forecasting and revenue data.

Control: B - Online Services

In addition, proposed enhancements to C&S systems may improve internal operations through the implementation of online services for key services. HCD submitted a Stage 1 Business Analysis to the California Department of Technology on May 3, 2021 as part of the Project Approval Lifecycle framework.

CONCLUSION

The Department of Housing and Community Development strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Gustavo Velasquez, Director

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency